



**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**

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In the Matter of the Application of California-
American Water Company (U 210 W) for
Approval of the Monterey Peninsula Water
Supply Project and Authorization to Recover
All Present and Future Costs in Rates

Application No. A.12-04-019
(Filed April 23, 2012)

**OPENING BRIEF OF THE
MONTEREY REGIONAL WATER POLLUTION CONTROL AGENCY
REGARDING WATER RIGHTS
FOR A GROUNDWATER REPLENISHMENT PROJECT**

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I.

INTRODUCTION

The Monterey Regional Water Pollution Control Agency (MRWPCA) files this brief in response to Administrative Law Judge Weatherford's request dated June 1, 2012 for briefing of the water rights issues in CPUC Proceeding A.12-04-019. This brief addresses water rights with respect to the Groundwater Replenishment Project only.¹

The concept of a Groundwater Replenishment (GWR) Project² is to treat wastewater to an advanced level at an Advance Treatment Facility (ATF), which would enable that water to be injected

¹ MRWPCA's understanding is that the CPUC approvals requested herein by Cal Am for the desalination project, and for the Groundwater Replenishment Project, are different. Nonetheless, we want to respond in good faith regarding the water rights question for the GWR Project, and do so in this opening brief.

² We refer to a GWR project throughout this brief for simplicity. The GWR project is proposed to be developed by the MRWPCA in collaboration with others. Consistent with the California Environmental Quality Act (CEQA), no determination has been made regarding which version of a GWR project may be pursued, alternatives (including the no project alternative), mitigation, and other factors which are evaluated during the CEQA process.

into a natural groundwater basin, such as the Seaside Groundwater Basin. The injected water would mix with the native water, and can be subsequently withdrawn for potable or other use. MRWPCA has invested in extensive research on water quality and treatment necessary to enable such injection. A GWR project was evaluated at the programmatic level in the Coastal Water Project Environmental Impact Report. A decision was made to relegate GWR to a subsequent phase, putting it on a back burner. With the recent demise of the Regional Desalination Project, a new opportunity has arisen to include a GWR project as a component of the Monterey Peninsula's urgently needed water supply solution. Additional information regarding the potential for a GWR project, including schematics of facility locations and a work plan, are included as Attachments A through E of the Direct Testimony of MRWPCA General Manager Keith Israel filed April 23, 2012 in conjunction with Cal Am's application in this proceeding.

MRWPCA offers its assistance to develop a GWR project in light of that project's potential to be a valuable contribution to the replacement water supply for the communities in Cal Am's Monterey District, the majority of which are member agencies of the MRWPCA, and an important element of our regional economy. For reasons explained below, the support of other community members is needed to make this a reality.

The question has been raised whether the MRWPCA has sufficient rights to the use of treated wastewater³. In this brief, MRWPCA sets forth its understanding of the availability of such water to it.

II.

BACKGROUND

MRWPCA owns and operates two wastewater treatment plants that are employed to treat wastewater influent provided by a number of Monterey Peninsula and Salinas Valley entities that are

³ For simplicity, influent and treated wastewater is sometimes referred to herein as "water".

member agencies of the MRWPCA. The original plant is the Regional Treatment Plant (RTP), where community wastewater is treated for discharge to the ocean. MRWPCA also owns and operates the ocean outfall. In the mid-1990's, MRWPCA constructed and now operates the tertiary treatment plant known as the Salinas Valley Reclamation Project (SVRP), where it treats water for agricultural irrigation via a project known as the Castroville Seawater Intrusion Project (CSIP). MRWPCA operates the CSIP by agreement with the Monterey County Water Resources Agency (MCWRA). The SVRP and the CSIP are projects being operated in partnership with the MCWRA and growers in the Salinas Valley.

There is no urban application of recycled water at this time. MRWPCA and Marina Coast Water District (MCWD) have separately, and jointly, worked on plans for such use. MCWD is not presently using, but has certain rights to the use of, water as described below. MRWPCA has agreed to commit a significant increment of its right to water for MCWD's proposed urban irrigation project to serve Marina and the former Fort Ord, known as the Regional Urban Water Augmentation Project (RUWAP).

For the GWR project, MRWPCA would employ an advance treatment process at a new ATF. The ATF would produce water of a quality eligible to be injected into the Seaside Groundwater Basin. There is little seasonal variation in influent flow to the RTP, which remains substantially the same year round. The bulk of demand for both agricultural and urban irrigation occurs during the summer months and, depending on the year type, spring and fall months. Treatment and injection for GWR can be done during the winter months, and during the "shoulder" months, where needed to avoid interference with other rights of use. Extraction from the Seaside Groundwater Basin can occur later, at any time of the year. The groundwater storage thus serves a valuable function.

MRWPCA's goal is to pursue a GWR project that can be undertaken while fully respecting the rights of the other two agencies to the use of wastewater. There certainly is ample water physically

available. Over the last thirteen years, the amount of unused water treated at the RTP and discharged out of the ocean outfall has averaged over 10,600 Acre-Feet per Year (AFY). The question whether the quantity of MRWPCA water rights is sufficient, taking into account and respecting the amounts to which MCWD and MCWRA are respectively entitled to use, is discussed in Part IV below. Water rights background necessary to understand the underpinnings for that information is provided in Part III below.⁴

III.

RIGHTS TO TREATED WASTEWATER

The determination of water availability is predicated on the existing rules and primary agreements that address the allocation of water. This summary is necessarily non-exhaustive, but will serve to set the stage for the subsequent discussion and conclusions.

The starting point is that the owner of a wastewater treatment plant such as the MRWPCA has the exclusive right to the treated wastewater it produces as against anyone who has supplied the water discharged into the wastewater collection and treatment system, including a person using water under a water service contract. (Water Code § 1210.) This rule can be varied by contractual arrangement. (*id.*) The MRWPCA has entered into a number of such contracts. The primary rights of the three entities with contractual rights to treated wastewater produced by MRWPCA are addressed below. These are not presented in any order of priority.

A. MCWD 1989 Annexation Agreement

In 1989, Marina Coast Water District was annexed into the MRWPCA. That annexation agreement (a copy of which is attached as Exhibit 1) provides MCWD with the right to:

⁴ The information set forth in this brief is necessarily non-exhaustive. Each agreement contains considerable detail, and each possible evaluation of water availability relies on factual assumptions. Our endeavor has been to put forth a reasonable representation of the agreements and the facts as we understand them.

“ ... obtain from the MRWPCA, at the regional treatment plant, treated wastewater for reuse by the MCWD in quantities equal to the volume of MCWD wastewater treated by MRWPCA and such additional quantities as from time to time are not committed to any other users for beneficial use. MCWD’s cost for such treated wastewater will be the MRWPCA’s incremental cost over secondary treatment, to meet applicable local, state and federal requirements for water reuse, not to exceed the lowest amount charged to any other user by the MRWPCA for treated water. Water reclaimed by the MCWD will not be used in violation of any condition placed on the MRWPCA in connection with its Use Permit No. 3188, dated August 12, 1987, issued by the County of Monterey for the RTP.”

(1989 Annexation Agreement, ¶ 12.)

B. MCWD - MCWRA 1996 Annexation Agreement

In 1996, MCWD was annexed into the MCWRA’s Zones 2 and 2A pursuant to the 1996 Annexation Agreement (a copy of which is attached as Exhibit 2). The most relevant of the many topics addressed in that agreement is MCWD’s right to receive tertiary treated water from the SVRP, in satisfaction of MCWD’s 1989 Annexation Agreement rights.

Section 5.6 provides in relevant part:

“In satisfaction of paragraph 12 of the MRWPCA Annexation Agreement, MCWD will pay to MCWRA the incremental cost over secondary treatment to receive tertiary treated water from MRWPCA’s planned tertiary treatment facilities at its regional treatment plant. . . .”

Section 5.7 also establishes a 300 AFY cap for MCWD from April through September, allowing amounts deferred to be taken during the winter months of October through March:

“ . . . during the months of April through September, MCWD agrees to defer taking any water over 300 afy it is entitled to take from the tertiary treatment plant under the MRWPCA Annexation Agreement. . . .”

(Section 5.7.2)

At the time of both of the 1989 and 1996 Annexation Agreements, MCWD’s service area and boundaries were the same as they are today (see, e.g., Exhibits “A” and “B” to the 1996 Annexation Agreement). MCWD now proposes to expand its service area to include the former Fort Ord. MCWD

has asserted that its water rights under the Annexation Agreements expand with its service area expansion. There may be a dispute regarding whether MCWD's right to water is based upon the area as annexed, or can expand to include influent from former Ft. Ord.⁵

C. 1992 MCWRA-MRWPCA Agreement (as amended).

The June 16, 1992 Agreement between Monterey County Water Resources Agency and Monterey Regional Water Pollution Control Agency for the Construction and Operation of a Tertiary Treatment System (1992 Agreement) provided for the construction and operation of the SVRP by the MRWPCA to provide water treated to a level adequate for agricultural irrigation, for use by the CSIP. (A copy of that agreement is attached as Exhibit 3.)

Financing for the SVRP was obtained using resources of both the MCWRA and the MRWPCA. MRWPCA provides the wastewater influent that is treated at the SVRP, and then delivered to the CSIP. The CSIP is a distribution system providing water for agricultural irrigation.

The 1992 Agreement has been amended three times. The amendment that generated the MRWPCA rights to water is Amendment No. 3, also known as the Third Amendment (a copy of which is attached as Exhibit 4).

1. MCWRA Rights

Section 3.03 of the 1992 Agreement, as amended pursuant to Amendment No. 3, provides that MRWPCA commits all of its incoming wastewater flows to the project from sources within the 2001 MRWPCA service area to the CSIP, up to 29.6 million gallons per day (mgd), except for:

- (a) flows taken by MCWD per the Annexation Agreements;
- (b) losses;
- (c) flows not needed to meet MCWRA's authorized demand; and

⁵ MRWPCA believes that the more reasonable interpretation may be that the amount of influent to which MCWD is entitled is based upon the service area boundaries as they existed at the time of both Annexation Agreements (sometimes referred to as the Annexation Agreement amount.) Without waiving any rights, in this filing we analyze it both ways, which demonstrates that it does not impact the sufficiency of water supply needed for a GWR project.

- (d) flows to which MRWPCA is entitled per Articles IV and XVII of Amendment No. 3.

There have not been any MRWPCA service area expansions beyond the 2001 boundaries. MCWRA's basic demand in the Initial Term of the 1992 Agreement, as amended, is capped at 19,500 acre feet (AF). (Article IV, Section 4.02, Amendment No. 3.) Also in the Initial Term, MCWRA's supplemental demand applies to excess water, which supplemental demand is subject to MCWD and MRWPCA rights and to allocations made to other future intertie projects by MRWPCA or others pursuant to Section 1.05. (Sections 4.07 and 4.08, Amendment No. 3.)

MCWRA's demand in any Extended Term is capped at the amounts of water delivered to MRWPCA that originated in the Salinas Valley (Section 4.03, Amendment No. 3)⁶, and the right to use unused water on an "as available" basis (Section 17.04, Amendment No. 3.)

The Initial Term commenced on the effective date of the agreement in 1992. MRWPCA's rights were established pursuant to the Third Amendment to that agreement, in 2002. The Extended Term starts the later of 2035 or the year following both USBR loans being paid off (Section 11.02, Amendment No. 2), which is scheduled to occur by the end of 2037. Hence, the relevant starting date of the Extended Term should be January 1, 2038.

2. MRWPCA Rights under Amendment No. 3

MRWPCA has rights to two categories of water: (1) 3,900 AFY starting in 2009 and throughout the Initial Term, and the full amount of non-Salinas Valley influent during the Extended Term⁷, which in 2010 was over 6,000 AFY; and (2) unused water during both terms, further described as follows:⁸

⁶ MCWD provides water to its existing service area with water originating in the Salinas Valley. MCWD intends to use the same water source for its proposed service area expansion to include the former Ford Ord. During the Extended Term, the amount of water MCWD takes will not affect the water available to MRWPCA.

⁷ In addition, MRWPCA can use certain amounts of unused MCWD Annexation Agreement water.

⁸ As mentioned above, this description is not exhaustive.

- (a) During the Initial Term: As of 2009, MRWPCA's allocation is 3,900 AFY (Section 17.02, Amendment No. 3), subject to a seasonal cap. During the period of May through August, the maximum is 766 AFY + 11% (not to exceed +/-850 AFY).
- (b) During the Extended Term, MRWPCA is entitled to the amount of wastewater which originates in areas not included in the Salinas Valley as set forth in Section 4.03, and which was delivered to MRWPCA during the year preceding the year for which water deliveries are requested (Section 17.04, Amendment No. 3). There is no seasonal cap (Section 17.03, Amendment No. 3).
- (c) MRWPCA may use unused water in either term. (Sections 17.02 and 17.04(c), Amendment No. 3).

D. 2009 RUWAP MOU

MCWD's RUWAP is intended to provide recycled and desalinated water service to areas on former Ft. Ord, and an additional 300 AFY of desalinated water to MCWD's other service areas. It also anticipates the possibility of MRWPCA separately providing 300 AFY of water to the Monterey Peninsula. In June 2009, MRWPCA and MCWD entered into a Memorandum of Understanding (MOU) with respect to the RUWAP (a copy of which is attached as Exhibit 5).

Section 1.2 of the RUWAP MOU provides that:

Under the selected Hybrid Water Alternative, MCWD would provide 2,400 AFY for redevelopment of the former Fort Ord, 300 AFY of recycled water could be provided for the Monterey Peninsula, and an additional 300 AFY of desalinated water could be provided to supply MCWD's other service areas. As a result of Addendum 2 to the RUWAP EIR, up to 1,727 AFY of recycled water would be used for the project. The RUWAP EIR, in Section 3.2, anticipates that subsequent project-level environmental review will be necessary prior to implementing the component to provide 300 AFY to the Monterey Peninsula.

MRWPCA has previously committed 650 AFY of its summer water to the RUWAP during May

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through August; MCWD committed its 300 AFY of summer water during April through September.⁹ Both parties committed additional quantities as needed during the months of September through April from MRWPCA, and October through March from MCWD allocations.

MCWD has not yet proceeded with the RUWAP. Public documents indicate that MCWD's currently proposed project is between 780 AFY (MCWD 2010 Urban Water Management Plan, Table 4.4) or 1,000 AFY (Coastal Water Project FEIR, Table 5.2). While there is programmatic CEQA/NEPA review of a 1,727 AFY project, including a Monterey Peninsula component, the project-level approved project is 1,427 AFY. Because of its environmental review status, because it could be bid, constructed and in operation in the near term, and because MRWPCA presently intends to use the 300 AFY it reserved for the Monterey Peninsula portion of RUWAP for the GWR, in this brief MRWPCA primarily refers to RUWAP as a 1,427 AF project (exclusive of the Monterey Peninsula component).

IV.

AMOUNT OF WATER AVAILABLE TO MRWPCA

A. Assumptions

Every quantitative evaluation of water availability requires assumptions. A non-exhaustive list of our main assumptions follows. Additional assumptions and data sources are identified in the Declaration of Robert B. Holden (attached hereto or filed herewith) and in the endnotes on Exhibits 6 through 13 to that Declaration.

1. Except where otherwise stated, influent to the RTP in acre feet per year is based on actual 1990 – 2011 amounts for the Initial Term, and actual 2010 amounts for the Extended Term¹⁰, which is the relevant available data.

⁹ These “summer” seasons for MCWD and for MRWPCA, when the amounts of water available to those agencies is capped, differ in accordance with provisions of the 1996 Annexation Agreement for MCWD and the Third Amendment to the 1992 Agreement for MRWPCA. The “shoulder” months are April and September, when MCWD is subject to a summer cap and MRWPCA is not.

¹⁰ The Extended Term requires data to allocate the influent sources as between the Salinas Valley, Monterey Peninsula, and MCWD, as described in Part V, below. Available 2010 flow data was used for this analysis.

2. To be conservative, the full volume of MCWD water under the 1989 and 1996 Annexation Agreements was first deducted (we also discuss proposed MCWD actual use, which is considerably less). We adhere to the seasonal restrictions on both MCWD and MRWPCA contained in the 1992 and 1996 agreements.
3. RUWAP winter water allocations are not quantified under the RUWAP MOU. Because MCWD cannot take any water during the “shoulder” months of April and September, we have assumed for purposes of this analysis that MRWPCA provides all of the shoulder month water, and MCWD provides the remaining winter water.
4. Evaluation of the respective allocations is based on available data, contractually established amounts, and actual use where a record exists. In one instance where differing contract interpretations are known, we analyze it both ways.

Sections B and C below summarize our conclusions. Additional detail is provided in Exhibits 6 through 13 and the Declaration of Robert B. Holden attached hereto.

B. Initial Term

During the Initial Term, MRWPCA has two sources of water: the remainder of its 1992 Agreement 3,900 AFY right, after its RUWAP commitment is deducted, and the right to use unused water.

1. 3,900 AFY. After subtracting the amounts MRWPCA has committed to the RUWAP (see discussion above), MRWPCA has 116 - 200 AFY of water it can use during April - August (or other months) without interruption. MRWPCA can also take the remainder of its 3,900 AFY entitlement (2,987 AFY) without interruption because there is sufficient influent to meet MCWD’s full Annexation Agreement amount ¹¹, and satisfy the 3,900 AFY remainder.

If MCWD’s Annexation Agreement amount is interpreted to include influent from a service area expanded to encompass the former Fort Ord, as asserted by MCWD, the outcome remains the same for

¹¹ This is conservative in that it is substantially more than MCWD proposes to use during the Initial Term. For example, according to Table 4.4 of MCWD’s 2010 Urban Water Management Plan, the proposed RUWAP is 780 AFY, of which a portion will come from MRWPCA’s rights.

MRWPCA as regards the remaining amount of the 3900 AFY (See, Exhibits 6 and 10 compared to Exhibits 7 and 11.)

The conclusion that there is adequate influent to meet both MCWD's Annexation Agreement amount and MRWPCA's 1992 Agreement right is conservative in that there are significant amounts of influent remaining after deduction of the sum of the MCWD plus MRWPCA amounts.

2. Unused Water. MRWPCA can also use unused, or surplus, water. Surplus water is typically not very reliable. However, again conservatively assuming that the MCWD full Annexation Agreement amount (far more than projected actual use) is deducted at the onset, and that amounts available for CSIP use are also deducted during the months of CSIP demand, there remains surplus during the winter months. This includes surplus during November, December, January and February, months when CSIP has very limited demand even in dry years (and we have assumed that such demand is met). The amount of surplus during these months varies from 4,695 to 5,369 AF at a CSIP current actual demand of 12,219 AFY, and from 3,775 to 4,449 AF at a CSIP 1992 Agreement demand of 19,500 AFY (See Exhibits 10 and 11.) To be conservative, the foregoing evaluation of surplus excludes the surplus usually available in the months of March and October.

If MCWD surplus is added to the foregoing November-February surplus amounts, the surplus increases by 688 AF over the four-month period (assuming MCWD Annexation Agreement boundaries; see Exhibit 6); and by 1,360 AF (assuming MCWD expanded boundaries; see Exhibit 7). These amounts exclude MCWD's 514 AFY commitment to the RUWAP at the 1,427 AFY project size.

The lowest amount of winter surplus identified above, 3,775 AF, requires only about 525 AFY of MRWPCA's 3,900 AF right for the GWR project influent demand of approximately 4,330 AF for a

product water amount of 3500 AF¹².

C. Extended Term

During the Extended Term, MRWPCA's 1992 Agreement right changes such that the amount remaining for it after its RUWAP commitment is deducted is over 5,200 AFY, based on Monterey Peninsula 2010 flows. As with the Initial Term, there is more than sufficient inflow to meet both MRWPCA and MCWD agreement amounts. MRWPCA's over 5,200 AFY of 1992 Agreement right is greater than the approximately 4,330 AFY projected to be needed to produce 3,500 AF of ATF product water. In addition, there likely will be surplus water during the November-February period, which MRWPCA may use and firm up pursuant to the Third Amendment. (Sections 17.04 (c) and (d), respectively).

V.

TIMELY DEVELOPMENT OF A GWR PROJECT

A. Two Potential Sources of Influent for the GWR Project

MRWPCA has two project source water concepts in the development stage. The first is a GWR project using existing influent to the RTP. As outlined above, there is more than sufficient water from this source for the GWR project, in part due to the capability of the GWR project to use winter water. MRWPCA believes that it can increase the certainty associated with the surplus water during the Initial Term, while also avoiding any impact on the water allocated to MCWRA for agricultural irrigation and that allocated to MCWD for municipal uses. To that end, it has initiated preliminary discussions with MCWRA. It appears to the MRWPCA that it is in the best interest of the entire North Monterey County community, both urban and agricultural, to maximize the benefits of the considerable water supply

¹² The Direct Testimony of Keith Israel filed April 23, 2012 in this proceeding conservatively estimated this amount at 4,400 AFY. MRWPCA engineers have since refined this estimate to the range of 4,320-4,330 AFY.

available to address as much of the Monterey Peninsula's water shortfall as is reasonably feasible with a GWR project, and to reduce the ocean discharge of treated wastewater.

MRWPCA's second project concept involves accepting a new source of influent to the RTP. Given the availability of existing MRWPCA rights and surplus winter influent flows for GWR, this element should not be necessary. We describe it briefly, however, in light of the possible benefits of its inclusion.

This additional source of influent could be from the City of Salinas' Industrial Wastewater Treatment Facility (IWTF). Presently, the water collected by the City is primarily from agricultural commodity processing facilities. The IWTF receives the wastewater into a large aeration pond for treatment and then into adjacent holding ponds for additional biological treatment and natural disposal methods. The volume of treated industrial wastewater ranges from 0.5 MGD to over 4 MGD. IWTF could benefit from diverted flows to facilitate pond and facility maintenance and expanded facility capacities in the future. MRWPCA has existing conveyance structures in close proximity to the IWTF supply pipeline. A shunt could be installed to interconnect the IWTF flows to RTP for treatment. There is sufficient capacity at the RTP beyond that needed for the CSIP and the RUWAP (or all of MCWD's Annexation Agreement water), because the capacity of the RTP is over 33,000 AFY.

MRWPCA has had very preliminary discussions with the City of Salinas regarding the proposal of assisting with Industrial Wastewater Treatment flow diversion. This concept has potential benefits for the City by delaying major facility upgrades, improved plant performance by incorporating a more aggressive pond maintenance program and possible expanded plant capacity to attract more processing facilities. The diverted flows could have potential benefits for the MCWRA and the growers, particularly when the water is available during the summer months.

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B. Measures for Development of a Feasible GWR Project

Understanding that considerable work is required to realize a feasible GWR project, Cal Am, MPWMD and MRWPCA entered into the GWR MOU, a copy of which is attached to the Cal Am Application for Approval of the Monterey Peninsula Water Supply Project filed April 23, 2012. Financing, enhancement of water right reliability and environmental compliance are amongst the tasks to be accomplished. In order to allow the potential for this project to be realized, the plan provides that a decision regarding the viability of a GWR project will be made in a manner allowing time for project development, while respecting the timeline within which a decision as to the sizing of a desalination plant must be made.

Cal Am anticipates that it will initiate construction of a desalination plant in the fourth quarter of 2014. (See, Direct Testimony of Richard C. Svindland, page 38, lines 21-27, filed in connection with Cal Am Application for Approval of the Monterey Peninsula Water Supply Project filed April 23, 2012.) Therefore, a decision regarding the feasibility of a GWR project, including the size of the project (i.e., the amount of product water the GWR project would contribute), needs to be made in advance of commencement of construction. MRWPCA, and the agencies with which it is coordinating, propose to be prepared by that time, or earlier if feasible, to provide the needed information and otherwise participate in making that decision. MRWPCA respectfully requests that the CPUC allow for that opportunity in its actions with respect to the instant proceeding.

VI.

CONCLUSION

There is adequate water available for a GWR project. MRWPCA's rights during the Initial Term, and measures to improve their reliability, are discussed above. During the Extended Term, the MRWPCA rights provide a more than adequate quantity of water.

MRWPCA is coordinating with Cal Am and MPWMD, and will seek to coordinate with the MCWRA, in furtherance of this project. The cooperation of these entities will be necessary to realize the potential benefits of this project for the communities that are subject to the State Water Resources Control Board cease and desist order. We believe that the GWR Project can be, and needs to be, accomplished in a manner that avoids any conflict with the allocations of water to the MCWD and MCWRA.

GWR is a meritorious project that can contribute materially to solving the Monterey Peninsula communities' water supply shortfall. Since the inception of the Monterey Peninsula Water Supply Project, the parties have known that GWR project development and evaluation actions, including environmental review, need to be accomplished. This is now in process. MRWPCA respectfully requests that the CPUC proceed in a manner that will accommodate the time necessary for this to be done, in accordance with the approach described above.

Dated: July 11, 2012

Respectfully submitted,

/s/ Martha H. Lennihan
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ATTACHMENTS

Exhibit No.

1. MCWD 1989 Annexation Agreement
2. MCWD – MCWRA 1996 Annexation Agreement
3. 1992 MCWRA – MRWPCA Agreement
4. Amendment No. 3 to the 1992 MCWRA – MRWPCA Agreement
5. 2009 Regional Urban Water Augmentation Project MOU

Declaration of Robert B. Holden:

6. Initial Term with MCWD Annexation Agreement Service Area
7. Initial Term with MCWD Expanded Service Area
8. Extended Term with MCWD Annexation Agreement Service Area
9. Extended Term with MCWD Expanded Service Area
10. Surplus Water, Initial Term with MCWD Annexation Agreement Service Area
11. Surplus Water, Initial Term with MCWD Expanded Service Area
12. Surplus Water, Extended Term with MCWD Annexation Agreement Service Area
13. Surplus Water, Extended Term with MCWD Expanded Service Area

All correspondence, pleadings, orders and notices in this proceeding should be directed to the following:

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EXHIBIT 1

**ANNEXATION AGREEMENT
BETWEEN THE
MARINA COUNTY WATER DISTRICT
AND THE
MONTEREY REGIONAL WATER POLLUTION CONTROL AGENCY**

THIS AGREEMENT is made and entered into on ^{APR. 11} ~~March~~ ²² ~~25~~, 1989, ^{SEP 23} by and between the MONTEREY REGIONAL WATER POLLUTION CONTROL AGENCY ("MRWPCA") and the MARINA COUNTY WATER DISTRICT ("MCWD"), the parties herein, as follows:

RECITALS

A. The MRWPCA. The MRWPCA is a California Joint powers agency formed pursuant to Government Code Sections 6500 et seq., and composed of the cities of Monterey, Pacific Grove, Salinas, Seaside, Del Rey Oaks and Sand City, the County of Monterey, the Fort Ord Military Reservation and the Castroville, Moss Landing and Boronda County Sanitation Districts. The MRWPCA was formed to undertake and implement the common power and authority of its members to study, plan for, design, construct and operate regional wastewater treatment facilities for the general area of north Monterey County. The MRWPCA's regional treatment plant ("RTP"), located north of Marina, California, will be completed in 1989.

B. The MCWD. The MCWD is a public agency formed pursuant to Water Code Sections 30000 et seq., and provides wastewater collection, disposal and treatment, as well as water services, to the City of Marina and environs. MCWD has its own secondary treatment plant and discharges treated wastewater through its own outfall into Monterey Bay. There is pending litigation between the State of California and MCWD concerning such discharge. The litigation is being held in abeyance while MCWD negotiates with MRWPCA for membership and wastewater treatment services.

C. Negotiations. In 1982, MCWD filed a petition with the State Water Resources Control Board ("SWRCB"), seeking an order which would compel the MRWPCA to provide waste disposal services to MCWD. In September 1983, the SWRCB adopted its Resolution No. 83-74, which held that the MRWPCA was not required to provide such disposal services, but determined that the MRWPCA had an obligation to offer service to MCWD on reasonable terms and conditions. The two agencies were directed to negotiate in good faith to attempt to voluntarily arrive at a mutually acceptable agreement. By early 1986, substantial agreement had been reached by both parties on all significant items except the amount to be paid by MCWD to join the MRWPCA.

D. Grant Condition. In the summer of 1988, the MRWPCA received a grant amendment offer in connection with the transfer

of the Fort Ord capacity from the initial RTP construction to the Stage 5A Expansion Project, with a resulting grant increase to the MRWPCA, upon certain conditions, one of which was that the MRWPCA would substantially reduce the annexation fee for the MCWD. Negotiations thereafter have been largely concerned with the amount of grant or loan monies which MCWD might obtain to pay for the membership and annexation costs and for a portion of the facilities to connect MCWD's existing systems to the RTP.

E. Purpose of Agreement. The parties have successfully concluded their negotiations. The purpose and intent of this Agreement, therefore, is to set forth the terms and conditions pursuant to which the MCWD will annex to and become a member entity of the MRWPCA.

TERMS AND CONDITIONS

In consideration of the mutual promises made herein, the MRWPCA and MCWD hereby agree to the following terms and conditions:

1. Annexation. The MCWD will annex to and become a member entity of the MRWPCA.

2. Conditions Subsequent. This Agreement is entered into upon the following conditions subsequent:

a. MCWD will obtain a Clean Water Grant of the maximum amount available, but not less than a net proceed of one million dollars (\$1,000,000.00), to pay a portion of the cost of annexing to MRWPCA.

b. MCWD will obtain a loan from the State Revolving Fund ("SRF") in the maximum amount available, but not less than three million dollars (\$3,000,000.00), which sum has been established by the parties as a reasonable estimate of the construction and related costs (including planning, engineering and inspection costs) for a pump station, interceptor and related facilities (hereinafter jointly referred to as "the Connector") to convey wastewater from the MCWD plant to the MRWPCA's regional treatment plant. MCWD will make a good faith effort to apply for and seek to obtain a SRF loan for Fiscal year 1989/90.

c. The parties will petition for and obtain the approval of the Monterey County Local Agency Formation Commission ("LAFCO"), to annex the MCWD to the Monterey Regional County Sanitation District ("MRCSD"), the companion entity which establishes the boundaries of the MRWPCA.

d. Neither MRWPCA nor MCWD shall lose any currently permitted treatment or discharge capacity, pursuant to air quality regulations or otherwise, as a result of this Agreement.

e. The execution and implementation of this Agreement will resolve the pending litigation between the State of California and the MCWD over MCWD's discharge into Monterey Bay through its own outfall. MCWD shall, at its cost, take the actions necessary to resolve the pending litigation forthwith.

If MCWD is unable to obtain the grant or the loan, this Agreement will be of no force or effect and the parties will proceed in good faith to negotiate a new or revised agreement concerning the matters set forth in this Agreement. If the parties are unable to obtain the approval of LAFCO upon conditions acceptable to MCWD, this Agreement shall be voidable at the option of MCWD, voting status in the MRWPCA being material to MCWD in entering this Agreement.

3. MRWPCA Membership. Upon MCWD becoming a signatory of the MRWPCA's joint powers agreement, the MCWD will become a full voting member of the MRWPCA. Execution of the joint powers agreement will occur immediately upon approval and execution of this Agreement, after compliance with applicable CEQA requirements.

4. Connection Fees and User Fees. When the MCWD becomes a voting member of the MRWPCA, the MRWPCA shall be entitled to receive all connection fees from new connections to the MCWD system for which MCWD has not previously received connection fees for wastewater treatment and disposal. Such connection fees received by MRWPCA before satisfaction or release of the conditions subsequent will be placed by MRWPCA in a separate, interest-bearing account, to be released therefrom to MRWPCA free of restriction upon completion of the Connector (as discussed in paragraph 6 below), or to be repaid to MCWD if the conditions subsequent cannot, by the exercise of diligence, be satisfied or released. When the Connector becomes fully operational, and MRWPCA begins treating wastewater generated in MCWD's service area, MRWPCA, may begin collecting user fees from users in MCWD's service area pursuant to MRWPCA's approved revenue plan. Such user fees will be the same as those collected from like users in other service areas served by MRWPCA.

5. Grant and Loan Funds. MCWD will give all grant and loan funds described in paragraph 2 above to MRWPCA immediately upon receipt; provided, however, that the grant funds must be delivered to MRWPCA before October 1, 1989. Depending on the preference of the SWRCB, MRWPCA will pay the debt service on the SRF loan either a) directly or b) by advancing funds to MCWD to pay the debt service. If it is acceptable to the SWRCB, the SRF loan will be assigned by the MCWD to the MRWPCA. The local share of

project funded by a grant pursuant to this Agreement will be paid to the MRWPCA as a part of the future normal, user fees to be paid to MRWPCA by users within MCWD's present or future service area.

6. Design and Completion of Connector. MRWPCA will design and construct the Connector to provide the capacity specified by MCWD, provided that the incremental cost of capacity in excess of 2.0 mgd ADWF (and appropriate peaking capacity) will be paid for by the MCWD. MCWD will complete its facilities plan and all proceedings for CEQA compliance for the Connector. The Connector will be constructed by the MRWPCA, which will obtain any necessary permits and rights of way to construct the Connector. MRWPCA will start upon the design and construction process of the Connector within sixty (60) days following the first receipt by it or funds from the SRF loan, and it will act diligently and make a good faith effort to complete construction of the Connector within a reasonable period of time (estimated by the parties at this time to be within twenty-four(24) months after the MRWPCA's first receipt of grant or loan funds.) Provided, however, that if it is necessary to do pre-loan design work in order to obtain the SRF loan, the MRWPCA will commence such work within (30) days after execution of this Agreement. However, if an SRF loan is not obtained thereafter by the MCWD, the MCWD will reimburse MRWPCA for the expense of such design work. MRWPCA will take such steps as are necessary to coordinate all pre-loan design work with the MCWD.

7. Plant Reclamation/Desalination Use. The MCWD intends to convert its treatment plant to a water reclamation and/or desalination plant. MCWD, at its cost, will comply with all applicable governmental requirements and take all actions necessary and appropriate to such use of the plant. MRWPCA shall cooperate in such efforts as requested by MCWD, provided, MCWD shall hold MRWPCA harmless of and from any costs and liabilities occasioned by such cooperation.

8. Costs of Annexation and CEQA Compliance. MRWPCA shall be the lead agency for obtaining CEQA compliance for this Agreement. MRWPCA will pay all costs associated with fulfilling any CEQA requirements in connection with this Agreement and the annexation of MCWD to the MRCSD. MRWPCA shall also pay all other costs of the LAFCO proceedings in connection with the annexation.

9. MCWD Growth. Following the annexation by the MCWD to the MRCSD, the MRWPCA agrees to provide treatment and disposal capacity for MCWD growth, as follows: in any expansion of MRWPCA facilities constructed for the general benefit and use of all member agencies, the MCWD will have access to growth capacity on the same basis as all other member agencies. MCWD may also elect to pay the MRWPCA to construct additional capacity specifically

for MCWD's sole use, and MRWPCA will construct such capacity with requested and paid for in full by the MCWD. For purposes of this paragraph, "growth" is defined as that treatment and discharge capacity in excess of 2 million gallons per day, monthly average of daily dry weather volumes discharged (2.0 mgd ADWF).

10. Treatment Capacity Allocation. Pending revision of the Monterey Bay Area Air Quality Maintenance Plan, MRWPCA will treat up to 2.0 mgd ADWF of wastewater from MCWD. Attached to this agreement as Exhibit "C" is a letter from AMBAG to the MBUAPCD, stating that the population forecast figures for MCWD are consistent with the Air Quality Plan for the Monterey Bay Region. Such compliance forms the basis for treatment of up to 2.0 mgd ADWF, which is the amount currently permitted under MCWD's NPDES permit. Flows shall be determined based upon the then current User Category Average Flow chart maintained by the MRWPCA and used by it in determining sewer user rates. Allocation of capacity above 2.0 mgd ADWF shall be subject in all respects to the rules governing other member agencies of MRWPCA, including the MRWPCA's Ordinance No. 87-6, as it may be revised, replaced, or amended from time to time.

11. Credit for Reclaimed Water. MCWD will receive a credit from the MRWPCA for wastewater that is reclaimed by the MCWD and not delivered to the MRWPCA regional treatment plant, to the extent that there is a measurable operations cost savings to the MRWPCA.

12. Wastewater for Reuse. MCWD shall have the right to obtain from the MRWPCA, at the regional treatment plant, treated wastewater for reuse by the MCWD in quantities equal to the volume of MCWD wastewater treated by MRWPCA and such additional quantities as from time to time are not committed to any other users for beneficial use. MCWD's cost for such treated wastewater will be the MRWPCA's incremental cost over secondary treatment, to meet applicable local, state and federal requirements for water reuse, not to exceed the lowest amount charged to any other user by the MRWPCA for treated water. Water reclaimed by the MCWD will not be used in violation of any condition placed on the MRWPCA in connection with its Use Permit No. 3188, dated August 12, 1987, issued by the County of Monterey for the RTP.

13. Expenses, Attorney's Fees and Costs. Each party hereto agrees to pay all expenses and costs incurred by such party in connection with this Agreement. In the event it should become necessary for either party to enforce any of the terms and conditions of this Agreement by means of arbitration, court action or administrative enforcement, the prevailing party, in addition to any other remedy at law or in equity available to such party, shall be awarded all costs and reasonable attorney's fees in connection therewith, including fees and costs of experts reasonably consulted by the attorneys for the prevailing party.

14. Amendment. This Agreement may be amended or modified only by a writing signed by both parties hereto.

15. Waiver. Failure on the part of either party to enforce any provisions of this Agreement shall not be construed as a waiver of the provision or of the right to compel enforcement of such provision or provisions, nor act to release the other party from its obligations under this Agreement. Waiver of any right or default shall not be construed as a waiver of the right or default or any subsequent waiver or default.

16. Binding Effect. This Agreement shall bind and benefit the parties and their successors.

17. Time is of the Essence. Time is of the essence of this Agreement except where otherwise expressly provided.

18. Exhibits. All exhibits attached and referred to in this Agreement are incorporated herein by reference.

19. Integration. This Agreement constitutes the full and complete agreement of the parties regarding its subject matter and any prior agreements or arrangements are hereby superseded.

20. Captions. Titles or captions of articles, sections and paragraphs contained in this Agreement are inserted only as a matter of convenience and for reference, and in no way define, limit, extend, or describe the scope of this Agreement or the intent of any provision hereof.

21. Number and Gender. Whenever required by the context, the singular number shall include the plural, and the masculine or neuter gender shall include all persons.

22. Applicable Law. This Agreement shall be governed by and construed in accordance with the laws of the State of California as applied to agreements executed in California solely by residents of California to be performed entirely within that State.

23. Severability. If any of the provisions of this Agreement are determined to be invalid or unenforceable, those provisions shall be deemed severable from the remainder of this Agreement and shall not cause the invalidity or unenforceability of the remainder of this Agreement.

24. Counterparts. This Agreement has been or may be executed in multiple copies or counterparts, each of which shall for all purposes constitute one agreement, binding on the parties.

25. Implementation. The parties will take such actions and execute such documents as are necessary and appropriate to implement this Agreement.

IN WITNESS WHEREOF, the parties hereto, by their duly authorized representative, have executed this Annexation Agreement on the date first hereinabove written.

MONTEREY REGIONAL WATER
POLLUTION CONTROL AGENCY

By *Phyllis M. ...*
Chairman of the Board

MARINA COUNTY WATER
DISTRICT

By *James E. ...*
Chairman of the Board

ATTEST:

Keith ...
Secretary

ATTEST:

Bonnie ...
Secretary

12400/2D-ANNEX.AG/4389/3

EXHIBIT "A"
~~XXXXXXXXXXXXXXXXXXXX~~
MARINA COUNTY WATER DISTRICT

Being a portion of Monterey City Lands Tract #1 and Rancho Las Salinas as shown and so designated on the "Official Map of Monterey County, California", on file in the office of the Road Commissioner, Monterey County, California.

BEGINNING at the southwest corner of the Locke Paddon Bayside Subdivision as recorded in Volume 2 of Outside Lands at page 15, office of the County Recorder, Monterey County, California; said point being also on the shoreline of Monterey Bay, thence from said place of beginning in an easterly direction along the southerly boundary of the Locke Paddon Bayside Subdivision, and the southerly boundary of the Locke Paddon Second Subdivision of Monterey City Lands as recorded in Volume 2, Outside Lands, page 11, office of the County Recorder, Monterey County, California; to the southeasterly corner thereof, thence in a northerly direction along the easterly boundary of the Locke Paddon Second Subdivision of Monterey City Lands and Locke Paddon Subdivision as recorded in Volume 2, Outside Lands, page 10, office of the County Recorder, Monterey County, California, to the northeast corner thereof, thence continuing in a northerly direction along the prolongation of the last described course to the northerly line of Reservation Road (a county road 130 feet wide) thence in an easterly direction along the northerly right of way line of Reservation Road to its intersection with the line between Lots 6 and 7 of Rancho Las Salinas as shown on said "Official Map of Monterey County", thence in a northeasterly direction along said line between Lots 6 and 7, being also the easterly line of that certain 60.0 acre tract of land conveyed by R.H. Maddock to George Alfred Maddock by deed dated December 24, 1930, recorded in Volume 276 of Official Records at page 209, Records of Monterey County, California, to the northeasterly corner of said 60.0 acre tract, thence leaving said line between Lots 6 and 7 of Rancho Las Salinas and in a northwesterly direction along the northeasterly line of said 60.0 acre tract to its intersection with the line between Lots 4 and 5 of Rancho Las Salinas, thence

EXHIBIT A

in a northeasterly direction along the line between said Lots 4 and 5 to the most southerly corner of that certain 37.39 acre tract of land conveyed by Mary C. Freitas to Martin Girotti by deed dated April 15, 1941; recorded in Volume 716 of Official Records at page 300, Records of Monterey County, California, thence in a westerly direction along the southerly line of said 37.39 acre tract to the most westerly corner thereof situated in the center of DeForest County Road, 40 feet wide, thence in a northeasterly direction along the centerline of DeForest Road and the westerly line of said 37.39 acre tract to the northwest corner thereof, thence westerly along the northerly line of DeForest Road to the northwest corner of that certain 43.67 acre tract of land conveyed by Edith A. Anthony to F.M. Hilby, by deed dated November 10, 1909, recorded in Volume 113 of Deeds at page 96, Records of Monterey County, said corner being on the east boundary of the Locke Paddon Third Subdivision of Monterey City Lands, as recorded in Volume 2 of Outside Lands at page 12, thence in a northeasterly direction along the easterly boundary of the Locke Paddon Third Subdivision to the northeast corner thereof, thence in a westerly direction along the northerly boundary of said Locke Paddon Third Subdivision and the Locke Paddon Bayside Subdivision as previously described to the northwest corner thereof, said corner being also a point on the shoreline of Monterey Bay, thence in a general southerly direction along the shoreline of Monterey Bay to the place of beginning.

FIGURE I-1

MARINA COUNTY WATER DISTRICT

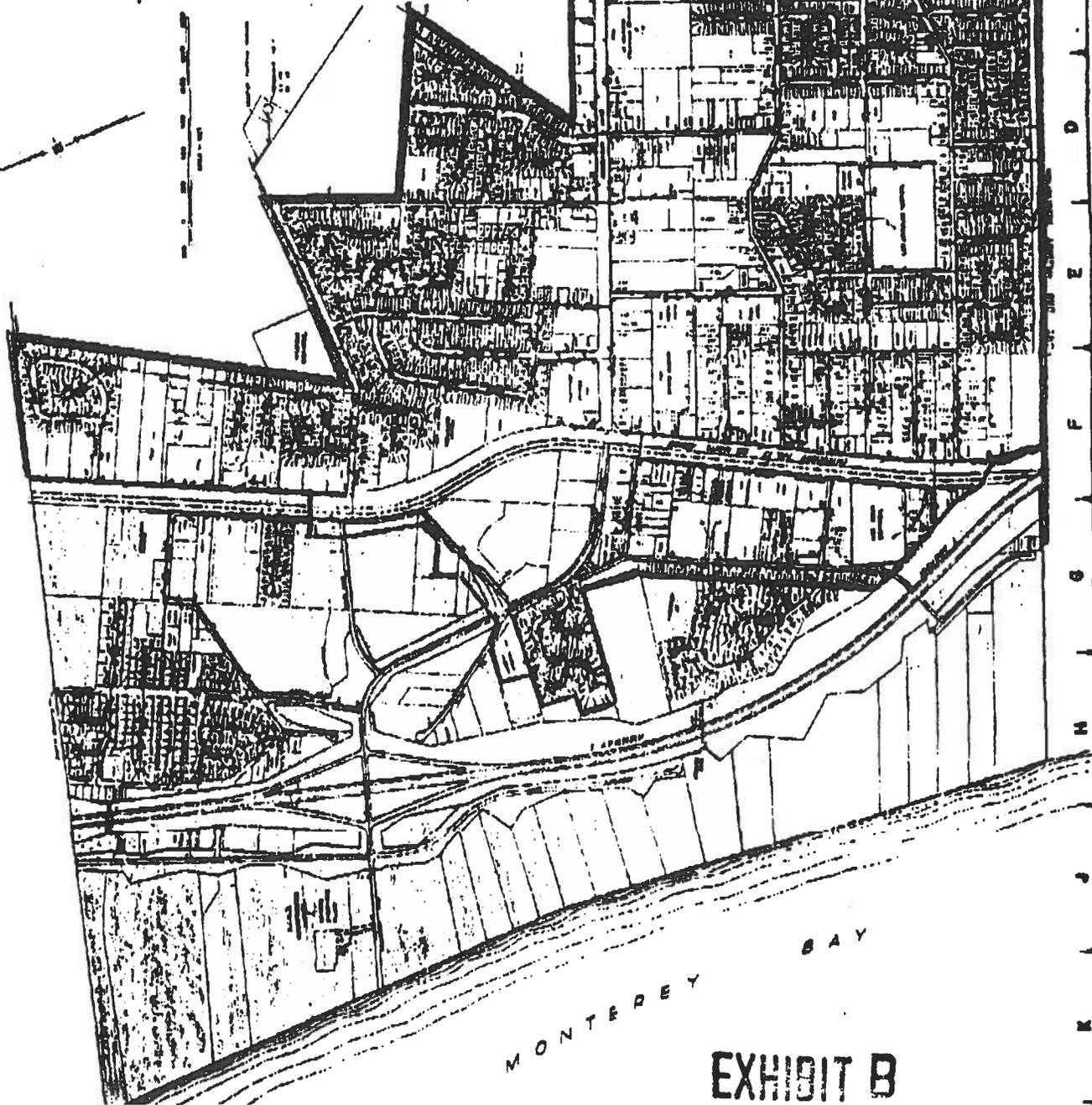
sewer Assessment District Boundaries Formed in 1968/69

Assessment levied on each parcel of land within these boundaries on the following 3 base factors:

- 1. \$27.42 - Cost of lateral construction.
- 2. \$304.46 - Unit of use - 1 single family or 2,000 sq.ft. commercial bldg.
- 3. \$196.18 - Per acre (per portion thereof).

I. Currently no change now within the Assessment District Boundaries \$496.00.

B. Within the MSAD Boundaries but outside the Assessment District - \$1100.00 per unit of use and \$600.00 per acre. These have been calculated on an equitable basis.



MONTEREY BAY

EXHIBIT B



ASSOCIATION OF MONTEREY BAY AREA GOVERNMENTS

MAIL ADDRESS P O BOX 190, MONTEREY CALIFORNIA 93942 • TELEPHONE (408) 373-6116
OFFICE LOCATION 977 PACIFIC STREET

May 3, 1988

Douglas Quetin
Monterey Bay Unified Air Pollution Control District
1164 Monroe Street, Suite #10
Salinas, CA 93906-3596

Subject: Population Forecasts for Marina County Water District

The County of Monterey Planning Department has reviewed the proposed redistribution of population forecasts from census tract 105 to Marina and has no concern regarding the proposed change (Attachment I). The changes are noted below:

<u>Area/Census Tract</u>	<u>AQMP 1990</u>	<u>Revised AQMP 1990</u>
Marina including Armstrong Ranch	17,368	20,990
Census Tract 105	<u>19,455</u>	<u>15,833</u>
	<u>36,823</u>	<u>36,823</u>

As noted in our letter of January 14, 1988, AMBAG's estimated January 1, 1987 population for the Marina County Water District was 15,692 persons. This forecast is under the Revised AQMP 1990 forecast and is therefore consistent with the Air Quality Plan for the Monterey Bay Region.

If you have any questions, please do not hesitate to call.

Sincerely,

Nicolas Papadakis
Executive Director

NP:jb

"C"

MONTEREY COUNTY

PLANNING DEPARTMENT

(408) 422-9018 - P.O. BOX 1208 - SALINAS, CALIFORNIA 93902

ROBERT SLIMMON, JR.
DIRECTOR OF PLANNING



April 26, 1988

Janet Brennan
AMBAG
P.O. Box 190
Monterey, CA 93942

Dear Ms. Brennan:

The Department has reviewed AMBAG's proposed redistribution of population projections within the Marina County Water District and Little Bear Water Company as outlined in your February correspondence. We have no concern regarding the figures cited within the Marina County Water District. We do however, have a concern regarding the population projections for the area served by Little Bear Water Company. At present, the Little Bear Service area is at capacity in terms of sewage use. Any additional capacity would require an increase in Little Bear's wastewater discharge permit from the Regional Water Quality Control Board. Therefore, the proposed redistribution of population to the Little Bear service area must assume an expansion of the existing service area capacity by the year 2000.

If we may be of any further assistance, feel free to contact me.

Very Truly Yours,


Steven Maki,
Senior Planner

SM/mc

cc: Marc Del Piero, Chair
Douglas Quetin, MBUAPCD
Gene Cabaluna, Staff
Lloyd Lowrey

EXHIBIT 2



**Annexation Agreement and
Groundwater Mitigation
Framework for
Marina Area Lands**

March 1996

**ANNEXATION AGREEMENT AND GROUNDWATER MITIGATION FRAMEWORK
FOR
MARINA AREA LANDS**

EXECUTIVE SUMMARY

PURPOSE--Groundwater Planning. This Agreement and Framework provides for annexing lands in the Marina area to MCWRA Zones 2 and 2A, the benefit assessment zones for the Nacimiento and San Antonio reservoirs. The Agreement and Framework establishes a groundwater mitigation framework process for the lands to be annexed, and provides money from the Marina area for Basin management planning.

ANNEXATION TO ZONES 2 AND 2A--MCWD, Armstrong, Lonestar. Annexation proceeds under section 7 of the MCWRA Act for lands within the service area of MCWD, and lands owned by Armstrong and Lonestar. Annexation of the MCWD service area was effective immediately upon approval by the MCWRA Board of Supervisors. The Armstrong Ranch annexation will be effective when LAFCO approves concurrent annexation to MCWD and the City of Marina on conditions satisfactory to Armstrong (including recordation of a final subdivision map). The Lonestar annexation will take effect when the Lonestar Property is annexed to MCWD.

Annexation Fees--more than \$3,500,000. Annexation fees are based on \$277/acre of land annexed, and \$783/af of water to be used. The fee for land on which water is not used is \$27.70/acre. The fee for agricultural water is \$261/af. Annexation fees total more than \$3,500,000, plus interest, as follows:

Fees for MCWD are \$2,449,410, based on 1,750 acres @ \$277/ac. and 3,020 afy of water @ \$783/af, and a credit of \$400,000 already paid by MCWD for groundwater management planning.

Fees for Armstrong will be about \$970,000 for Area A (urban), based on 900 acres @ \$277/ac. and 900 afy @ \$783/af, and an amount subject to final determination upon actual annexation for Area B (irrigated and unirrigated agriculture). If the annexation of the Armstrong Ranch occurs more than seven years after MCWRA approves the Annexation Agreement, Armstrong will pay the then-current annexation fees. If the agricultural water use on Area B of the Armstrong Ranch changes, Armstrong will pay an additional 2/3 of the then-current water charge portion of the annexation fee, and if water is used on any area annexed as unirrigated, Armstrong will pay an additional 9/10 of the then current land charge.

Fees for Lonestar will be \$166,621, based on 104 acres using water @ \$277/ac., and 264 acres of unirrigated, vacant land @ \$27.70/ac., and 500 afy of water with quality below agricultural standards @ \$261/af. If Lonestar's use changes to a potable use, or if Lonestar is supplied water from the MCWD or has water available from the BMP, or if Lonestar uses water on the open-space area, Lonestar will pay the other two-thirds of the water charge.

Payments for MCWD, Armstrong and Lonestar may be in a lump sum, or in installments over 10 years from the date of annexation, with 6% annual interest.

Annexation fees will be dedicated to paying costs of a BMP process that includes benefits for the Marina Area, and for management and protection of the deep aquifer.

Annual Assessments. After annexation, Marina area lands will pay annual assessments for MCWRA Zones 2, 2A and 2Z.

GROUNDWATER LIMITS--4,440 AFY

Pumping Limits. Under the Agreement and Framework, the present MCWD service area is limited to 3020 afy of potable groundwater. Non-agricultural use of Basin groundwater on the Armstrong Ranch is limited to 920 afy, 20 afy when the Agreement and Framework becomes effective, an additional 150 afy upon annexation, and additional increments of 150 afy every two years thereafter. Groundwater underlying approximately 730 acres of the Armstrong Ranch is limited to agricultural use, except that 20 afy can be used for potable uses, and water from that area can also be used at the regional treatment plant. Lonestar will limit its pumping to its current use of 500 afy.

Reclaimed Water Management. MCWD has the right to receive tertiary treated water from the SVRP plant. MCWD will defer taking summer flows of more than 300 afy (all summer flows if a reservoir is built). MCWD will take its entitlement over 300 afy from winter flows, and plan to store the water for use in the summer. MCWD will pay MCWRA for each acre-foot of reclaimed water received from the SVRP, with the price determined each year by a formula.

Water Storage Site. Armstrong will reserve not more than 250 acres of land for the MCWD for a possible water storage site, subject to planning and CEQA compliance. Armstrong will donate the land over about 12 years, as Armstrong's entitlement to potable groundwater use increases in 150 afy increments, or MCWD can acquire land as needed by paying \$25,000 per acre (which can be recovered in Armstrong's fees to annex land to MCWD). MCWD, MCWRA, the City of Marina (and MRWPCA, if it signs the Addendum) agree not to take any more land on the Armstrong Ranch, except for specified, limited purposes. Armstrong has reserved well

sites to irrigate Area B and to provide water for MRWPCA's regional treatment plant.

Alternate Water Supplies--300 afy of new water.

BMP. MCWRA's BMP planning will include consideration of the Marina area for a Basin alternative to groundwater pumping in the Marina area.

MCWD. MCWD will continue to plan for new water supplies, such as wastewater reclamation and desalination, to replace and supplement groundwater pumping.

Deep Aquifer Management. MCWRA and MCWD will manage the 900' aquifer to protect and preserve it and to sustain a secure water supply source for MCWD.

Water Source for Fort Ord. MCWD's deep wells may be used to provide up to 1400 afy of water already allocated to Fort Ord as part of the Fort Ord annexation to Zones 2 and 2A.

CONSERVATION. MCWD's aggressive water conservation program will continue in the Marina area.

EQUAL TREATMENT. The MCWRA will not impose greater restrictions on the Marina area's water use from the Basin than are imposed on water use or supply for use within the City of Salinas.

MRWPCA ADDENDUM. The Addendum attached to the Agreement and Framework as Exhibit "G" would provide for MRWPCA to join the Agreement and Framework on terms which would include possible acquisition of a buffer zone for the Regional Treatment Plant, and agreement to the other terms of the Agreement and Framework.

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EXHIBITS

- "A" Marina Area
- "B" MCWD service area to be annexed
- "C" Armstrong Ranch land to be annexed
- "D" Lonestar property to be annexed
- "E" Calculation of Incremental Cost for Tertiary Treated Water
- "F" Armstrong Areas Reserved For Transfer to MCWD
- "G" MRWPCA Addendum

**ANNEXATION AGREEMENT AND GROUNDWATER MITIGATION FRAMEWORK
FOR
MARINA AREA LANDS**

SUBJECT: Management and Protection of Salinas River Groundwater Basin; Annexation of Marina Area Lands To Zones 2 and 2A of the Monterey County Water Resources Agency

1. PURPOSE AND AUTHORITY.

1.1. Purpose. The purpose of this Agreement and Framework is to help reduce seawater intrusion and protect the groundwater resource and preserve the environment of the Salinas River Groundwater Basin through voluntary commitments by the Parties to limit, conserve and manage the use of groundwater from the Salinas River groundwater basin, and to provide the terms and conditions for the annexation of certain territory in the Marina area to the Monterey County Water Resources Agency's benefit assessment Zones 2 and 2A as a financing mechanism providing additional revenues to the Monterey County Water Resources Agency to manage and protect the groundwater resource in the Salinas River Groundwater Basin and to reduce seawater intrusion.

1.2. Authority. This Agreement and Framework is entered into under the authority of the Agency Act, the California Water Code, and the California Government Code.

2. DEFINITIONS AND DESIGNATIONS. The following definitions and designations apply to this Agreement and Framework:

2.1. Parties.

2.1.1. Marina Coast Water District ("MCWD"). A political subdivision of the State of California, located in Monterey County, governed by MCWD's Board of Directors.

2.1.2. Monterey County Water Resources Agency ("MCWRA"). A water and flood control agency created by the State of California, with jurisdiction coextensive with Monterey County, governed by the Monterey County Water Resources Agency Board of Supervisors.

2.1.3. J. G. Armstrong Family Members ("Armstrong"). The owners of the Armstrong Ranch in the Marina area of Monterey County.

2.1.4. RMC Lonestar ("Lonestar"). A California general partnership and owner of the Lonestar property in the Marina area of Monterey County.

2.1.5. City of Marina ("City"). An incorporated municipality within Monterey County, organized and operating under the laws of the State of California, governed by its City Council.

2.2. AFY. Acre-feet per year.

2.3. Agency Act. MCWRA's enabling legislation adopted by Chapter 1159 of the Statutes of 1990, and Chapter 1130 of the Statutes of 1991, set forth in full in West's California Water Code Appendix, Chapter 52.

2.4. Armstrong Ranch. About 1850 acres of land in the Marina area, as shown on Exhibit "C," about 322 acres of which is within the City of Marina, plus an additional 150 acres not shown on Exhibit "C" which is already in the Zones.

2.5. Basin. The Salinas River Groundwater Basin.

2.6. BMP. The MCWRA's Basin Management Plan for the Salinas River Groundwater Basin.

2.7. CEQA. The California Environmental Quality Act, Public Resources Code sections 21000 and following.

2.8. CSIP. The Castroville Seawater Intrusion Project, a distribution system project already approved and being implemented by MCWRA to provide reclaimed water for irrigation in the Castroville Area of Monterey County.

2.9. Effective Date. Subject to paragraph 4, this Agreement and Framework shall be fully effective when executed by all the Parties.

2.10. Exhibits.

"A" The general geographic relationship of MCWD, Armstrong and Lonestar to the Basin and to the Zones is shown on the diagram attached to this Agreement and Framework as Exhibit "A."

"B" MCWD service area to be annexed

"C" Armstrong Ranch land to be annexed

"D" Lonestar property to be annexed

"E" Calculation of Incremental Cost for Tertiary Treated Water

"F" Armstrong Areas Reserved For Transfer to MCWD

"G" MRWPCA Addendum

2.11. FEIR. The Final Environmental Impact Report for the Salinas Valley Seawater Intrusion Program (February 1992).

2.12. Fort Ord. The land within the boundaries of the former Fort Ord Military Reservation.

2.13. Lonestar Property. A parcel containing about 400 acres of land in the Marina area, as shown on Exhibit "D."

2.14. Marina Area. Lands served by, adjacent to, or within the sphere of influence of MCWD.

2.15. MCWD Water Plans. The Urban Water Master Plan and the Urban Water Shortage Contingency Plan adopted by MCWD.

2.16. MCWRA/MRWPCA Agreement. Monterey County Agreement No. A-6078, "Agreement Between The Monterey County Water Resources Agency And The Monterey Regional Water Pollution Control Agency For Construction And Operation Of A Tertiary Treatment System," dated for reference purposes June 16, 1992, as amended on or before December 1, 1995.

2.17. Mitigation Plan. A plan for a potable water supply capable of mitigating the effects of seawater intrusion and providing a long-term potable water supply to MCWD's distribution system.

2.18. Mitigation Plan Implementation. The Mitigation Plan shall be considered "implemented" upon the delivery of potable water to MCWD's distribution system from a completed, long-term, potable water supply system, after system testing has been successfully completed.

2.19. Agreement and Framework. This Annexation Agreement and Groundwater Framework for Marina Area Lands.

2.20. Monterey Regional Water Pollution Control Agency ("MRWPCA"). A joint powers authority providing sewage treatment service to its member entities in Northern Monterey County, governed by its Board of Directors.

2.21. MRWPCA Annexation Agreement. "Annexation Agreement Between The Marina County Water District And The Monterey Regional Water Pollution Control Agency," dated April 25, 1989, as amended on or before December 1, 1995.

2.22. 1990 Agreement. Monterey County Agreement No. A-5471, "Preliminary Agreement Between United States of America, Marina Coast Water District, and Monterey County Flood Control and Water Conservation District," dated July 12, 1990.

2.23. SVRP. The Salinas Valley Reclamation Project, a project already approved and being implemented by MCWRA, in

cooperation with MRWPCA, to reclaim water at the MRWPCA's regional treatment plant, for irrigation through the CSIP.

2.24. Zones. Zones 2 and 2A of the MCWRA, which are the zones of benefit and assessment for the MCWRA's Nacimiento and San Antonio reservoirs.

3. FACTS AND CIRCUMSTANCES. This Agreement and Framework is entered into with regard to the following facts and circumstances:

3.1. The MCWRA has approved fourteen other annexations to Zones 2 and 2A since 1991. Like other areas which have been annexed, the Marina area is within the Salinas River Groundwater Basin, has been using groundwater for many years, and has strong claims to groundwater rights. Since the Fort Ord annexation in 1993, the Marina area is surrounded on three sides by Zones 2 and 2A, and by Monterey Bay to the west.

3.2. MCWRA agreed in the 1990 Agreement to "encourage and support" annexing MCWD to Zones 2 and 2A. MCWD has worked for about thirteen years with the MCWRA on plans for a reliable, long-term water supply for the northern Basin area, including the Marina area and Fort Ord. MCWD's participation has included payment of money to assist the planning effort. As part of the 1990 Agreement, MCWD paid for survey and planning work for the long-term water supply effort. Sums paid by MCWD to MCWRA total over \$400,000. The work for which MCWD paid will be useful for the Mitigation Plan.

3.3. MCWD, City, Armstrong and Lonestar claim the right to use groundwater from the Basin, to the full extent provided by law. MCWD takes water from wells owned and operated by MCWD and drilled into the "180-foot", "400-foot" and "900-foot" aquifers in the Basin. About ninety-eight percent of potable water used currently by MCWD comes from the 900-foot aquifer. MCWD's current maximum pumping capacity is 5,800 gpm (9,350 afy) of potable water and 1,100 gpm (1,770 afy) of other usable water. Allowing for routine maintenance and providing a contingency factor for emergency shutdown, MCWD's current estimated operational pumping capacity for potable water is 3900 gpm (6,000 afy).

3.4. MCWD agreed in writing in 1988 to cooperate with the City in providing water service to the Lonestar property and the Armstrong Ranch. A coordinated and centralized water supply for the Marina Area in furtherance of that 1988 agreement will facilitate management and protection of the groundwater resource in the Marina Area. Armstrong claims the right and ability to use not less than 920 afy of potable water from the Basin to provide potable water service to the Armstrong Ranch, and the right to use water for agricultural purposes. MCWD currently supplies some water to the Armstrong Ranch. The Armstrong Ranch will need reclaimed water for golf course purposes, park purposes and such other general uses as may be required by any agency having

jurisdiction as a condition of development. The Lonestar property currently uses about 500 afy of groundwater from the Basin.

3.5. The MCWD Water Plans are based on a total need within MCWD's current boundaries of 3,020 afy of water for potable uses and about 280 afy additional water suitable for irrigation, and on additional projected need by the rest of the Marina area as specified in the MCWD Water Plans.

3.6. MCWRA has previously annexed Fort Ord into Zones 2 and 2A. The September 1993 Agreement for that annexation provides that until implementation of a project to provide a substitute supply, a maximum of 6,600 afy may be withdrawn from the Basin for use on Fort Ord lands, provided no more than 5,200 afy are withdrawn from the 180-foot aquifer and 400-foot aquifer. The USA received a credit against annexation fees for about \$400,000 paid under the 1990 Agreement.

3.7. Pursuant to paragraph 12 of the MRWPCA Annexation Agreement, MCWD has the right to obtain from the MRWPCA, at the regional treatment plant, treated wastewater for reuse by the MCWD in quantities equal to the volume of MCWD wastewater treated by MRWPCA and such additional quantities as from time to time are not committed to any other users for beneficial use. MCWD's cost for such treated wastewater will be the MRWPCA's incremental cost over secondary treatment, to meet applicable local, state and federal requirements for water reuse.

3.8. The MCWRA/MRWPCA Agreement provides that the SVRP shall be designed and built for tertiary treatment of wastewater to be used for irrigation through the CSIP. That Agreement also mentions possible future interties with other agencies. The MCWRA/MRWPCA Agreement commits flows of wastewater to the CSIP as provided in Article IV and Exhibit C of that Agreement, excepting flows taken by MCWD pursuant to the MRWPCA Annexation Agreement.

4. REQUEST FOR ANNEXATION.

4.1. Request by MCWD, Armstrong, and Lonestar. Execution of this Agreement and Framework shall be deemed to be a formal and joint request by the signatories that the MCWRA's Board of Supervisors exercise their authority under section 7 of the Agency Act (West's California Water Code App. § 52-7) to annex to the Zones the lands described in Exhibits "B", "C" and "D" to this Agreement and Framework, on the terms and conditions of this Agreement and Framework as executed by the requesting signatories. No other terms or conditions shall apply to any annexation under this Agreement and Framework without the written agreement of all the Parties affected by the change.

4.2. Request by MCWD. MCWD is requesting immediate annexation of all the lands described in Exhibit "B." The lands to be annexed include the land which contains Olson School and the Methodist Church.

4.3. Request by Armstrong. Armstrong is requesting annexation of its land described in Exhibit "C", which annexation would take effect as provided in paragraph 6.2 of this Agreement and Framework.

4.4. Request by Lonestar. Lonestar is requesting immediate annexation of its land described in Exhibit "D", which annexation would take effect as provided in paragraph 7.3. of this Agreement and Framework.

4.5. Effect of Request. Other than to serve as a formal annexation request pursuant to section 7 of the Agency Act, this Agreement and Framework shall have no effect until its execution by the MCWRA.

5. TERMS AND CONDITIONS--MCWD.

5.1. Quantity limitations on MCWD's groundwater pumping.

5.1.1. Commencing on the effective date of this Agreement and Framework and continuing until Mitigation Plan Implementation, MCWD will limit its withdrawal of potable groundwater from the Basin for land in the Marina area and outside the former Fort Ord Military Reservation to 3,020 afy of potable groundwater, and only such additional quantities as are permitted by this paragraph 5.1. MCWRA's groundwater resource planning for the existing MCWD service area will be based on the latest information and projections contained in the MCWD Water Plans, using 3,020 afy as a planning guideline for potable water use.

5.1.1.1. After compliance with all applicable requirements of law, including but not limited to CEQA, MCWD may improve the interconnection between the MCWD water system and the water system serving Fort Ord, to provide for joint, conjunctive and concurrent use of all system facilities to serve Fort Ord and other areas served by MCWD, and the other Parties will cooperate on MCWD's increased withdrawal of potable groundwater by up to 1,400 afy from the 900-foot aquifer to enable the increased withdrawals from 5200 afy to 6600 afy for use on Fort Ord, as provided in paragraph 4.c. of the September 1993 Agreement between The United States of America and the MCWRA.

5.1.1.2. If the Armstrong property has been annexed to the Zones, the other Parties will cooperate on MCWD's increased withdrawal of up to 920 afy from the Basin, on the condition that such withdrawals shall be used only to provide water to the Armstrong Ranch and, to the extent that such water is requested and accepted by Armstrong, such use shall in its entirety be applied to the satisfaction of Armstrong's entitlement under paragraph 6.9. of this Agreement and Framework.

5.1.1.3. If the Lonestar property has been annexed to the Zones, the other Parties will cooperate on MCWD's

increased withdrawal of up to 500 afy from the Basin, on the condition that such withdrawals shall be used only to provide water to the Lonestar property, and, to the extent that such water is requested and accepted by Lonestar, such use shall in its entirety be applied to the satisfaction of Lonestar's entitlement under paragraph 7.2. of this Agreement and Framework.

5.1.2. Conditioned upon MCWRA's compliance with paragraphs 5.1, 5.2, 5.3., 5.5, 5.7, 8.1, 8.2 and 8.3, after Mitigation Plan Implementation, MCWD will be governed by such limitations on the withdrawal of water from the Basin as shall be included in the terms of the Mitigation Plan.

5.2. No objection by MCWRA to MCWD withdrawals except pursuant to section 22 of Agency Act. The MCWRA shall not object to any withdrawal by MCWD which is mentioned in section 5.1 above, except in compliance with section 22 of the Agency Act. All groundwater withdrawn from the Basin by MCWD may be used only within the Basin.

5.3. Management of 900-foot aquifer. The Parties agree that the "900-foot" aquifer should be managed to provide safe, sustained use of the water resource, and to preserve to MCWD the continued availability of water from the "900-foot" aquifer. The Parties will work to include in a Mitigation Plan the concept that water from the Mitigation Plan which costs less than the cost of desalinated water should be the primary source of potable water for the lands described in Exhibits "B", "C", and "D", and wells in the "900-foot" aquifer should be a secondary source, if seawater intrusion is shown to be affecting the "900-foot" aquifer by credible scientific evidence. The Parties will also work together on measures to protect the "900-foot" aquifer.

5.4. Compliance with CEQA and other applicable laws. MCWD's participation in the Mitigation Plan or any other alternative water supply plan is subject to compliance with all applicable laws, including but not limited to CEQA, and to review and approval by the MCWD.

5.5. MCWD development of alternative water supplies. MCWRA agrees that it is appropriate for MCWD to plan for and develop any new water supplies, including but not limited to wastewater reclamation and desalination, that help to meet MCWD's needs, except that the MCWRA believes that the unilateral development of water by MCWD would not be appropriate from any of the following sources: the 180-foot and 400-foot confined aquifers in the Pressure Area of the Salinas Valley Groundwater Basin, the unconfined aquifer in the three other areas in the Salinas Valley Groundwater Basin (East side, Forebay, and Upper Valley), and the Salinas River and its tributaries.

5.6. MCWD payment to MCWRA for tertiary treated water. In satisfaction of paragraph 12 of the MRWPCA Annexation Agreement, MCWD will pay to MCWRA the incremental cost over secondary

treatment to receive tertiary treated water from MRWPCA's planned tertiary treatment facilities at its regional treatment plant. The Parties agree that this cost shall be calculated as set forth on Exhibit "E" to this Agreement and Framework.

5.7. MCWD right to receive tertiary treated water from MRWPCA plant.

5.7.1. Pursuant to the MRWPCA Annexation Agreement, on or after the date of first delivery of water from the CSIP and upon compliance with all then-applicable requirements of law, including but not limited to CEQA, MCWD shall have the right to receive tertiary treated water from the tertiary treatment plant constructed and maintained pursuant to the SVRP, as provided herein.

5.7.2. The CSIP requires maximum available reclaimed water flows from the SVRP during the months of April through September to replace historically high uses of groundwater during those months, and to thereby maximize environmental benefits. Accordingly, during the months of April through September, MCWD agrees to defer taking any water over 300 afy it is entitled to take from the tertiary treatment plant under the MRWPCA Annexation Agreement. MCWD will also defer taking the first 300 afy of such flows to which it is entitled, if and after MCWD constructs a reservoir to store replacement winter flows.

5.7.3. During the months of October through March, MCWD may take the full amount of the reclaimed water to which it would, under the MRWPCA Annexation Agreement, have first priority during those months, together with an amount of water equal to the amount deferred during the immediately preceding months of April through September under paragraph 5.7.2. above. MCWD will take the deferred amount in equal or approximately equal monthly portions spread throughout the October-March period, or as otherwise agreed in writing by the MCWD and the MCWRA.

5.7.4. If MCWD's ability to supply reclaimed water is interrupted for any reason, MCWD and MCWRA will act jointly and diligently, together and with MRWPCA, to mitigate possible damage to users of such flows, including possible interim use of MCWD's wells to provide a substitute source of water.

5.8. **Effective date of annexation.** The annexation to Zones 2 and 2A of the MCWD lands described in Exhibit "B" shall take effect immediately upon approval of the annexation by the MCWRA Board of Supervisors on the terms of this Agreement and Framework, or, if the annexation is approved by ordinance, then thirty (30) days after adoption of an ordinance approving the terms of this Agreement and Framework.

5.9. Annexation fee.

5.9.1. Amount of MCWD annexation fee. To annex all the land described in Exhibit "B" to the Zones, MCWD shall pay to MCWRA an annexation fee in the amount of Two Million Eight Hundred Forty-Nine Thousand Four Hundred and Ten Dollars (\$2,849,410.00) (based on 1750 acres in the MCWD service area and water extraction use of 3020 afy). MCWD shall pay this amount, subject to any adjustments hereinafter described, in semi-annual installments as provided in paragraph 5.9.3. below. By giving written notice to MCWRA on or before May 1, 1997, MCWD may elect to pay the annexation fee in full, without interest, in one lump sum on or before July 1, 1997.

5.9.2. Credit. MCWD shall have a credit of \$400,000 against the annexation fee, based on the 1990 Agreement and the similar credit previously given to the U.S.A. on the annexation of Fort Ord to the Zones.

5.9.3. Payment of annexation fee. MCWD shall pay its annexation fee as follows:

5.9.3.1. From the total amount of the annexation fee, subtract the credit of \$400,000, to determine the "net annexation fee." MCWD may elect to pay the net annexation fee in one lump sum, as provided in paragraph 5.9.1, or may pay in installments as provided below. If MCWD elects to pay in one lump sum, any late payment shall bear interest at the annual rate of 6% from the due date and shall be subject to the same penalties and collections procedures as are set forth in paragraph 6.7. of this Agreement and Framework.

5.9.3.2. MCWD may pay in twenty semi-annual installments, beginning in the fiscal year commencing on July 1, 1997, with interest at the annual rate of six percent (6%) on the unpaid principal balance accruing from July 1, 1997, and with semi-annual payments due on November 1 and February 1 and delinquent on December 10 and April 10 each fiscal year. The interest included in payments consisting of both principal and interest shall be calculated as though the installment were paid on the last day before delinquency, even if the installment is paid in advance of that date. The total amount of each installment paid on the net annexation fee shall be sufficient to amortize the full amount of principal and interest in twenty (20) equal semi-annual installments. There shall be no pre-payment penalty.

5.10. MCWD use of revenues prior to full payment of annexation fee. Until MCWD pays or receives credit for the entire annexation fee and all accrued interest on the fee, all revenue received by MCWD from the lands annexed to the Zones pursuant to this Agreement and Framework for or in connection with providing water and sewer service to the lands shall be used only for activities and functions duly performed by MCWD in connection with

providing water and sewer service, including, but not limited to, the payments required under this Agreement and Framework.

6. TERMS AND CONDITIONS--ARMSTRONG.

6.1. Ranch Areas. Annexation of the Armstrong Ranch to the Zones contemplates two general areas of the Ranch, which are designated for convenience "Area A" and "Area B." Area A consists of about 900 acres which is expected to be developed for urban uses. Area B consists of about 950 acres, a portion of which is expected to be used for irrigated agriculture, and about 220 acres of which is expected to be given to MCWD to store treated water. For purposes of determining assessments, standby charges and the like, the initial classification of the land within Area B will be determined at the time of annexation.

6.2. Effective Date of Annexation. Approval of this Agreement and Framework by the MCWRA Board of Supervisors shall constitute approval for annexation of the Armstrong Ranch to the Zones at the time and on conditions approved by LAFCO and satisfactory to Armstrong for concurrent annexation of the Armstrong Ranch to MCWD and the City of Marina, including recordation of a final subdivision map upon conditions satisfactory to Armstrong.

6.3. Participation by Armstrong in MCWD water sources. Subject to compliance with all then-applicable requirements of law, including but not limited to CEQA, Armstrong Ranch shall be entitled at all times to participate on an equitable basis with MCWD in potable water sources developed by MCWD pursuant to paragraph 5.5. of this Agreement and Framework, in which event the limitations concerning the use of water on the Armstrong Ranch, as set forth in paragraph 6.9. shall not be applicable to using potable water developed pursuant to paragraph 5.5.

6.4. Prerequisites to annexation to MCWD and the City of Marina. Any application to LAFCO for annexation of any Armstrong Ranch property to either MCWD or the City of Marina shall be concurrently submitted by the City and MCWD, and shall provide that such property to be annexed shall be within the boundaries of both MCWD and the City of Marina.

6.5. Annexation fee.

6.5.1. When the Armstrong Ranch has been annexed to the Zones, Armstrong will pay to MCWRA an annexation fee computed as the sum of

6.5.1.1. the product of multiplying the number of acres annexed by \$277/acre for land intended for urban or irrigated use and \$27.70/acre for land intended for grazing, dry land farming or other unirrigated use, and

6.5.1.2. the product of multiplying the number of afy of water from the Basin or the Mitigation Plan allocated to the annexed land by \$783/af for potable water intended for urban use and \$261/af for water intended for agricultural use. Such charge shall not be applicable to any water from a source other than the Salinas Valley Groundwater Basin or the Salinas River and its tributaries.

6.5.2. Fees for Armstrong are estimated to be about \$969,660 for Area A, based on 900 acres @ \$277/ac. and 920 afy @ \$783/af, and an amount subject to final determination upon actual annexation for Area B. For example, based on 250 irrigated acres @ \$277/ac., 700 unirrigated acres @ \$27.70/ac., and 650 afy of water @ \$261/af, the annexation fees for Area B would be about \$258,000.

6.5.3. If annexation of the Armstrong Ranch occurs more than seven years after MCWRA approves this Agreement and Framework, Armstrong shall pay the then-current annexation fees, instead of the fees set forth in paragraph 6.5.1 above.

6.5.4. Armstrong may elect to pay the annexation fee in a lump sum as provided in paragraph 6.6 below, or may pay the annexation fee in installments as provided in paragraph 6.7 below. There shall be no prepayment penalty.

6.5.5. If the agricultural water use on Area B is changed to a potable or industrial use, then Armstrong shall pay to the MCWRA as an additional annexation fee, an additional water charge computed as two-thirds (2/3rds) of the product of the number of afy changed multiplied by the then-current annexation water charge. If Armstrong uses water on any part of the Armstrong Ranch which is initially annexed as land for unirrigated use, Armstrong shall pay an additional land fee of nine times the land fee specified for such land in 6.5.1.1 above. The additional water charge or land fee will be paid either in one lump sum, due and payable on the July 1 immediately following the change in water use, or in twenty (20) equal semi-annual installments over ten (10) years, with the payment period and interest accrual beginning on that July 1, in the same manner as prescribed for Armstrong's original annexation fee and subject to the same rules.

6.6. Payment of annexation fee in lump sum. If paid in a lump sum, the annexation fee shall be due and payable in full on July 1, next succeeding the first March 1 after the effective date of the annexation. Armstrong may elect to pay the annexation fee in full in one lump sum by giving written notice of such election to MCWRA not later than the May 1 immediately preceding the date payment is due. Any late payment shall bear interest at the annual rate of 6% from the due date, and shall be subject to the same penalties and collection procedures as are set forth in paragraph 6.7.

6.7. Payment of annexation fee in installments.

6.7.1. If paid in installments, the installments shall include interest on the unpaid principal balance at the annual rate determined in the manner hereinafter set forth, which interest shall begin to accrue on July 1, next succeeding the first March 1 after the effective date of the annexation. The interest rate on installments shall be six percent per annum. The interest included in each installment shall be calculated as though the installment were paid on the last day before delinquency, even if the installment is paid in advance of that date.

6.7.2. The amount of each semi-annual installment shall be sufficient to amortize the full amount of principal and interest in twenty (20) equal semi-annual installments.

6.7.3. The semi-annual installments shall be paid and collected at the same time and in the same manner and by the same persons as, and together with and not separately from, general agency and zone taxes and shall be delinquent at the same time and thereafter subject to the same delinquency penalties. The first installment shall be due on November 1 following July 1, next succeeding the first March 1 after the effective date of the annexation and shall be delinquent if not paid on or before the following December 10. The second installment shall be due on the following February 1 and shall be delinquent if not paid on or before the following April 10. Thereafter, installments shall fall due and become delinquent on the same dates each year.

6.7.4. The full amount of principal and interest shall be paid not later than April 10, in the tenth year following July 1, next succeeding the first March 1 after the effective date of the annexation.

6.7.5. The amount of each installment shall constitute a lien on each annexed parcel as of noon on the March 1 immediately preceding the fiscal year (July 1-June 30) in which payment of the installment will be due. If the property is subdivided, then a prorata share of the annexation fee shall become a lien on each individual parcel, based upon the ratio that the land area of the individual parcel bears to the total land area of all parcels against which the annexation fee is a lien. All laws applicable to the levy, collection and enforcement of general agency and zone taxes, including, but not limited to, those pertaining to delinquency, correction, cancellation, refund and redemption, shall be applicable to such installments.

6.7.6. MCWD shall pay to MCWRA any fees to annex the lands within the MCWD Reserved Area described in paragraph 6.10 and shown on Exhibit "F" to this Agreement and Framework.

6.8. Costs, assessments, fees and charges. Costs, assessments, fees and charges imposed by MCWD in connection with providing water and wastewater treatment capacity and service to

the Armstrong Ranch must be equitable and reasonable and must be reasonably related to services and benefits received, consistent with the County Water District Law (Water Code sections 30,000 and following), with Government Code sections 50076 and 66013, and with applicable case law.

6.9. Quantity limitations on Armstrong water use.

6.9.1. Armstrong shall have the right to utilize on the Armstrong Ranch groundwater for irrigation, and 920 afy of additional water for potable uses withdrawn from the Basin, subject to the limitations set forth herein. Armstrong shall limit potable water withdrawn from the Basin and used for potable purposes on the Armstrong Ranch to no more than 20 afy when this Agreement and Framework becomes effective, 150 afy upon annexation to the Zones, and an additional 150 afy every two years thereafter, up to the total of 920 afy for potable purposes from the Basin.

6.9.2. MCWD shall provide Armstrong with water service for all residential, municipal and industrial uses on the Armstrong Ranch. In providing such service, the water allocation for Armstrong, set forth above in paragraph 6.9.1., shall be added to the MCWD water allocation, as provided in paragraph 5.1.

6.9.3. Groundwater underlying Area B shall be used solely for agricultural activities conducted on Area B, except that not more than 20 afy of such groundwater may be used for potable uses on the Armstrong Ranch, and additional groundwater underlying Area B also may be used by the MCWD on the part of Area B conveyed to MCWD and may also be used on the adjacent lands of the MRWPCA.

6.9.4. The limits on water use provided by this paragraph 6.9. shall not apply to use of reclaimed water or of potable water developed from a source other than the Salinas Valley Groundwater Basin or the Salinas River and its tributaries.

6.10. Reservation of lands for MCWD.

6.10.1. MCWD Reserved Area. Armstrong shall reserve, for use by MCWD, the area shown diagrammatically on Exhibit "F" to this Agreement and Framework as "MCWD Reserved Area", and the non-exclusive easements shown on Exhibits "C" and "F" in favor of MCWD, appurtenant to said MCWD Reserved Area and to MCWD's reclaimed water system and transferrable with either, for construction, roads, utilities (including communications), pipelines, and any other purpose for which a road may be used, subject to the non-exclusive easements shown on Exhibits "C" and "F" to be reserved in favor of Armstrong, which said reserved easements in favor of Armstrong shall be for wells (located within the southerly 60' of the 160' x 1000' strip as shown on Exhibit "F", which wells may be relocated within said strip from time to time, on well sites which may extend north of the southerly 60' of the strip) for agricultural irrigation, roads, utilities (including

communications), pipelines, and any other purpose for which a road may be used, shall be freely assignable and usable by others, and not subject to being extinguished or limited because of overburden or surcharge, and which said reserved easements shall not interfere or be used so as to interfere with the use of the balance of said MCWD Reserved Area for the production, storage, or distribution of treated water (tertiary treatment or its equivalent), or potable water. Before either MCWD or Armstrong installs any facilities in the reserved easements, MCWD and Armstrong will meet and confer to assure that their respective uses of and facilities in the said reserved easements will not conflict. Both parties shall act reasonably in considering the needs of the other. MCWD shall not place any non-potable water impoundment within the 160' x 1000' strip, nor any non-potable water pipeline closer than 110' north of the southerly boundary. MCWD shall not be required to move any facilities the installation of which has been approved by Armstrong. Water from wells located in said reserved strip shall be used only on lands of Armstrong and also may be used by the MCWD on the part of Area B conveyed to MCWD and may also be used on the adjacent lands of the MRWPCA.

6.10.1.1. The MCWD Reserved Area, which shall not exceed 250 acres within the boundaries shown on Exhibit "F", will be "office" surveyed at the expense of MCWD within sixty days, and "field" surveyed at the expense of MCWD within one year, following approval by the MCWRA Board of Supervisors of this Agreement and Framework.

6.10.1.2. MCWD will diligently undertake, and MCWRA, City and Armstrong will cooperate in the planning and conduct of, the appropriate environmental review and application for appropriate permits to use MCWD Reserved Area for facilities for the production, storage, or distribution of treated water (tertiary treatment or its equivalent), or potable water. Any use other than for the production, storage, or distribution of treated water (tertiary treatment or its equivalent), or potable water, shall require the prior written approval of Armstrong, and any conveyances from Armstrong to MCWD shall contain appropriate restrictions on such additional use in the form of a condition subsequent to the conveyances and a power of termination in favor of Armstrong. Any attempt to condemn the power of termination shall be subject to the provisions of paragraph 6.10.3. as if it were a condemnation of fee title.

6.10.1.3. MCWD may use and take conveyance of the MCWD Reserved Area in phases of not less than 40 acres. Armstrong's obligation to reserve the MCWD Reserved Area shall expire at midnight on June 30, 2003, or upon delivery to Armstrong of written notice from MCWD cancelling MCWD's right to receive conveyance of the MCWD Reserved Area. Armstrong's obligation to reserve the MCWD Reserved Area shall be extended to July 1, 2010, if MCWD has begun to use at least 40 acres of the MCWD Reserved Area by June 30, 2003.

6.10.2. Gift by Armstrong or payment by MCWD.

Armstrong has offered to make a gift to MCWD, at the agreed value of \$25,000 per acre, of 50 acres of the MCWD Reserved Area for the first 150 afy of water which Armstrong is entitled to withdraw from the Basin as provided in paragraph 6.9. of this Agreement and Framework, and 40 acres for each additional 150 afy which Armstrong may withdraw pursuant to paragraph 6.9, or less than 40 acres for the last 150 afy, if the last remaining portion of the MCWD Reserved Area is less than 40 acres, but in no event to exceed the total acreage of the area shown as the MCWD Reserved Area on Exhibit "F" to this Agreement and Framework. This offer may be accepted by MCWD following such final annexation at any time during the time Armstrong is reserving the MCWD Reserved Area. In any event, however, and notwithstanding the foregoing, upon receipt by Armstrong of written request from MCWD, Armstrong will forthwith convey all or part of the MCWD Reserved Area to MCWD by grant deed. Any such part must begin in the southwest corner of MCWD Reserved Area, must be parallel to the southerly and westerly boundaries of the MCWD Reserved Area, must be rectangular or trapezoidal in shape, must be at least 40 acres in size, and must be free of any financial encumbrances except taxes and assessments not delinquent, but subject to all other encumbrances, and further subject to all laws, ordinances, regulations and rights of all governmental bodies having jurisdiction in, on or over the subject real property as they may from time to time exist. Title shall also be subject to the lien of a first deed of trust for each conveyance, executed by MCWD in favor of Armstrong securing the obligation of MCWD in favor of Armstrong next hereinafter referred to. Beginning six months after conveyance of any part of the MCWD Reserved Area which is not conveyed as a gift to MCWD, MCWD shall commence paying to Armstrong a sum calculated by multiplying the number of acres in such conveyance by Twenty-Five Thousand Dollars (\$25,000.00). The price of \$25,000 per acre shall be adjusted as of July 1, 2003, if Armstrong's obligation to reserve the property is extended to 2010 pursuant to paragraph 6.10.1.3. of this Agreement and Framework. In such event, the price per acre shall be computed by multiplying \$25,000 by the percentage increase or decrease in the Cost of Living Index for all urban consumers in the San Francisco-Oakland-San Jose Area (1982-1984=100), occurring between July 1, 1997 and July 1, 2003, or the closest dates to such dates for which figures are available. Payment shall be made in 20 equal semi-annual payments, commencing six months after such conveyance, sufficient to amortize the obligation fully, with the unpaid principal balance bearing interest from the date of conveyance to MCWD, at the prime rate of the Bank of America in San Francisco, California, as of July 1 each year during the term of this obligation, but not to exceed the maximum rate permitted by law to be charged by Armstrong in such transaction. Any such payments made or to be made by MCWD, together with interest from the date of MCWD's payment, through December 31, 2010, at the prime rate of interest of the Bank of America in San Francisco, California, shall be included in computing annexation fees, capacity charges and service charges charged by MCWD for the part of the Armstrong Ranch to which the payments made by MCWD to Armstrong relate.

6.10.3. Waiver of further acquisitions by MCWD, MCWRA, and City of Marina; liquidated damages. Except for incidental water system and wastewater system and storm water system easements, incidental access easements, incidental road easements, and incidental utility easements, as may be necessary from time to time, and further excepting land dedicated to public uses through the development process as a condition of development, MCWD, City, and MCWRA shall not seek to acquire fee title to land or easements thereon on any part of the Armstrong Ranch by eminent domain for use in providing water or wastewater service, or for any other public purpose whatsoever, except that, as to City only, said prohibition shall apply only with respect to eminent domain for water or sanitary sewer facilities and shall not be applicable to eminent domain for other public purposes; provided, however, that in the event that any of said agencies shall, notwithstanding the foregoing covenant, warranty and representation, seek to exercise the power of eminent domain for any other purpose except as excepted above, then, and in that event, all Parties hereto hereby agree that the fair market value of and the price to be paid for all such land lying within MCWD Reserved Area as shown on Exhibit "F" hereto (and any additional area shown on an exhibit to a fully executed addendum to this Agreement and Framework) shall be the sum of Twenty-Five Thousand Dollars (\$25,000.00) cash per acre and the fair market value and purchase price for all land lying outside of said MCWD Reserved Area as shown on Exhibit "F" hereto (and any additional area shown on an exhibit to a fully executed addendum to this Agreement and Framework) shall be the sum of ONE HUNDRED THOUSAND Dollars (\$100,000.00) cash per acre. FURTHERMORE, IN THE EVENT THAT MCWD, CITY, AND MCWRA, OR ANY OF THEM, SHOULD BREACH THIS COVENANT, WARRANTY AND REPRESENTATION, THEN, AND IN THAT EVENT, THE PARTIES AGREE THAT ARMSTRONG SHALL BE ENTITLED TO RECOVER FROM SUCH BREACHING PARTY, AS LIQUIDATED DAMAGES, AN AMOUNT EQUAL TO THE DIFFERENCE BETWEEN THE PRICE PER ACRE ACTUALLY PAID AND TWENTY-FIVE THOUSAND DOLLARS (\$25,000.00) PER ACRE MULTIPLIED BY THE NUMBER OF ACRES SO TAKEN IN THE CASE OF LAND WITHIN SAID MCWD RESERVED AREA (AND ANY ADDITIONAL AREA SHOWN ON AN EXHIBIT TO A FULLY EXECUTED ADDENDUM TO THIS AGREEMENT AND FRAMEWORK), AND THE DIFFERENCE BETWEEN THE PRICE PER ACRE ACTUALLY PAID AND ONE HUNDRED THOUSAND DOLLARS (\$100,000.00) PER ACRE MULTIPLIED BY THE NUMBER OF ACRES TAKEN IN THE CASE OF LAND LYING OUTSIDE OF MCWD RESERVED AREA (AND ANY ADDITIONAL AREA SHOWN ON AN EXHIBIT TO A FULLY EXECUTED ADDENDUM TO THIS AGREEMENT AND FRAMEWORK), AS LIQUIDATED DAMAGES, WHICH THE PARTIES AGREE IS A REASONABLE SUM CONSIDERING ALL THE CIRCUMSTANCES EXISTING ON THE DATE OF THIS AGREEMENT AND FRAMEWORK, INCLUDING THE RELATIONSHIP OF THE SUM TO THE RANGE OF HARM TO ARMSTRONG THAT REASONABLY COULD BE ANTICIPATED AND THE ANTICIPATION THAT PROOF OF ACTUAL DAMAGES WOULD BE COSTLY OR INCONVENIENT. IN PLACING THEIR SIGNATURES BELOW, EACH PARTY SPECIFICALLY CONFIRMS THE ACCURACY OF THE STATEMENTS MADE ABOVE AND THE FACT THAT EACH PARTY WAS REPRESENTED BY COUNSEL WHO EXPLAINED THE CONSEQUENCES OF THIS LIQUIDATED DAMAGES PROVISION AT THE TIME THIS AGREEMENT AND FRAMEWORK WAS MADE.

ARMSTRONG

James Louis Anderson, Jr.
John L. Anderson
Jay M. Armstrong

MCWD

CITY

MCWRA

6.11. Annexation of portions of Armstrong Ranch used by MCWD. Notwithstanding any other provision of this section 6, portions of the Armstrong Ranch owned and/or used by MCWD may be annexed to the Zones at any time, upon MCWD's written request for such annexation, and after compliance with all then-applicable laws. Any annexation fees or charges by MCWRA for such annexed lands shall be paid by MCWD.

7. TERMS AND CONDITIONS--LONESTAR.

7.1. Compliance with Agency Act Section 22. The MCWRA acknowledges that it may not object to any withdrawal by Lonestar permitted by this section 7, except in compliance with section 22 of the Agency Act. All groundwater withdrawn from the Basin by Lonestar may be used only within the Basin.

7.2. Quantity Limitations. Commencing on the effective date of this Agreement and Framework, Lonestar shall limit withdrawal and use of groundwater from the Basin to Lonestar's historical use of 500 afy of groundwater.

7.3. Annexation of Lonestar Property to the Zones. Approval of this Agreement and Framework by the MCWRA Board of Supervisors shall constitute approval for annexation of the Lonestar Property in accordance with the terms of this Agreement and Framework. The actual annexation will occur as follows: The Lonestar Property annexation to the Zones will not take effect until the Lonestar Property has been approved for prior or concurrent annexation into MCWD. When such approval has been

ARMSTRONG

James David Lonsdale J.
Phillip Lonsdale
Susan David Armstrong

MCWD

CITY

MCWRA

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ARMSTRONG

James Eric Anderson J.

Paul H. W. [unclear] 4/4/96

MCWD

CITY

MCWRA

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ARMSTRONG

James Louis Anderson, Jr.

Elizabeth Armstrong

MCWD

CITY

MCWRA

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ARMSTRONG

MCWD

Thomas P. Moore April 12, 19

CITY

MCWRA

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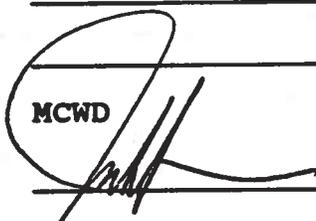
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ARMSTRONG

MCWD

CITY

MCWRA

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ARMSTRONG

MCWD

CITY

MCWRA

Edith Johnson

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obtained, Lonestar shall notify MCWRA, and the MCWRA Board of Supervisors shall declare by resolution the effective date of the annexation.

7.4. Annexation fee.

7.4.1. Amount of original annexation fee. When the Lonestar Property has been annexed to the Zones, Lonestar will pay to MCWRA an annexation fee computed as follows:

104 acres x \$277 (land fee)	=	\$ 28,808
264 acres x \$27.70 (open space)	=	7,313
500 afy x \$783/3 (water charge)	=	<u>130,500</u>
Total principal (original fee)	=	<u>166,621</u>
Total interest @ 6%	=	<u>57,370</u>
Total payment	=	<u>223,991</u>
Semi-annual payments	=	11,200

7.4.2. Choice of lump sum or installment. Lonestar may elect to pay the annexation fee in one lump sum or may pay in semi-annual installments.

7.4.3. Lump sum payment. If paid in a lump sum, the original annexation fee shall be due and payable in full on July 1, next succeeding the first March 1 after the effective date of the annexation. Lonestar may elect to pay the annexation fee in full in one lump sum by giving written notice of such election to MCWRA not later than the May 1 immediately preceding the date payment in a lump sum would be due. Any late payment shall bear interest at the annual rate of 6% from the due date, and shall be subject to the same penalties and collection procedures as are set forth in paragraph 7.4.4.

7.4.4. Installment payments.

7.4.4.1. If the original annexation fee or any addition thereto is paid in installments, the installments shall include interest on the unpaid principal balance at the annual rate determined pursuant to this Agreement and Framework. The interest rate on installments on the original annexation fee shall be six (6) percent per annum and shall begin to accrue on July 1, next succeeding the first March 1 after the effective date of the annexation. The interest rate for the additional water charge shall be equivalent to that which the County would pay for funds borrowed at the time the additional water charge is determined and shall begin to accrue at the beginning of the applicable payment period. The interest included in each installment shall be calculated as though the installment were paid on the last day

before delinquency, even if the installment is paid in advance of that date.

7.4.4.2. The amount of each semi-annual installment shall be sufficient to amortize the full amount of principal and interest in twenty (20) equal semi-annual installments.

7.4.4.3. The semi-annual installments shall be paid and collected at the same time and in the same manner and by the same persons as, and together with and not separately from, general agency and zone taxes and shall be delinquent at the same time and thereafter subject to the same delinquency penalties. The first installment shall be due on November 1 following July 1, next succeeding the first March 1 after the effective date of the annexation and shall be delinquent if not paid on or before the following December 10. The second installment shall be due on the following February 1 and shall be delinquent if not paid on or before the following April 10. Thereafter, installments shall fall due and become delinquent on the same dates each year.

7.4.4.4. The full amount of principal and interest shall be paid not later than April 10, in the tenth year following July 1, next succeeding the first March 1 after the effective date of the annexation.

7.4.4.5. The amount of each installment shall constitute a lien on the annexed property as of noon on the March 1 immediately preceding the fiscal year (July 1-June 30) in which payment of the installment will be due. If the property is subdivided, then a prorata share of the annexation fee shall become a lien on each individual parcel, based upon the ratio that the land area of the individual parcel bears to the total land area of all parcels against which the annexation fee is a lien. All laws applicable to the levy, collection and enforcement of general agency and zone taxes, including, but not limited to, those pertaining to delinquency, correction, cancellation, refund and redemption, shall be applicable to such installments.

7.4.5. Additional annexation fee for change in water use. If the water use on the Lonestar Property is changed from an industrial or agricultural use to a potable or other use, or if MCWD delivers potable water to the Lonestar Property pursuant to paragraph 5.1.1.3., then Lonestar shall pay to the MCWRA as an additional annexation fee, an additional water charge computed as two-thirds (2/3rds) of the product of 500 afy multiplied by the then-current annexation water charge. If Lonestar uses water on the 264-acre open-space area, Lonestar shall pay an additional land fee of nine times the land fee specified for the area in 7.4.1. above. The additional water charge or land fee will be paid either in one lump sum, due and payable on July 1, immediately following the change in water use, or in twenty (20) equal semi-annual installments over ten (10) years, with the payment period and interest accrual beginning on that July 1, in the same manner as

prescribed for Lonestar's original annexation fee and subject to the same rules.

7.4.6. Additional annexation fee for Mitigation Plan water supply allocation. If a substitute supply of potable Mitigation Plan water is approved for the Lonestar Property pursuant to Section 22 of the MCWRA Act, then, when the contract for construction of the Mitigation Plan has been approved by the MCWRA Board of Supervisors, and when Lonestar begins using water for potable uses, Lonestar will pay as an addition to its annexation fee an additional water charge computed as two-thirds (2/3rds) of the product of the amount so allocated multiplied by the then-current annexation water charge. The additional water charge will be paid either in one lump sum, due and payable on July 1, immediately following approval of both the Mitigation Plan water supply for Lonestar and the construction contract for the Mitigation Plan, or in twenty (20) equal semi-annual installments over ten (10) years, with the payment period and the interest accrual beginning on that July 1, in the same manner as prescribed for Lonestar's original annexation fee and subject to the same rules.

7.4.7. Non-duplication of additional annexation fees. The additional annexation fees set forth in paragraphs 7.4.5 and 7.4.6 above are not intended to be cumulative. If Lonestar becomes liable to pay both of the additional annexation fees, then Lonestar shall be obligated to pay only the higher of the two fees, and any amounts previously paid towards the lower additional fees shall be credited towards payment of the higher.

8. TERMS AND CONDITIONS--GENERAL.

8.1. Equal treatment by MCWRA and MCWD. If future litigation, regulation or other unforeseen action diminishes the total water supply available to MCWRA, MCWRA agrees that it will exercise its powers so that MCWD, Armstrong and Lonestar shall be no more severely affected in a proportional sense than other lawful users of water from the Zones, based on the right before the imposition of any uniform and generally applicable restrictions as described in paragraph 8.2 to use at least the quantities of water from the Basin described in paragraphs 5.1., 6.9., and 7.2. MCWRA shall not at any time seek to impose greater restrictions on water use from the Basin by MCWD, Armstrong or Lonestar than are imposed on users either supplying water for use or using water within the city limits of the City of Salinas. MCWD, Armstrong and Lonestar will comply with any basin-wide or area-wide water allocation plans established by the MCWRA which include MCWD, Armstrong and Lonestar, and which do not impose on use of water on the lands described in Exhibits "B", "C", and "D" restrictions greater than are imposed on users either supplying water for use or using water within the City of Salinas, and which satisfy the requirements of paragraph 5.2 of this Agreement and Framework.

8.2. Water Conservation Measures. MCWD, Armstrong and Lonestar shall use, and MCWD may require the use of reasonable and appropriate water conservation measures on the lands described in Exhibits "B", "C" and "D" to this Agreement and Framework, which water conservation measures shall be uniformly applied and may be more restrictive but shall not be less restrictive than measures implemented by MCWRA as part of a Basin-wide or area-wide water conservation program. All planning and environmental review for the lands described in Exhibits "B", "C", and "D" to this Agreement and Framework shall be based on the requirement that development on such lands shall use reasonable and appropriate water conservation measures comparable to measures implemented by MCWRA as part of a Basin-wide or area-wide water conservation program, and by MCWD as part of a water conservation program applicable uniformly within MCWD's service area.

8.3. Defense of Rights. Upon Mitigation Plan Implementation, MCWRA will defend the rights of MCWD, Armstrong and Lonestar to a supply of water from the Mitigation Plan, as though those rights were the rights of MCWRA. Participation by MCWD, Armstrong and Lonestar in the Mitigation Plan or any other alternative water supply plan is subject to compliance with all applicable laws, including but not limited to CEQA.

8.4. Use of Annexation Fees. Annexation fees from the MCWD service area, the Armstrong Ranch and the Lonestar Property shall be used by MCWRA to pay the costs of a BMP process that includes mitigation plans for the Marina Area based on the planning guidelines contained in this Agreement and Framework. Such annexation fees shall also be used for management and protection of the "900-foot aquifer."

8.5. Assessments. After approval by the Board of Supervisors of annexation to the Zones of any property described in the exhibits to this Agreement and Framework, each parcel annexed shall be subject to all uniform assessments, charges, fees, and other exactions levied in Zones 2 and 2A for the fiscal year beginning on July 1, next succeeding the first March 1 after the effective date of the annexation, and shall remain subject thereto for as long as such exactions are levied and the parcel remains within the levying zone.

8.6. Recordation. Upon approval of this Agreement and Framework by the Board of Supervisors and execution by all Parties, this Agreement and Framework shall be recorded in the office of the Monterey County Recorder. All signatures shall be notarized as necessary to record the Agreement and Framework.

9. DISPUTE RESOLUTION PROCEDURE.

9.1. If any dispute arises between the Parties as to the proper interpretation or application of this Agreement and Framework, the Parties shall first seek to resolve the dispute in accordance with this Agreement and Framework, and the Parties must

meet and confer under this Agreement and Framework before filing any court action.

9.2. If any dispute under this Agreement and Framework arises, the Parties shall first meet and confer, in an attempt to resolve the matter between themselves. Each party shall make all reasonable efforts to provide to the other Parties all the information that the party has in its possession that is relevant to the dispute, so that all Parties will have ample information with which to reach a decision.

9.3. If, notwithstanding the good faith efforts of a party requesting in writing the resolution of a dispute under this Agreement and Framework, a dispute remains unresolved sixty-one (61) days after delivery of the request to the other party, the party requesting resolution may file suit for legal and equitable relief, including specific performance, as appropriate.

10. CHALLENGE OF LAWS. Nothing herein contained shall be construed as stopping or otherwise preventing any party to this Agreement and Framework from contesting by litigation or other lawful means the validity, constitutionality, construction, or application of any law of this State, any ordinance of the public entities that are Parties hereto, or any rule, regulation or practice of the public entities that are Parties hereto.

11. WAIVER OF RIGHTS. Any waiver at any time by any party hereto of its rights with respect to a default or any other matter arising in connection with this Agreement and Framework shall not be deemed to be a waiver with respect to any other default or matter. None of the covenants or agreements herein contained can be waived except by the written consent of the waiving party.

12. NOTICES. All notices and demands required under this Agreement and Framework shall be deemed given by one party when delivered personally to the principal office of the other party; when faxed to the other party, to the fax number provided by the receiving party; or five days after the document is placed in the United States mail, first class, registered mail, or certified mail, postage prepaid, addressed to the other party as follows:

To MCWD: 11 Reservation Road
Marina, CA 93933-2099
Phone No.: (408) 384-6131
Fax No.: (408) 384-2479

To MCWRA: General Manager
P. O. Box 930
Salinas, CA 93902-0930
Phone No.: (408)
Fax No.: (408) 424-7935

To City: City Manager
211 Hillcrest Avenue
Marina, CA 93933
Phone No.: (408) 384-3715
Fax No.: (408) 384-0425

To Armstrong: John A. Armstrong
270 River Road
Salinas, CA 93908
Phone No.: (408) 455-1907
Fax No.: (408) 455-2817

To Lonestar: RMC LONESTAR
Attention: Mr. John Rubiales
P.O. Box 5252
Pleasanton, CA 94566
Phone No.: (510) 426-8787
Fax No.: (510) 426-2225

The address or fax number to which any notice or other writing may be given or made or sent to any party may be changed upon written notice given by such party as above provided.

13. SEVERABILITY. If any one or more of the covenants or agreements set forth in this Agreement and Framework on the part of MCWRA, MCWD, City, Armstrong or Lonestar, or any of them, to be performed should be contrary to any provision of law or contrary to the policy of law to such extent as to be unenforceable in any court of competent jurisdiction, then such covenant or covenants, agreement or agreements, shall be null and void and shall be deemed separable from the remaining covenants and agreements and shall in no way affect the validity of this Agreement and Framework; provided, that if voiding of such individual covenants or agreements without voiding the whole agreement would frustrate a material purpose of Lonestar in entering into this Agreement and Framework, then this whole Agreement and Framework shall be null and void ab initio as to Lonestar only.

14. PARAGRAPH HEADINGS. Paragraph headings in this Agreement and Framework are for convenience only and are not to be construed as a part of this Agreement and Framework or in any way limiting or amplifying the provisions hereof.

15. SUCCESSORS AND ASSIGNS. This Agreement and Framework and all the terms, covenants, agreements and conditions herein contained shall inure to the benefit of and be binding upon the successors and assigns of the Parties hereto.

16. ADMINISTRATORS. MCWD and MCWRA hereby designate their respective General Managers as their Administrators for this Agreement and Framework. City designates its City Manager as City's Agreement and Framework Administrator. Armstrong designates Mr. John A. Armstrong as its Agreement and Framework Administrator. Lonestar designates Mr. John Rubiales as its Agreement and

Framework Administrator. All matters concerning this Agreement and Framework shall be submitted to the Agreement and Framework Administrators or such other representatives as the Agreement and Framework Administrators may designate for their respective agencies. Any party may, in its sole discretion, change its designation of the Agreement and Framework administrator and shall promptly give written notice to the other Parties of any such change.

17. NEGOTIATED AGREEMENT AND FRAMEWORK. This Agreement and Framework has been arrived at through negotiation between the Parties. Neither party is to be deemed the party which prepared this Agreement and Framework within the meaning of Civil Code section 1654.

18. AMENDMENT. This Agreement and Framework may be amended only by a writing signed by the Parties affected by the amendment.

19. COUNTERPARTS. This Agreement and Framework may be executed in counterparts. Each fully executed counterpart shall be deemed a duplicate original, and all counterparts which together contain the signatures of all the Parties shall be deemed, when attached together, one complete and integrated original document.

20. ADDENDUM. A form of Addendum for the MRWPCA is attached hereto as Exhibit "G." When the Addendum is fully executed in its present form or in an amended form, it shall be attached to this Agreement and Framework as an integral part of this Agreement and Framework, and the provisions of the Addendum shall be deemed specifically and fully incorporated into this Agreement and Framework by this reference.

IN WITNESS WHEREOF, the Parties execute this Agreement and Framework as follows:

Dated: March 26, 1996

MONTEREY COUNTY WATER RESOURCES
AGENCY

By Edith Johnson
Edith Johnson
Chair, Board of Supervisors

Dated: _____, 1996

MARINA COAST WATER DISTRICT

By _____
Thomas P. Moore
President, Board of Directors

By _____
Malcolm D. Crawford
Secretary, Board of Directors

STATE OF CALIFORNIA)
COUNTY OF MONTEREY) ss.

On this 26th day of March, 1996, before me, Ernest K. Morishita, Clerk of the Board of Supervisors, in and for said County and State, personally appeared Edith Johnson, known to me to be the Chairperson of said Board of Supervisors of the County of Monterey, and known to me to be the person who executed the within instrument on behalf of said political subdivision, and acknowledged to me that such County of Monterey executed the same.

ERNEST K. MORISHITA, Clerk of the
Board of Supervisors of Monterey
County, State of California

By: Amelia Olivas
Deputy Clerk

Framework Administrator. All matters concerning this Agreement and Framework shall be submitted to the Agreement and Framework Administrators or such other representatives as the Agreement and Framework Administrators may designate for their respective agencies. Any party may, in its sole discretion, change its designation of the Agreement and Framework administrator and shall promptly give written notice to the other Parties of any such change.

17. NEGOTIATED AGREEMENT AND FRAMEWORK. This Agreement and Framework has been arrived at through negotiation between the Parties. Neither party is to be deemed the party which prepared this Agreement and Framework within the meaning of Civil Code section 1654.

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20. ADDENDUM. A form of Addendum for the MRWPCA is attached hereto as Exhibit "G." When the Addendum is fully executed in its present form or in an amended form, it shall be attached to this Agreement and Framework as an integral part of this Agreement and Framework, and the provisions of the Addendum shall be deemed specifically and fully incorporated into this Agreement and Framework by this reference.

IN WITNESS WHEREOF, the Parties execute this Agreement and Framework as follows:

Dated: _____, 1996

MONTEREY COUNTY WATER RESOURCES
AGENCY

By _____
Edith Johnsen
Chair, Board of Supervisors

Dated: April - 12, 1996

MARINA COAST WATER DISTRICT

By Thomas P. Moore
Thomas P. Moore
President, Board of Directors

By Malcolm D. Crawford
Malcolm D. Crawford
Secretary, Board of Directors

Dated: April 8, 1996

Gay Max Armstrong
GAY MAX ARMSTRONG

Dated: _____, 1996

THE SANDRA ARMSTRONG MURRAY
REVOCABLE TRUST UTA dated March 7,
1989

By _____
DARRELL L. MURRAY, Trustee

Dated: _____, 1996

THE LOIS AND CLYDE JOHNSON, JR.,
1989 IRREVOCABLE TRUST

By _____
CLYDE W. JOHNSON III, Trustee

Dated: _____, 1996

THE JOHNSON FAMILY REVOCABLE LIVING
TRUST UTA dated November 29, 1989

By _____
CLYDE W. JOHNSON III, Trustee

Dated: _____, 1996

CLYDE W. JOHNSON III

Dated: _____, 1996

EDWIN A. JOHNSON

Dated: Mar 29, 1996

John A. Armstrong II
JOHN A. ARMSTRONG II

Dated: _____, 1996

SUSANNE IRVINE ARMSTRONG

Dated: Mar. 29, 1996

James Irvine Armstrong, Jr.
JAMES IRVINE ARMSTRONG, JR.

Dated: _____, 1996

JAY MAX ARMSTRONG

Dated: _____, 1996

THE SANDRA ARMSTRONG MURRAY
REVOCABLE TRUST UTA dated March 7,
1989

By *Darrell L. Murray* ^{4/4/96}
DARRELL L. MURRAY, Trustee

Dated: _____, 1996

THE LOIS AND CLYDE JOHNSON, JR.,
1989 IRREVOCABLE TRUST

By _____
CLYDE W. JOHNSON III, Trustee

Dated: _____, 1996

THE JOHNSON FAMILY REVOCABLE LIVING
TRUST UTA dated November 29, 1989

By _____
CLYDE W. JOHNSON III, Trustee

Dated: _____, 1996

CLYDE W. JOHNSON III

Dated: _____, 1996

EDWIN A. JOHNSON

Dated: Mar 29, 1996

John A. Armstrong II
JOHN A. ARMSTRONG II

Dated: _____, 1996

SUSANNE IRVINE ARMSTRONG

Dated: Mar. 29, 1996

James Irvine Armstrong, Jr.
JAMES IRVINE ARMSTRONG, JR.

Dated: _____, 1996

JAY MAX ARMSTRONG

Dated: _____, 1996

THE SANDRA ARMSTRONG MURRAY
REVOCABLE TRUST UTA dated March 7,
1989

By DARRELL L. MURRAY, Trustee

Dated: 4-4-, 1996

THE LOIS AND CLYDE JOHNSON, JR.,
1989 IRREVOCABLE TRUST

By Clyde W. Johnson III Trustee
CLYDE W. JOHNSON III, Trustee

Dated: 4-4, 1996

THE JOHNSON FAMILY REVOCABLE LIVING
TRUST UTA dated November 29, 1989

By Clyde W. Johnson III Trustee
CLYDE W. JOHNSON III, Trustee

Dated: 4-4, 1996

Clyde W. Johnson III
CLYDE W. JOHNSON III

Dated: 4-4, 1996

Edwin A. Johnson
EDWIN A. JOHNSON

Dated: Mar 29, 1996

John A. Armstrong II
JOHN A. ARMSTRONG II

Dated: _____, 1996

SUSANNE IRVINE ARMSTRONG

Dated: Mar. 29, 1996

James Irvine Armstrong, Jr.
JAMES IRVINE ARMSTRONG, JR.

Dated: _____, 1996

JAY MAX ARMSTRONG

Dated: _____, 1996

THE SANDRA ARMSTRONG MURRAY
REVOCABLE TRUST UTA dated March 7,
1989

By _____
DARRELL L. MURRAY, Trustee

Dated: _____, 1996

THE LOIS AND CLYDE JOHNSON, JR.,
1989 IRREVOCABLE TRUST

By _____
CLYDE W. JOHNSON III, Trustee

Dated: _____, 1996

THE JOHNSON FAMILY REVOCABLE LIVING
TRUST UTA dated November 29, 1989

By _____
CLYDE W. JOHNSON III, Trustee

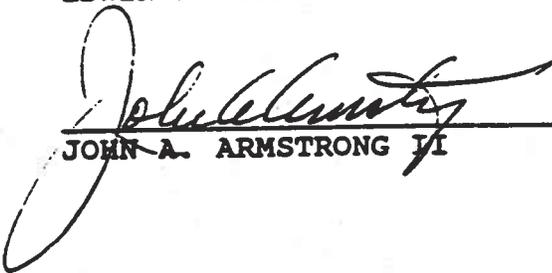
Dated: _____, 1996

CLYDE W. JOHNSON III

Dated: _____, 1996

EDWIN A. JOHNSON

Dated: Mar 29, 1996



JOHN A. ARMSTRONG II

Dated: _____, 1996

SUSANNE IRVINE ARMSTRONG

Dated: Mar 29, 1996



JAMES IRVINE ARMSTRONG, JR.

Dated: _____, 1996

JAY MAX ARMSTRONG

Dated: _____, 1996

THE SANDRA ARMSTRONG MURRAY
REVOCABLE TRUST UTA dated March 7,
1989

By _____
DARRELL L. MURRAY, Trustee

Dated: _____, 1996

THE LOIS AND CLYDE JOHNSON, JR.,
1989 IRREVOCABLE TRUST

By _____
CLYDE W. JOHNSON III, Trustee

Dated: _____, 1996

THE JOHNSON FAMILY REVOCABLE LIVING
TRUST UTA dated November 29, 1989

By _____
CLYDE W. JOHNSON III, Trustee

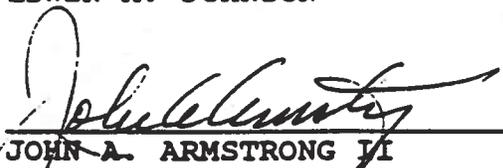
Dated: _____, 1996

CLYDE W. JOHNSON III

Dated: _____, 1996

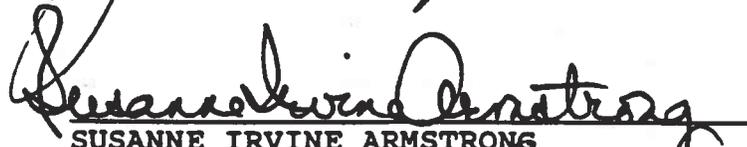
EDWIN A. JOHNSON

Dated: Mar 29, 1996



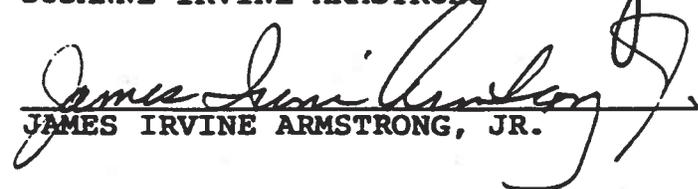
JOHN A. ARMSTRONG II

Dated: _____, 1996



SUSANNE IRVINE ARMSTRONG

Dated: Mar. 29, 1996



JAMES IRVINE ARMSTRONG, JR.

SUSANNE IRVINE ARMSTRONG, JAMES IRVINE ARMSTRONG, JR., and JOHN A. ARMSTRONG II, as Trustees of the Trust for the benefit of MARY JANET ARMSTRONG WEBER as set forth in the Order Settling Report of Trustees due to the death of Lois Armstrong, etc., in the Estate of Irvine Armstrong, also known as James Irvine Armstrong, Deceased, recorded January 4, 1988, in Reel 2191, Official Records of Monterey County at page 643 therein (hereinafter referred to as the "Mary Janet Armstrong Weber Trust")

Dated: Apr. 4, 1996

Susanne Irvine Armstrong
SUSANNE IRVINE ARMSTRONG, Trustee

Dated: Mar 29, 1996

By John A. Armstrong II
JOHN A. ARMSTRONG II, Trustee

Dated: Mar. 29, 1996

By James Irvine Armstrong, Jr.
JAMES IRVINE ARMSTRONG, JR., Trustee

Dated: _____, 1996

THE 1990 ARMSTRONG FAMILY TRUST
established by Declaration dated
July 2, 1990

By _____
Walter J. McCullough

By _____
Elizabeth S. Armstrong

Dated: _____, 1996

RMC LONESTAR, a California general
partnership

By _____

Dated: _____, 1996

CITY OF MARINA

By _____
James L. Vocelka, Mayor

SUSANNE IRVINE ARMSTRONG, JAMES IRVINE ARMSTRONG, JR., and JOHN A. ARMSTRONG II, as Trustees of the Trust for the benefit of MARY JANET ARMSTRONG WEBER as set forth in the Order Settling Report of Trustees due to the death of Lois Armstrong, etc., in the Estate of Irvine Armstrong, also known as James Irvine Armstrong, Deceased, recorded January 4, 1988, in Reel 2191, Official Records of Monterey County at page 643 therein (hereinafter referred to as the "Mary Janet Armstrong Weber Trust")

Dated: _____, 1996

By _____
SUSANNE IRVINE ARMSTRONG, Trustee

Dated: Mar 29, 1996

By [Signature]
JOHN A. ARMSTRONG II, Trustee

Dated: Mar. 29, 1996

By [Signature]
JAMES IRVINE ARMSTRONG, JR., Trustee

Dated: _____, 1996

THE 1990 ARMSTRONG FAMILY TRUST established by Declaration dated July 2, 1990

By _____
Walter J. McCullough

By _____
Elizabeth S. Armstrong

Dated: _____, 1996

RMC LONESTAR, a California general partnership

By _____
CITY OF MARINA

Dated: _____, 1996

By _____
James L. Vocelka, Mayor

SUSANNE IRVINE ARMSTRONG, JAMES IRVINE ARMSTRONG, JR., and JOHN A. ARMSTRONG II, as Trustees of the Trust for the benefit of MARY JANET ARMSTRONG WEBER as set forth in the Order Settling Report of Trustees due to the death of Lois Armstrong, etc., in the Estate of Irvine Armstrong, also known as James Irvine Armstrong, Deceased, recorded January 4, 1988, in Reel 2191, Official Records of Monterey County at page 643 therein (hereinafter referred to as the "Mary Janet Armstrong Weber Trust")

Dated: _____, 1996

By _____
SUSANNE IRVINE ARMSTRONG, Trustee

Dated: Mar 29, 1996

By [Signature]
JOHN A. ARMSTRONG II, Trustee

Dated: Mar. 29, 1996

By [Signature]
JAMES IRVINE ARMSTRONG, JR., Trustee

Dated: _____, 1996

THE 1990 ARMSTRONG FAMILY TRUST established by Declaration dated July 2, 1990

By [Signature]
Walter J. McCullough

By [Signature]
Elizabeth S. Armstrong

Dated: _____, 1996

RMC LONESTAR, a California general partnership

By _____

Dated: _____, 1996

CITY OF MARINA

By _____
James L. Vocelka, Mayor

Dated: _____, 1996

SUSANNE IRVINE ARMSTRONG, JAMES IRVINE ARMSTRONG, JR., and JOHN A. ARMSTRONG II, as Trustees of the Trust for the benefit of MARY JANET ARMSTRONG WEBER as set forth in the Order Settling Report of Trustees due to the death of Lois Armstrong, etc., in the Estate of Irvine Armstrong, also known as James Irvine Armstrong, Deceased, recorded January 4, 1988, in Reel 2191, Official Records of Monterey County at page 643 therein (hereinafter referred to as the "Mary Janet Armstrong Weber Trust")

By _____, Trustee

Dated: _____, 1996

JAMES IRVINE ARMSTRONG, JR.

Dated: _____, 1996

THE 1990 ARMSTRONG FAMILY TRUST established by Declaration dated July 2, 1990

By _____
Walter J. McCullough

By _____
Elizabeth S. Armstrong

Dated: MAR 26, 1996

RMC LONESTAR, a California general partnership

By Ronald Z. Blick

Dated: _____, 1996

CITY OF MARINA

By _____
James L. Vocelka, Mayor

Dated: _____, 1996

SUSANNE IRVINE ARMSTRONG, JAMES IRVINE ARMSTRONG, JR., and JOHN A. ARMSTRONG II, as Trustees of the Trust for the benefit of MARY JANET ARMSTRONG WEBER as set forth in the Order Settling Report of Trustees due to the death of Lois Armstrong, etc., in the Estate of Irvine Armstrong, also known as James Irvine Armstrong, Deceased, recorded January 4, 1988, in Reel 2191, Official Records of Monterey County at page 643 therein (hereinafter referred to as the "Mary Janet Armstrong Weber Trust")

By _____, Trustee

Dated: _____, 1996

JAMES IRVINE ARMSTRONG, JR.

Dated: _____, 1996

THE 1990 ARMSTRONG FAMILY TRUST established by Declaration dated July 2, 1990

By _____
Walter J. McCullough

By _____
Elizabeth S. Armstrong

Dated: _____, 1996

RMC LONESTAR, a California general partnership

Dated: 4/8/96, 1996

By _____
CITY OF MARINA

By _____
James L. Vocelka, Mayor

APPROVED AS TO FORM:

Dated: 8/5, 1996

William K. Rentz
WILLIAM K. RENTZ
Deputy County Counsel, Monterey
County

Dated: _____, 1996

NOLAND, HAMERLY, ETIENNE & HOSS
A Professional Corporation

By _____
Lloyd W. Lowrey, Jr.
Legal Counsel for MARINA COAST
WATER DISTRICT

Dated: _____, 1996

ROBERT R. WELLINGTON
Legal Counsel for CITY OF MARINA

Dated: _____, 1996

THOMPSON, HUBBARD & OMETER
A Law Corporation

By _____
Donald G. Hubbard
Legal Counsel for J.G. ARMSTRONG
FAMILY MEMBERS

Dated: _____, 1996

PILLSBURY, MADISON AND SUTRO

By _____
Thomas P. O'Donnell
Legal Counsel for RMC LONESTAR

APPROVED AS TO FORM:

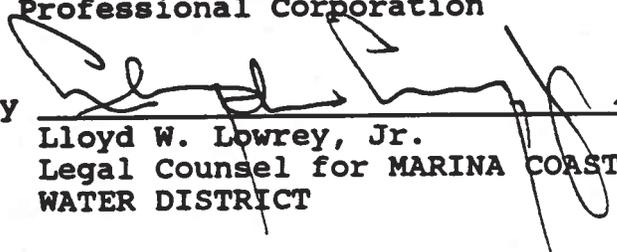
Dated: _____, 1996

WILLIAM K. RENTZ
Deputy County Counsel, Monterey
County

Dated: March 26, 1996

NOLAND, HAMERLY, ETIENNE & HOSS
A Professional Corporation

By



Lloyd W. Lowrey, Jr.
Legal Counsel for MARINA COAST
WATER DISTRICT

Dated: _____, 1996

ROBERT R. WELLINGTON
Legal Counsel for CITY OF MARINA

Dated: _____, 1996

THOMPSON, HUBBARD & OMETER
A Law Corporation

By

Donald G. Hubbard
Legal Counsel for J.G. ARMSTRONG
FAMILY MEMBERS

Dated: _____, 1996

PILLSBURY, MADISON AND SUTRO

By

Thomas P. O'Donnell
Legal Counsel for RMC LONESTAR

APPROVED AS TO FORM:

Dated: _____, 1996

WILLIAM K. RENTZ
Deputy County Counsel, Monterey
County

Dated: _____, 1996

NOLAND, HAMERLY, ETIENNE & HOSS
A Professional Corporation

By _____
Lloyd W. Lowrey, Jr.
Legal Counsel for MARINA COAST
WATER DISTRICT

Dated: July 29, 1996



ROBERT R. WELLINGTON
Legal Counsel for CITY OF MARINA

Dated: _____, 1996

THOMPSON, HUBBARD & OMETER
A Law Corporation

By _____
Donald G. Hubbard
Legal Counsel for J.G. ARMSTRONG
FAMILY MEMBERS

Dated: _____, 1996

PILLSBURY, MADISON AND SUTRO

By _____
Thomas P. O'Donnell
Legal Counsel for RMC LONESTAR

APPROVED AS TO FORM:

Dated: _____, 1996

WILLIAM K. RENTZ
Deputy County Counsel, Monterey
County

Dated: _____, 1996

NOLAND, HAMERLY, ETIENNE & HOSS
A Professional Corporation

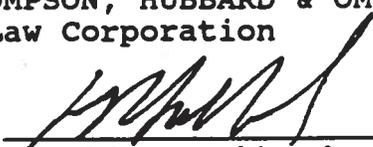
By _____
Lloyd W. Lowrey, Jr.
Legal Counsel for MARINA COAST
WATER DISTRICT

Dated: _____, 1996

ROBERT R. WELLINGTON
Legal Counsel for CITY OF MARINA

Dated: MARCH 29, 1996

THOMPSON, HUBBARD & OMETER
A Law Corporation

By 

Donald G. Hubbard
Legal Counsel for J.G. ARMSTRONG
FAMILY MEMBERS

Dated: _____, 1996

PILLSBURY, MADISON AND SUTRO

By _____
Thomas P. O'Donnell
Legal Counsel for RMC LONESTAR

APPROVED AS TO FORM:

Dated: _____, 1996

WILLIAM K. RENTZ
Deputy County Counsel, Monterey
County

Dated: _____, 1996

NOLAND, HAMERLY, ETIENNE & HOSS
A Professional Corporation

By _____
Lloyd W. Lowrey, Jr.
Legal Counsel for MARINA COAST
WATER DISTRICT

Dated: _____, 1996

ROBERT R. WELLINGTON
Legal Counsel for CITY OF MARINA

Dated: _____, 1996

THOMPSON, HUBBARD & OMETER
A Law Corporation

By _____
Donald G. Hubbard
Legal Counsel for J.G. ARMSTRONG
FAMILY MEMBERS

Dated: March 26, 1996

The Games's Law Group LLP
~~PILLSBURY, MADISON AND SUTRO~~

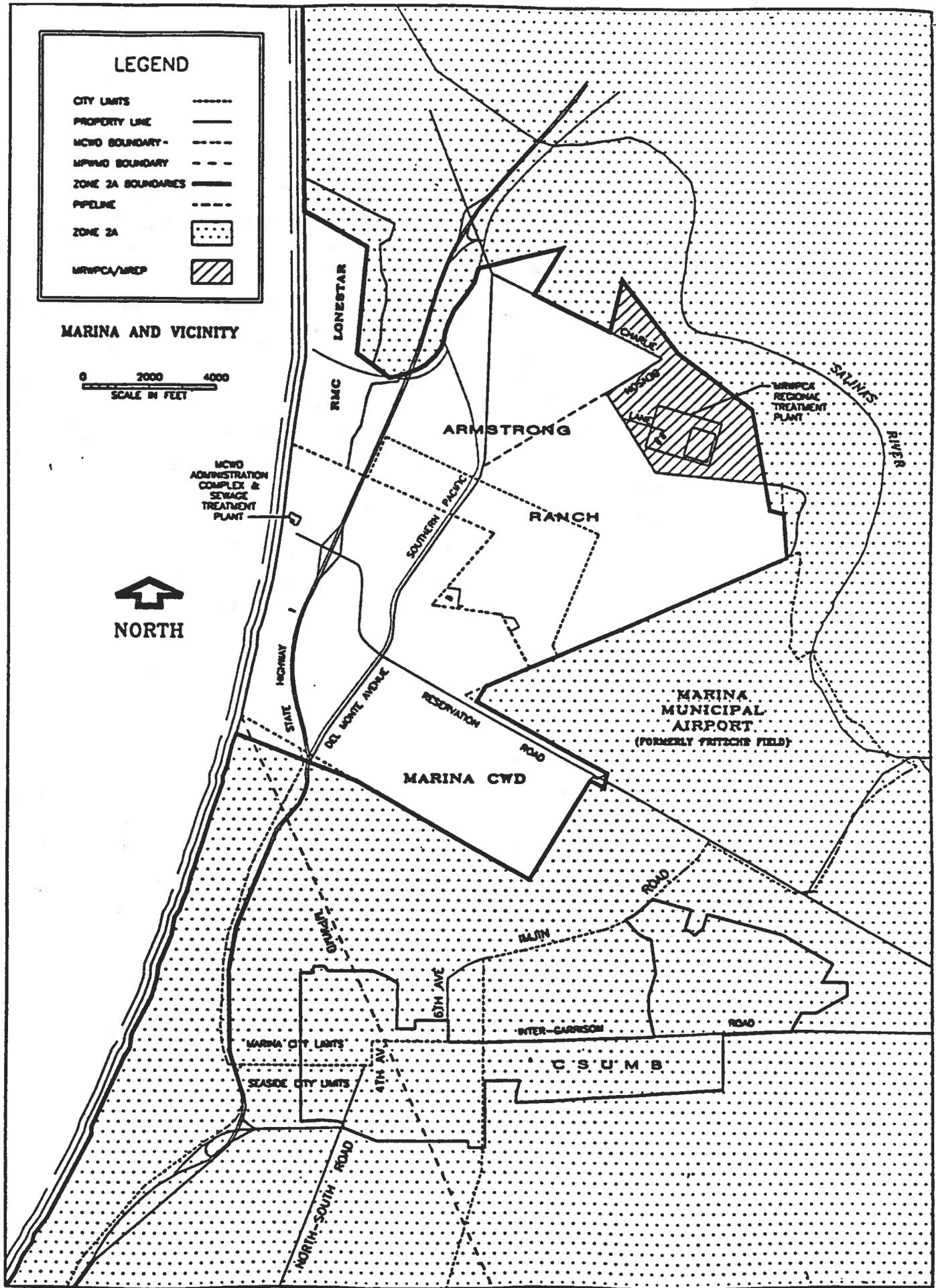
By 

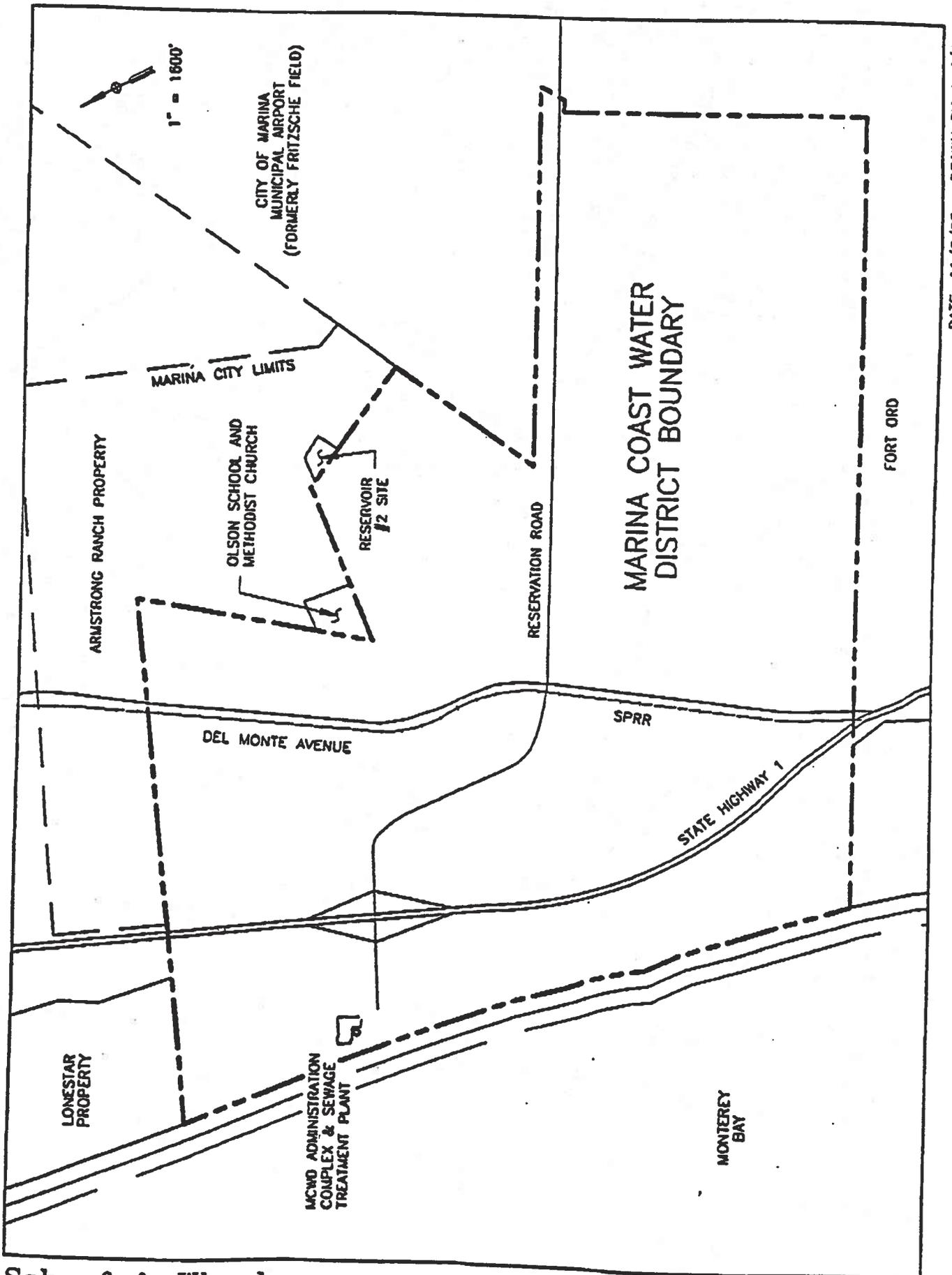
Thomas P. O'Donnell
Legal Counsel for RMC LONESTAR

LEGEND

- CITY LIMITS -----
- PROPERTY LINE _____
- MCWD BOUNDARY - - - - -
- MPWD BOUNDARY - - - - -
- ZONE 2A BOUNDARIES _____
- PIPELINE - - - - -
- ZONE 2A 
- MRWPCA/MREP 

MARINA AND VICINITY

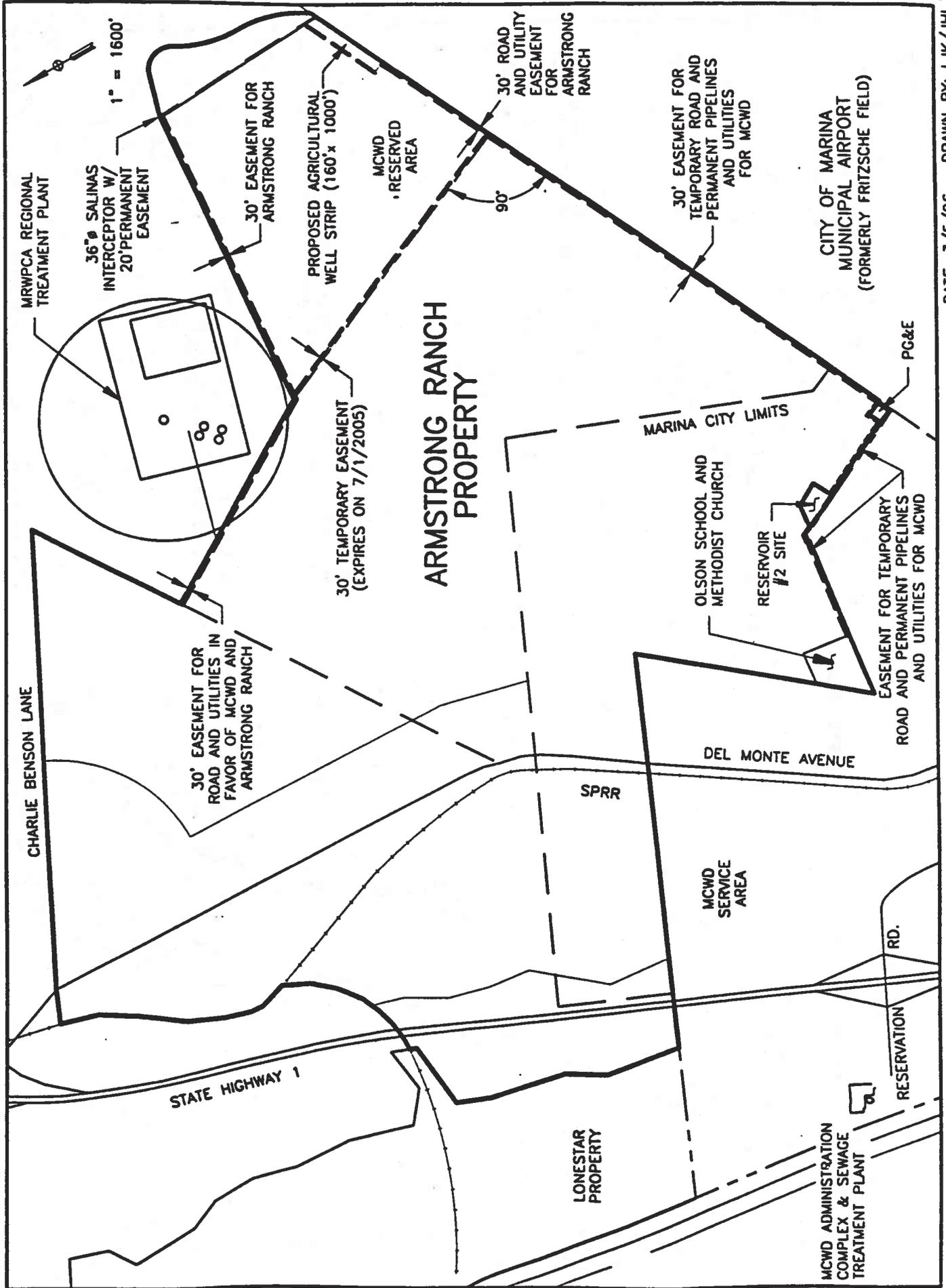




DATE: 11/6/95 DRAWN BY: LJK/JHL

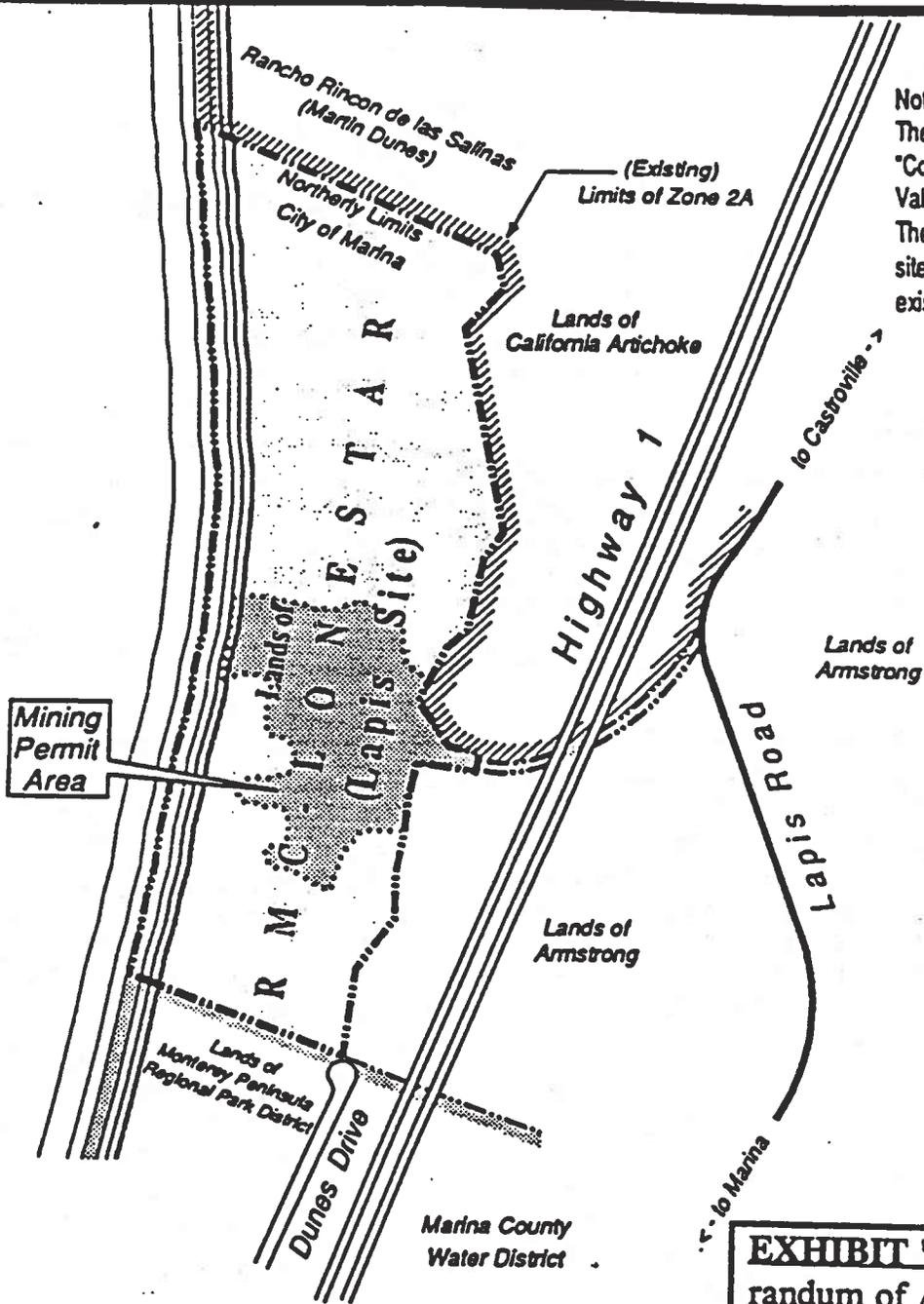
Schaaf & Wheeler

EXHIBIT "R"



DATE: 3/5/96 DRAWN BY: LJK/JHL

Monterey Bay



Note:
 The Lapis Site lies within the "Coastal Margin of the Salinas Valley Groundwater Basin". The northern boundary of the site is coterminous with the existing boundary of Zone 2A.

Mining Permit Area

Lands of Monterey Peninsula Regional Park District

VICINITY MAP

EXHIBIT "D" to Memorandum of Agreement: "Lonestar Property to be Annexed."

Grant Deed

Grant deed dated April 22, 1929
 recorded August 29, 1929
 Volume 204 Official Records, at page 127.
 (See Exhibit D1 for Legal Description)

Assessor's Parcel Numbers

- 203-011-01
- 203-011-16
- 203-011-17
- 203-011-19
- 203-011-20

michael d. ashley
 CIVIL ENGINEER
 (415) 341-2669

EXHIBIT "D1"

LEGAL DESCRIPTION - LANDS OF RMC-LONESTAR

(based on preliminary report from Western Title
Insurance Company dated December 12, 1986)

Said land is situate in the County of Monterey, State of California, and is described as follows:

PARCEL 1

A part of Monterey City Lands Tract No. 1 embracing the sand dunes along the shore of Monterey Bay, described as follows, to-wit:

BEGINNING at the common corner of the Rancho Rincon de las Salinas and the Monterey City Lands Tract No. 1 on the shore of Monterey Bay, from which an old Four inch by Four inch post marked "R S 3 Wit" standing on Rancho boundary bears South 63° 20' East Twelve and 79/100 chains distant; thence Variation 16° 50' East, following the shore line of bay South 1° 05' West Sixty and 00/100 chains to station; thence South 5° 40' West Thirty-three and 00/100 chains to station; thence South 11° 30' West Thirty-one and 02/100 chains to the Northerly boundary of the land of David Jacks; thence leaving the shore of the Monterey Bay and following the fence along the Northerly line of the land of David Jacks Corporation South 65° 30' East, Twenty-three and 61/100 chains to station; thence South 65° 12' East Five and 31/100 chains a Four inch by Four inch post marked "E. B. & A. L. S. Cor. No. 1" standing at the foot of sand hills and at the Easterly side thereof, Seven and 23/100 chains to station from which the point of intersection of Jacks boundary fence with the center line of the S. P. R. R. at station 281 plus Fifty-one and 6/10 bears South 65° 12' East Fifty-one and 73/100 chains distant; thence leaving the Jacks boundary and following the old fence skirting the Easterly side of sand dunes North 7° 30' East Eleven and 00/100 chains; thence North 15° 15' East Five and 87/100 chains to station; thence North 34° East Six and 92/100 chains to station; thence North 11° 30' East One and 00/100 chains to station; thence North 5° 45' West Five and 18/100 chains to station; thence North 12° 15' East Five and 66/100 chains to station; thence North 4° West 3 and 60/100 chains to station; thence North 34° East One and 27/100 chains to station; thence North 14° 30 East Three and 29/100 chains to station; thence North 6° 45' West Three and 83/100 chains to center line of Lapis Spur track; thence North 0° 15' East Five and 51/100 chains to station; thence North 22° 30' East Four and 10/100 chains to station; thence North 16° 45' East Five and 05/100 chains to station; thence North 34° East Four and 17/100 chains to station; thence North 13° East Ten and 15/100 chains to station; thence North 30° 45' East Two and 45/100 chains to

station; thence North 13° 40' East Two and 72/100 chains to an old fence corner; thence North 9° 35' West One and 83/100 chains to station 17; thence North 9° 35' West Twenty-seven and 60/100 chains to station 18; thence North 32° 40' East Five and 21/100 chains to station 19; thence North 70° East Two and 27/100 chains to station 20; thence North 46° 50' East Two and 16/100 chains to station 21; thence North 12° 45' West Three and 05/100 chains to station 22; thence North 26° 30' East One and 92/100 chains to a Four inch by Four inch post marked E. B. & A. L. S. Cor. No. 23" standing in the fence on the line between the Monterey City Lands and the Rancho Rincon de las Salinas, thence leaving foot of sand hills and following said line fence across same North 63° 20' West Forty-two and 02/100 chains to the place of beginning.

PARCEL 2

All those certain lots, pieces or parcels of land situate, lying and being in the County of Monterey, State of California, described as follows:

A PART of Monterey City Lands Tract No. 1, described as follows:

A strip of land one hundred feet wide measured at right angles to and lying fifty feet on each side of a line located and described as follows:

BEGINNING at a point on the Eastern boundary of the piece of land here-in-before described as Parcel 1, said point bearing North 6° 45' West from station numbered 9 on said boundary line and distant Two hundred fifty-two and 5/10 feet therefrom thence by a straight line bearing South 77° 29' East Five hundred seventy-nine and 38/100 feet; thence by a 6° 00' curve to the left (radius 955.04 feet), Five hundred seventy-six and 81/100 feet; thence by a straight line bearing North 67° 54-1/2' East Six hundred forty-eight and 08/100 feet; thence by a 5° 00' curve to the left (radius 1146.01 feet) Eleven hundred thirty-nine and 2/10 feet, more or less, to the Western line of the Southern Pacific Company's Railroad right of way.

EXCEPTING THEREFROM that portion conveyed to the State of California by deed dated May 31, 1974 and recorded August 19, 1974, on Reel 930, Official Records, at page 909, Monterey County Records.

PARCEL 3

All those certain lots, pieces or parcels of land situate, lying and being in the County of Monterey, State of California, described as follows:

All that portion of Monterey City Lands Tract No. 1 lying between the Western boundary line of Parcel 1 of the property described in the deed from John A. Armstrong et al, to E. B. & A. L. Stone Company, a corporation, dated January 24, 1907, and recorded January 24, 1907 in Liber 95 of Deeds, page 388, and the Western boundary line of the property patented to the City of Monterey, by patent, dated November 19, 1891, and recorded November 16, 1896 in Liber "F" of patents at page 178.

PARCEL 4

All those certain lots, pieces or parcels of land situate, lying and being in the County of Monterey, State of California, described as follows:

All that part of Monterey City Lands Tract No. 1 described as follows:

BEGINNING at a Four inch by Four inch post marked "B 6" standing in the Eastern Boundary of the certain 399.70 acre tract conveyed by J. G. Armstrong Co., a corporation, to the E. B. & A. L. Stone Co., a corporation by deed dated January 31, 1911, and recorded in volume 117, of Deeds at page 283, Monterey County Records, from which station 9 of said boundary bears South 6° 45' East one hundred ninety-five and 08/100 feet distant; thence along said Eastern boundary North 6° 45' West Fifty-seven and 7/10 feet to a station in center line of one hundred foot right of way as shown in above mentioned deed; thence North 0° 15' East, still along said Eastern boundary three hundred sixty-three and 6/10 feet to a station; thence North 22° 30' East one hundred seven and 0/10 feet to a four inch by four inch post marked "B 1" in said Eastern boundary; thence leave said boundary South 29° 50' East three hundred ninety-two and 2/10 feet to a four inch by four inch post marked "b 2"; thence South 45° 29' East one hundred thirty-one and 0/10 feet to a four inch by four inch post marked "B 3"; thence South 77° 40' East two hundred seventy-six and 0/10 feet to a four inch by four inch post marked "B 4"; thence South 12° 20' West, at fourth-nine and 9/10 feet to the Northern line of above mentioned one hundred foot right of way at one hundred forty-nine and 9/10 feet the Southern line of same, one hundred fifty-five and 0/10 feet to a four inch by four inch post marked "b 5", thence North 77° 40' West, five feet southerly of and parallel with the Southern line of said right of way five hundred seventy-four and 3/10 feet to the place of beginning.

Courses all true variation of magnetic needle being 17° 15' East. Surveyed by Cozzens & Davies, Salinas, California, March 1922

EXHIBIT E
ELEMENTS OF YEARLY INCREMENTAL COSTS
FOR ADD-ON OF RECLAIMED WATER FOR M & I PURPOSES OVER AND ABOVE
THAT COMMITTED TO THE CASTROVILLE SEAWATER IRRIGATION PROJECT

1) Operation and Maintenance (O&M) Element of costs to provide tertiary treatment (in \$/acre-foot for the year of ?). Costs for the previous year will be used to estimate the next year costs. An adjustment will be included in the following year to reflect actual costs. The next year flow volume demand for MCWD will be based on a projection submitted by the MCWRA to the MCWD by June 30, three months before delivery of next year reclaimed water to the MCWD reservoir.

- Chemical costs • Power costs • Sludge management costs • Labor costs • Repair and replacement costs

$$\text{O\&M ELEMENT (in \$/acre-foot)} = \frac{\sum \text{chemicals} + \text{power} + \text{sludge mgmt.} + \text{labor} + \text{repair \& replacement costs} \pm \text{adjustment for previous year}}{\text{Projected Next Year Flow Volume Demand [CSIP(afy) + MCWD(afy)]}$$

2) Bureau of Reclamation Loan Element (BRLE). Includes Reimbursible Interest During Construction (RIDC) and Emergency Reserve Fund Contribution (ERFC) in \$ / acre-foot for the year of ?.

$$\text{APPLICABLE ANNUAL PERCENTAGE for M\&I (AAPM\&I)} = \frac{\text{Projected next year flow volume demand for MCWD (afy)}}{\text{Projected Next Year Flow Volume Demand [CSIP(afy) + MCWD(afy)]}$$

$$\text{BRLE(\$) FOR YEAR (?) = AAPM\&I x [PRINCIPAL + INTEREST (7.625\%) ON OUTSTANDING PRINCIPAL + RIDC + ERFC FOR YEAR(?)]}$$

Projected next year flow volume demand for MCWD (afy)

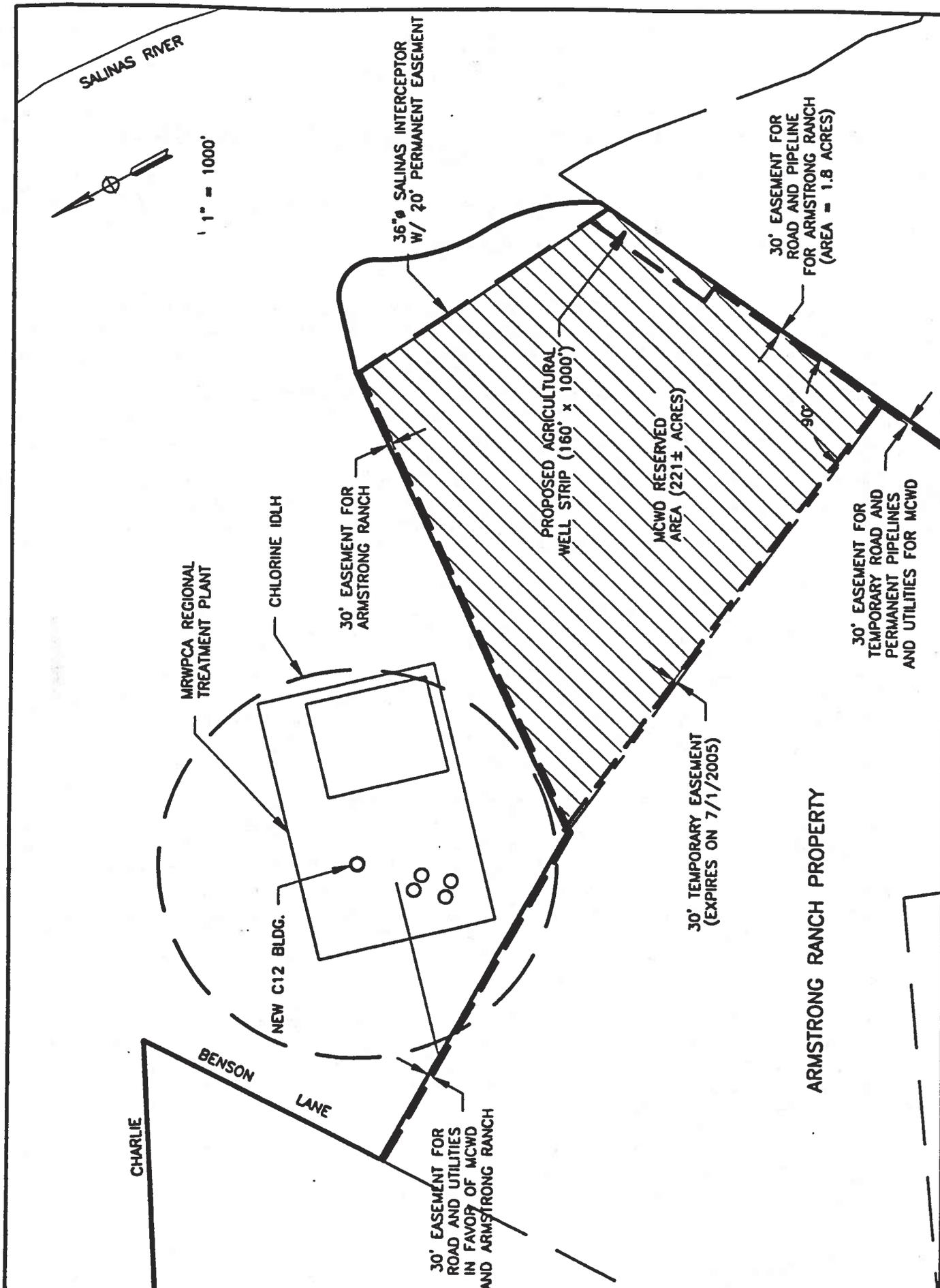
3) Increased capital cost element to cover M&I for the MCWD.

No additional capital costs.

4) Capital Risk Share Element (CRSE) in \$ / acre-foot for the year of ?.

$$\text{CRSE (\$) = AAPM\&I x [SYRP Debt Service for State Revolving Fund (Schedule A Line 18) + 1/3 of Bonds (Schedule A Line 25)] FOR YEAR(?)}$$

Projected next year flow volume demand for MCWD (afy)



DATE: 2/27/96 DRAWN BY: LJK/JHL

EXHIBIT G

MONTEREY REGIONAL WATER POLLUTION CONTROL AGENCY
ADDENDUM TO

ANNEXATION AGREEMENT AND GROUNDWATER MITIGATION FRAMEWORK
FOR
MARINA AREA LANDS

1. PURPOSE. The Parties to the Agreement and Framework agree with the Monterey Regional Water Pollution Control Agency ("MRWPCA") that it is in the best interests of all of them and the persons they represent if the MRWPCA is also a party to the Agreement and Framework, with certain additional terms specific to the MRWPCA. If this Addendum is approved by the MRWPCA within one year of approval of the Agreement and Framework and this Addendum by the other Parties, this Addendum will become part of the Agreement and Framework, and the MRWPCA will be considered a party to the Agreement and Framework, effective from the date the Agreement and Framework and this Addendum are approved by the Board of Supervisors of the MCWRA.

2. MRWPCA. MRWPCA is a joint powers authority providing sewage treatment service to its member entities in Northern Monterey County, governed by its Board of Directors.

3. MRWPCA SUPPORT FOR ANNEXATION. MRWPCA is supporting the request for annexation contained in paragraph 4.1 of the Agreement and Framework to encourage reasonable and beneficial water reuse, and to help implement the MCWRA/MRWPCA Agreement, the MRWPCA Annexation Agreement, and the SVRP.

4. RESERVATION FOR MRWPCA. Armstrong shall reserve, for use by MRWPCA, the area shown diagrammatically on Exhibit "I" to this Addendum (hereinafter the "MRWPCA Reserved Area"), subject to the non-exclusive easements shown on Exhibit "I" to be reserved in favor of Armstrong and MCWD, which said reserved easements in favor of Armstrong and MCWD shall be for roads, utilities (including communications), pipelines, and any other purpose for which a road may be used, shall be freely assignable and usable by others, and not subject to surcharge.

4.1. Survey. The MRWPCA Reserved Area, which shall not exceed 10 acres, will be "field" surveyed at the expense of MRWPCA within one year following approval by the MCWRA Board of Supervisors of the annexation to the Zones of any of the lands described in Exhibit "C" to the Agreement and Framework.

4.2. Use. MRWPCA will diligently undertake, and MCWD, City, MCWRA and Armstrong will cooperate in the planning and conduct of, the appropriate environmental review and application for appropriate permits to use the MRWPCA Reserved Area solely and

exclusively as a buffer zone between the existing Regional Treatment Plant and the Armstrong Ranch. Any additional use is subject to the written approval of Armstrong first had and obtained, and any conveyance from Armstrong to MRWPCA shall contain appropriate restrictions on such additional use in the form of a condition subsequent and a power of termination in favor of Armstrong. Any attempt to condemn the power of termination shall be subject to the provisions of paragraph 6.10.3 as if it were a condemnation of fee title.

4.3. Expiration of Reservation. Armstrong's obligation to reserve the MRWPCA Reserved Area shall expire at midnight on June 30, 2003, or upon delivery to Armstrong of written notice from MRWPCA cancelling MRWPCA's right to receive conveyance of the MRWPCA Reserved Area.

4.4. Payment. Upon conveyance of the MRWPCA Reserved Area to MRWPCA, MRWPCA shall pay to Armstrong a sum calculated by multiplying the number of acres in such conveyance by Twenty-Five Thousand Dollars (\$25,000.00).

4.5. Title. Upon receipt by Armstrong of written request from MCWD, Armstrong will forthwith convey all or part of the MRWPCA Reserved Area to MRWPCA by grant deed, free of any financial encumbrances except taxes and assessments not delinquent, but subject to all other encumbrances, and further subject to all laws, ordinances, regulations and rights of all governmental bodies having jurisdiction in, on or over the subject real property as they may from time to time exist.

5. ATTACHMENT TO AGREEMENT AND FRAMEWORK; INCORPORATION BY REFERENCE. When this Addendum is fully executed, it shall be attached to the Agreement and Framework as an integral part of the Agreement and Framework, and the provisions of Sections 1, 2, 3, 8, and 9 through 20, inclusive, and paragraphs 4.5, 5.6, 5.7 and 6.10.3 of the Agreement and Framework are specifically incorporated into this Addendum by this reference and shall apply to the terms of this Addendum and as fully to MRWPCA as though MRWPCA had signed the Agreement and Framework. A person duly authorized by MRWPCA places his or her initials here to indicate MRWPCA's specific agreement to the provisions of paragraph 6.10.3:

Signature: _____

Printed Name and Title: _____

STATE OF CALIFORNIA)
COUNTY OF MONTEREY) ss.

On this 26th day of March, 1996, before me, Ernest K. Morishita, Clerk of the Board of Supervisors, in and for said County and State, personally appeared Edith Johnsen, known to me to be the Chairperson of said Board of Supervisors of the County of Monterey, and known to me to be the person who executed the within instrument on behalf of said political subdivision, and acknowledged to me that such County of Monterey executed the same.

ERNEST K. MORISHITA, Clerk of the
Board of Supervisors of Monterey
County, State of California

By: *Camela Oliver*
Deputy Clerk

6. NOTICES. Notices to MRWPCA under this Addendum and the Agreement and Framework shall be addressed as follows:

General Manager
5 Harris Court, Building D
Monterey, CA 93940
Phone No.: (408) 372-3367
Fax No.: (408) 372-6178

The address or fax number to which any notice or other writing may be given or made or sent may be changed upon written notice given as provided in paragraph 12 of the Agreement and Framework.

7. ADMINISTRATOR. MRWPCA hereby designates MRWPCA's General Manager as its Administrator for this Agreement and Framework.

IN WITNESS WHEREOF, the Parties execute this Addendum as follows:

Dated: _____, 1996 MRWPCA

By _____
Keith Israel, Agency Director

Dated: March 26, 1996 MONTEREY COUNTY WATER RESOURCES
AGENCY

By Edith Johnsen
Edith Johnsen
Chair, Board of Supervisors

Dated: _____, 1996 MARINA COAST WATER DISTRICT

By _____
Thomas P. Moore
President, Board of Directors

By _____
Malcolm D. Crawford
Secretary, Board of Directors

Dated: _____, 1996

JAY MAX ARMSTRONG

6. NOTICES. Notices to MRWPCA under this Addendum and the Agreement and Framework shall be addressed as follows:

General Manager
5 Harris Court, Building D
Monterey, CA 93940
Phone No.: (408) 372-3367
Fax No.: (408) 372-6178

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By _____
Keith Israel, Agency Director

Dated: _____, 1996 MONTEREY COUNTY WATER RESOURCES AGENCY

By _____
Edith Johnsen
Chair, Board of Supervisors

Dated: _____, 1996 MARINA COAST WATER DISTRICT

By Thomas P. Moore
Thomas P. Moore
President, Board of Directors

By Malcolm D. Crawford
Malcolm D. Crawford
Secretary, Board of Directors

Dated: _____, 1996

JAY MAX ARMSTRONG

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By _____
Keith Israel, Agency Director

Dated: _____, 1996 MONTEREY COUNTY WATER RESOURCES AGENCY

By _____
Edith Johnsen
Chair, Board of Supervisors

Dated: _____, 1996 MARINA COAST WATER DISTRICT

By _____
Thomas P. Moore
President, Board of Directors

By _____
Malcolm D. Crawford
Secretary, Board of Directors

Dated: Apr 18, 1996

Jay M. Armstrong
JAY MAX ARMSTRONG

Dated: _____, 1996

THE SANDRA ARMSTRONG MURRAY
REVOCABLE TRUST UTA dated March 7,
1989

By *Darrell L. Murray* 4/4/96
DARRELL L. MURRAY, Trustee

Dated: _____, 1996

THE LOIS AND CLYDE JOHNSON, JR.,
1989 IRREVOCABLE TRUST

By _____
CLYDE W. JOHNSON III, Trustee

Dated: _____, 1996

THE JOHNSON FAMILY REVOCABLE LIVING
TRUST UTA dated November 29, 1989

By _____
CLYDE W. JOHNSON III, Trustee

Dated: _____, 1996

CLYDE W. JOHNSON III

Dated: _____, 1996

EDWIN A. JOHNSON

Dated: Mar 29, 1996

John A. Armstrong II
JOHN A. ARMSTRONG II

Dated: _____, 1996

SUSANNE IRVINE ARMSTRONG

Dated: Mar. 29, 1996

James Irvine Armstrong, Jr.
JAMES IRVINE ARMSTRONG, JR.

Dated: _____, 1996

THE SANDRA ARMSTRONG MURRAY
REVOCABLE TRUST UTA dated March 7,
1989

By _____
DARRELL L. MURRAY, Trustee

Dated: 4-4, 1996

THE LOIS AND CLYDE JOHNSON, JR.,
1989 IRREVOCABLE TRUST

By Clyde W. Johnson III Trustee
CLYDE W. JOHNSON III, Trustee

Dated: 4-4, 1996

THE JOHNSON FAMILY REVOCABLE LIVING
TRUST UTA dated November 29, 1989

By Clyde W. Johnson III Trustee
CLYDE W. JOHNSON III, Trustee

Dated: 4-4, 1996

Clyde W. Johnson III
CLYDE W. JOHNSON III

Dated: 4-4, 1996

Edwin A. Johnson
EDWIN A. JOHNSON

Dated: Mar 29, 1996

John A. Armstrong II
JOHN A. ARMSTRONG II

Dated: _____, 1996

Susanne Irvine Armstrong
SUSANNE IRVINE ARMSTRONG

Dated: Mar. 29, 1996

James Irvine Armstrong, Jr.
JAMES IRVINE ARMSTRONG, JR.

Dated: _____, 1996

THE SANDRA ARMSTRONG MURRAY
REVOCABLE TRUST UTA dated March 7,
1989

By _____
DARRELL L. MURRAY, Trustee

Dated: _____, 1996

THE LOIS AND CLYDE JOHNSON, JR.,
1989 IRREVOCABLE TRUST

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CLYDE W. JOHNSON III, Trustee

Dated: _____, 1996

THE JOHNSON FAMILY REVOCABLE LIVING
TRUST UTA dated November 29, 1989

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Dated: _____, 1996

CLYDE W. JOHNSON III

Dated: _____, 1996

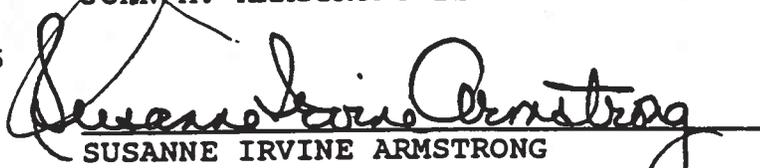
EDWIN A. JOHNSON

Dated: Mar 29, 1996



JOHN A. ARMSTRONG II

Dated: Apr. 4, 1996



SUSANNE IRVINE ARMSTRONG

Dated: Mar. 29, 1996



JAMES IRVINE ARMSTRONG, JR.

SUSANNE IRVINE ARMSTRONG, JAMES IRVINE ARMSTRONG, JR., and JOHN A. ARMSTRONG II, as Trustees of the Trust for the benefit of MARY JANET ARMSTRONG WEBER as set forth in the Order Settling Report of Trustees due to the death of Lois Armstrong, etc., in the Estate of Irvine Armstrong, also known as James Irvine Armstrong, Deceased, recorded January 4, 1988, in Reel 2191, Official Records of Monterey County at page 643 therein (hereinafter referred to as the "Mary Janet Armstrong Weber Trust")

Dated: Apr 4, 1996

By Susanne Irvine Armstrong, trustee
SUSANNE IRVINE ARMSTRONG, Trustee

Dated: Mar 29, 1996

By John A. Armstrong, Trustee
JOHN A. ARMSTRONG II, Trustee

Dated: Mar 29, 1996

By James Irvine Armstrong, Trustee
JAMES IRVINE ARMSTRONG, JR., Trustee

Dated: _____, 1996

THE 1990 ARMSTRONG FAMILY TRUST established by Declaration dated July 2, 1990

By _____
Walter J. McCullough

By _____
Elizabeth S. Armstrong

Dated: _____, 1996

RMC LONESTAR, a California general partnership

By _____

Dated: _____, 1996

CITY OF MARINA

By _____
James L. Vocelka, Mayor

SUSANNE IRVINE ARMSTRONG, JAMES IRVINE ARMSTRONG, JR., and JOHN A. ARMSTRONG II, as Trustees of the Trust for the benefit of MARY JANET ARMSTRONG WEBER as set forth in the Order Settling Report of Trustees due to the death of Lois Armstrong, etc., in the Estate of Irvine Armstrong, also known as James Irvine Armstrong, Deceased, recorded January 4, 1988, in Reel 2191, Official Records of Monterey County at page 643 therein (hereinafter referred to as the "Mary Janet Armstrong Weber Trust")

Dated: _____, 1996

By _____
SUSANNE IRVINE ARMSTRONG, Trustee

Dated: Mar 29, 1996

By [Signature]
JOHN A. ARMSTRONG II, Trustee

Dated: Mar. 29, 1996

By [Signature]
JAMES IRVINE ARMSTRONG, JR., Trustee

Dated: _____, 1996

THE 1990 ARMSTRONG FAMILY TRUST
established by Declaration dated
July 2, 1990

By _____
Walter J. McCullough

By _____
Elizabeth S. Armstrong

Dated: _____, 1996

RMC LONESTAR, a California general
partnership

By _____

Dated: _____, 1996

CITY OF MARINA

By _____
James L. Vocelka, Mayor

SUSANNE IRVINE ARMSTRONG, JAMES IRVINE ARMSTRONG, JR., and JOHN A. ARMSTRONG II, as Trustees of the Trust for the benefit of MARY JANET ARMSTRONG WEBER as set forth in the Order Settling Report of Trustees due to the death of Lois Armstrong, etc., in the Estate of Irvine Armstrong, also known as James Irvine Armstrong, Deceased, recorded January 4, 1988, in Reel 2191, Official Records of Monterey County at page 643 therein (hereinafter referred to as the "Mary Janet Armstrong Weber Trust")

Dated: _____, 1996

By _____
SUSANNE IRVINE ARMSTRONG, Trustee

Dated: Mar 29, 1996

By [Signature]
JOHN A. ARMSTRONG II, Trustee

Dated: Mar. 29, 1996

By [Signature]
JAMES IRVINE ARMSTRONG, JR., Trustee

Dated: _____, 1996

THE 1990 ARMSTRONG FAMILY TRUST established by Declaration dated July 2, 1990

By [Signature]
Walter J. McCullough

By [Signature]
Elizabeth S. Armstrong

Dated: _____, 1996

RMC LONESTAR, a California general partnership

By _____

Dated: _____, 1996

CITY OF MARINA

By _____
James L. Vocelka, Mayor

Dated: _____, 1996

SUSANNE IRVINE ARMSTRONG, JAMES IRVINE ARMSTRONG, JR., and JOHN A. ARMSTRONG II, as Trustees of the Trust for the benefit of MARY JANET ARMSTRONG WEBER as set forth in the Order Settling Report of Trustees due to the death of Lois Armstrong, etc., in the Estate of Irvine Armstrong, also known as James Irvine Armstrong, Deceased, recorded January 4, 1988, in Reel 2191, Official Records of Monterey County at page 643 therein (hereinafter referred to as the "Mary Janet Armstrong Weber Trust")

By _____, Trustee

Dated: _____, 1996

JAMES IRVINE ARMSTRONG, JR.

Dated: _____, 1996

THE 1990 ARMSTRONG FAMILY TRUST established by Declaration dated July 2, 1990

By _____
Walter J. McCullough

By _____
Elizabeth S. Armstrong

Dated: MAR 26, 1996

RMC LONESTAR, a California general partnership

By Ronald Z. Blich

Dated: _____, 1996

CITY OF MARINA

By _____
James L. Vocelka, Mayor

Dated: _____, 1996

SUSANNE IRVINE ARMSTRONG, JAMES IRVINE ARMSTRONG, JR., and JOHN A. ARMSTRONG II, as Trustees of the Trust for the benefit of MARY JANET ARMSTRONG WEBER as set forth in the Order Settling Report of Trustees due to the death of Lois Armstrong, etc., in the Estate of Irvine Armstrong, also known as James Irvine Armstrong, Deceased, recorded January 4, 1988, in Reel 2191, Official Records of Monterey County at page 643 therein (hereinafter referred to as the "Mary Janet Armstrong Weber Trust")

By _____, Trustee

Dated: _____, 1996

JAMES IRVINE ARMSTRONG, JR.

Dated: _____, 1996

THE 1990 ARMSTRONG FAMILY TRUST established by Declaration dated July 2, 1990

By _____
Walter J. McCullough

By _____
Elizabeth S. Armstrong

Dated: _____, 1996

RMC LONESTAR, a California general partnership

Dated: 4/8/96, 1996

By _____
CITY OF MARINA

By _____
James L. Vocelka, Mayor

APPROVED AS TO FORM:

Dated: 8/5, 1996

William K. Rentz
WILLIAM K. RENTZ
Deputy County Counsel, Monterey
County

Dated: _____, 1996

NOLAND, HAMERLY, ETIENNE & HOSS
A Professional Corporation

By _____
Lloyd W. Lowrey, Jr.
Legal Counsel for MARINA COAST
WATER DISTRICT

Dated: _____, 1996

ROBERT R. WELLINGTON
Legal Counsel for CITY OF MARINA

Dated: _____, 1996

ROBERT R. WELLINGTON
Legal Counsel for MRWPCA

Dated: _____, 1996

THOMPSON, HUBBARD AND OMETER
A Law Corporation

By _____
Donald G. Hubbard
Legal Counsel for J.G. ARMSTRONG
FAMILY MEMBERS

Dated: _____, 1996

PILLSBURY, MADISON AND SUTRO

By _____
Thomas P. O'Donnell
Legal Counsel for RMC LONESTAR

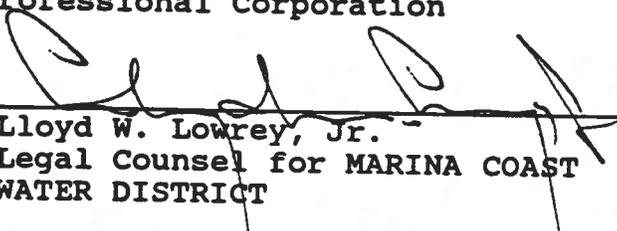
APPROVED AS TO FORM:

Dated: _____, 1996

WILLIAM K. RENTZ
Deputy County Counsel, Monterey
County

Dated: March 26, 1996

NOLAND, HAMERLY, ETIENNE & HOSS
A Professional Corporation

By 
Lloyd W. Lowrey, Jr.
Legal Counsel for MARINA COAST
WATER DISTRICT

Dated: _____, 1996

ROBERT R. WELLINGTON
Legal Counsel for CITY OF MARINA

Dated: _____, 1996

ROBERT R. WELLINGTON
Legal Counsel for MRWPCA

Dated: _____, 1996

THOMPSON, HUBBARD AND O METER
A Law Corporation

By _____
Donald G. Hubbard
Legal Counsel for J.G. ARMSTRONG
FAMILY MEMBERS

Dated: _____, 1996

PILLSBURY, MADISON AND SUTRO

By _____
Thomas P. O'Donnell
Legal Counsel for RMC LONESTAR

APPROVED AS TO FORM:

Dated: _____, 1996

WILLIAM K. RENTZ
Deputy County Counsel, Monterey
County

Dated: _____, 1996

NOLAND, HAMERLY, ETIENNE & HOSS
A Professional Corporation

By _____
Lloyd W. Lowrey, Jr.
Legal Counsel for MARINA COAST
WATER DISTRICT

Dated: July 29, 1996

Robert R. Wellington
ROBERT R. WELLINGTON
Legal Counsel for CITY OF MARINA

Dated: July 29, 1996

Robert R. Wellington
ROBERT R. WELLINGTON
Legal Counsel for MRWPCA

Dated: _____, 1996

THOMPSON, HUBBARD AND OMETER
A Law Corporation

By _____
Donald G. Hubbard
Legal Counsel for J.G. ARMSTRONG
FAMILY MEMBERS

Dated: _____, 1996

PILLSBURY, MADISON AND SUTRO

By _____
Thomas P. O'Donnell
Legal Counsel for RMC LONESTAR

APPROVED AS TO FORM:

Dated: _____, 1996

WILLIAM K. RENTZ
Deputy County Counsel, Monterey
County

Dated: _____, 1996

NOLAND, HAMERLY, ETIENNE & HOSS
A Professional Corporation

By _____
Lloyd W. Lowrey, Jr.
Legal Counsel for MARINA COAST
WATER DISTRICT

Dated: _____, 1996

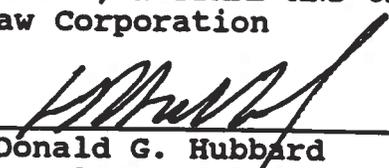
ROBERT R. WELLINGTON
Legal Counsel for CITY OF MARINA

Dated: _____, 1996

ROBERT R. WELLINGTON
Legal Counsel for MRWPCA

Dated: MARCH 29, 1996

THOMPSON, HUBBARD AND O METER
A Law Corporation

By 
Donald G. Hubbard
Legal Counsel for J.G. ARMSTRONG
FAMILY MEMBERS

Dated: _____, 1996

PILLSBURY, MADISON AND SUTRO

By _____
Thomas P. O'Donnell
Legal Counsel for RMC LONESTAR

APPROVED AS TO FORM:

Dated: _____, 1996

WILLIAM K. RENTZ
Deputy County Counsel, Monterey
County

Dated: _____, 1996

NOLAND, HAMERLY, ETIENNE & HOSS
A Professional Corporation

By _____
Lloyd W. Lowrey, Jr.
Legal Counsel for MARINA COAST
WATER DISTRICT

Dated: _____, 1996

ROBERT R. WELLINGTON
Legal Counsel for CITY OF MARINA

Dated: _____, 1996

ROBERT R. WELLINGTON
Legal Counsel for MRWPCA

Dated: _____, 1996

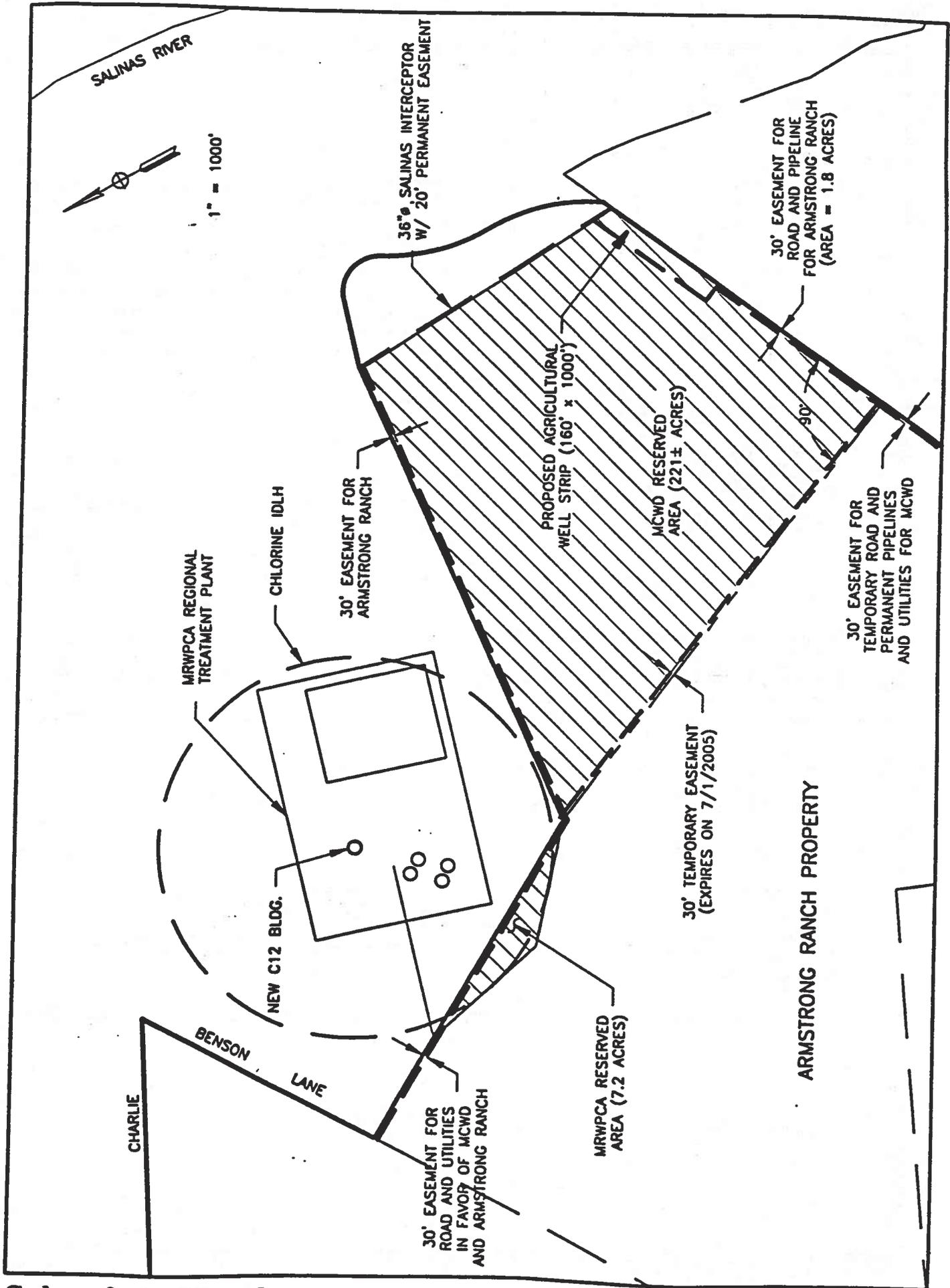
THOMPSON, HUBBARD AND O METER
A Law Corporation

By _____
Donald G. Hubbard
Legal Counsel for J.G. ARMSTRONG
FAMILY MEMBERS

Dated: March 26, 1996

The Genesis Law Group
~~PILLSBURY, MADISON AND SUTRO~~

By 
Thomas P. O'Donnell
Legal Counsel for RMC LONESTAR



DATE: 2/27/96 DRAWN BY: LJK/JHL

CALIFORNIA ALL-PURPOSE ACKNOWLEDGMENT

State of CALIFORNIA

County of MONTEREY

On 04-12-96 before me, *SONIA L. ANGELO, NOTARY PUBLIC* *
Date Name and Title of Officer (e.g., "Jane Doe, Notary Public")

personally appeared * * * * * THOMAS P. MOORE * * * * *
Name(s) of Signer(s)

personally known to me - OR - proved to me on the basis of satisfactory evidence to be the person(s) whose name~~(s)~~ is/~~are~~ subscribed to the within instrument and acknowledged to me that he/~~she/they~~ executed the same in his/~~her/their~~ authorized capacity~~(ies)~~, and that by his/~~her/their~~ signature~~(s)~~ on the instrument the person~~(s)~~, or the entity upon behalf of which the person~~(s)~~ acted, executed the instrument.



WITNESS my hand and official seal.

Sonia L. Angelo
Signature of Notary Public

OPTIONAL

Though the information below is not required by law, it may prove valuable to persons relying on the document and could prevent fraudulent removal and reattachment of this form to another document.

Description of Attached Document

Title or Type of Document: ANNEXATION AGREEMENT AND GROUNDWATER MITIGATION FRAMEWORK FOR MARINA AREA LANDS

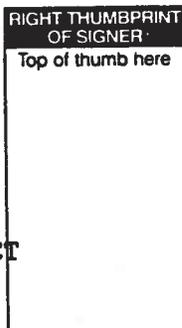
Document Date: APRIL 12, 1996 Number of Pages: 27 w/ EXH A-F

Signer(s) Other Than Named Above: NONE

Capacity(ies) Claimed by Signer(s)

Signer's Name: THOMAS P MOORE

- Individual
- Corporate Officer
Title(s): PRESIDENT, BOARD OF DIRECTORS
- Partner — Limited General
- Attorney-in-Fact
- Trustee
- Guardian or Conservator
- Other: _____



Signer Is Representing:

MARINA WATER COAST DISTRICT

Signer's Name: _____

- Individual
- Corporate Officer
Title(s): _____
- Partner — Limited General
- Attorney-in-Fact
- Trustee
- Guardian or Conservator
- Other: _____



Signer Is Representing:

CALIFORNIA ALL-PURPOSE ACKNOWLEDGMENT

State of CALIFORNIA

County of MONTEREY

On APRIL 17, 1996 before me, * *SONIA L. ANGELO, NOTARY PUBLIC* *
Date Name and Title of Officer (e.g., "Jane Doe, Notary Public")

personally appeared * *MALCOLM D. CRAWFORD* * * * *
Name(s) of Signer(s)

personally known to me - OR - proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.



WITNESS my hand and official seal.

Sonia L. Angelo
Signature of Notary Public

OPTIONAL

Though the information below is not required by law, it may prove valuable to persons relying on the document and could prevent fraudulent removal and reattachment of this form to another document.

Description of Attached Document

Title or Type of Document: ANNEXATION AGREEMENT AND GROUNDWATER MITIGATION FRAMEWORK FOR MARINA AREA LANDS

Document Date: APRIL 17, 1996 Number of Pages: 27 w/EXH A-F

Signer(s) Other Than Named Above: NONE

Capacity(ies) Claimed by Signer(s)

Signer's Name: MALCOLM D. CRAWFORD

- Individual
- Corporate Officer
Title(s): SECRETARY, BOARD OF DIRECTORS
- Partner — Limited General
- Attorney-in-Fact
- Trustee
- Guardian or Conservator
- Other: _____



Signer Is Representing:
MARINA WATER COAST DISTRICT

Signer's Name: _____

- Individual
- Corporate Officer
Title(s): _____
- Partner — Limited General
- Attorney-in-Fact
- Trustee
- Guardian or Conservator
- Other: _____



Signer Is Representing:

CALIFORNIA ALL-PURPOSE ACKNOWLEDGMENT

State of CALIFORNIA

County of MONTEREY

On APRIL 12, 1996 before me, **SONIA L. ANGELO, NOTARY PUBLIC**
Date Name and Title of Officer (e.g., "Jane Doe, Notary Public")

personally appeared **THOMAS P. MOORE**
Name(s) of Signer(s)

personally known to me - OR - proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/hers/their authorized capacity(ies), and that by his/hers/their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.



WITNESS my hand and official seal.

[Signature]
Signature of Notary Public

OPTIONAL

Though the information below is not required by law, it may prove valuable to persons relying on the document and could prevent fraudulent removal and reattachment of this form to another document.

Description of Attached Document

EXHIBIT G

Title or Type of Document: MONTEREY REGIONAL WATER POLLUTION CONTROL AGENCY ADDENDUM TO ANNEXATIO AGREEMENT AND GROUNDWATER MITIGATION FRAMEWORK FOR MARINA AREAL LANDS

Document Date: APRIL 12, 1996 Number of Pages: SIX

Signer(s) Other Than Named Above: NONE

Capacity(ies) Claimed by Signer(s)

Signer's Name: THOMAS P. MOORE

- Individual
- Corporate Officer
Title(s): PRESIDENT, BOARD OF DIRECTORS
- Partner — Limited General
- Attorney-in-Fact
- Trustee
- Guardian or Conservator
- Other: _____

RIGHT THUMBPRINT OF SIGNER
Top of thumb here

Signer Is Representing:

MARINA COAST WATER DISTRICT

Signer's Name: _____

- Individual
- Corporate Officer
Title(s): _____
- Partner — Limited General
- Attorney-in-Fact
- Trustee
- Guardian or Conservator
- Other: _____

RIGHT THUMBPRINT OF SIGNER
Top of thumb here

Signer Is Representing:

CALIFORNIA ALL-PURPOSE ACKNOWLEDGMENT

State of CALIFORNIA

County of MONTEREY

On 04-17-96 before me, *SONIA L. ANGELO, NOTARY PUBLIC* * *
Date Name and Title of Officer (e.g., "Jane Doe, Notary Public")

personally appeared * * *MALCOLM D. CRAWFORD* * * * *
Name(s) of Signer(s)

personally known to me - OR - proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/hers/their authorized capacity(ies), and that by his/hers/their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.



WITNESS my hand and official seal.

Sonia L. Angelo
Signature of Notary Public

OPTIONAL

Though the information below is not required by law, it may prove valuable to persons relying on the document and could prevent fraudulent removal and reattachment of this form to another document.

Description of Attached Document
EXHIBIT G

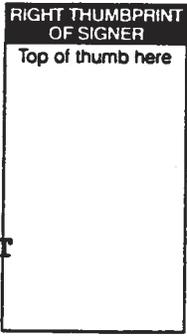
Title or Type of Document: MONTEREY REGIONAL WATER POLLUTION CONTROL AGENCY ADDENDUM TO ANNEXATION AGREEMENT AND GROUNDWATER MITIGATION FRAMEWORK FOR MARINA AREA LANDS
Document Date: APRIL 17, 1996 Number of Pages: 6

Signer(s) Other Than Named Above: NONE

Capacity(ies) Claimed by Signer(s)

Signer's Name: MALCOLM D. CRAWFORD

- Individual
- Corporate Officer
Title(s): SECRETARY, BOARD OF DIRECTORS
- Partner — Limited General
- Attorney-in-Fact
- Trustee
- Guardian or Conservator
- Other: _____



Signer Is Representing:
MARINA COAST WATER DISTRICT

Signer's Name: _____

- Individual
- Corporate Officer
Title(s): _____
- Partner — Limited General
- Attorney-in-Fact
- Trustee
- Guardian or Conservator
- Other: _____



Signer Is Representing:

ACKNOWLEDGMENT

STATE OF New Mexico)
COUNTY OF Bernalillo) : ss.

On April 8, 1996, before me, Lupe Estrada,
a Notary Public, duly commissioned and sworn, personally appeared
JAY MAX ARMSTRONG

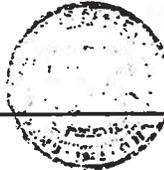
- personally known to me, or
- proved to me on the basis of satisfactory evidence

to be the person whose name is subscribed to the within instrument and
acknowledged to me that he executed the same in his authorized
capacity, and that by his signature on the instrument, the person, or
the entity upon behalf of which the person acted, executed the same.

WITNESS my hand and official seal.

Lupe Estrada

Signature



OFFICIAL SEAL
LUPE ESTRADA
NOTARY PUBLIC-STATE OF NEW MEXICO

My commission expires: 3-29-98

{Seal}

ACKNOWLEDGMENT

STATE OF WASH)
COUNTY OF KING) : ss.

On 4/4, 1996, before me, SANDRA G. HARVEY,
a Notary Public, duly commissioned and sworn, personally appeared
DARRELL L. MURRAY

- personally known to me, or
- proved to me on the basis of satisfactory evidence

to be the person whose name is subscribed to the within instrument and
acknowledged to me that he executed the same in his authorized
capacity, and that by his signature on the instrument, the person, or
the entity upon behalf of which the person acted, executed the same.

WITNESS my hand and official seal.

Sandra G. Harvey
Signature



{Seal}

ACKNOWLEDGMENT

STATE OF CALIFORNIA)
): ss.
COUNTY OF Fresno)

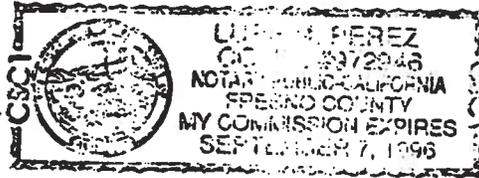
On April 4, 1996, 1996, before me, Lupe M. Perez,
a Notary Public, duly commissioned and sworn, personally appeared
CLYDE W. JOHNSON III

- personally known to me, or
- proved to me on the basis of satisfactory evidence

to be the person whose name is subscribed to the within instrument and
acknowledged to me that he executed the same in his authorized
capacity, and that by his signature on the instrument, the person, or
the entity upon behalf of which the person acted, executed the same.

WITNESS my hand and official seal.

Lupe M. Perez
Signature



{Seal}

ACKNOWLEDGMENT

STATE OF CALIFORNIA)
): ss.
COUNTY OF Fresno)

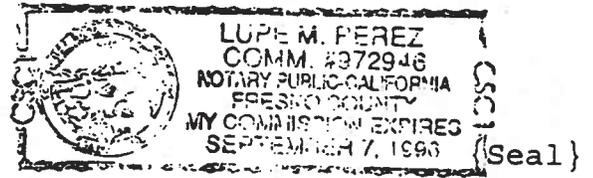
On April 4, 1996, before me, Lupe M. Perez,
a Notary Public, duly commissioned and sworn, personally appeared
EDWIN A. JOHNSON

- personally known to me, or
- proved to me on the basis of satisfactory evidence

to be the person whose name is subscribed to the within instrument and
acknowledged to me that he executed the same in his authorized
capacity, and that by his signature on the instrument, the person, or
the entity upon behalf of which the person acted, executed the same.

WITNESS my hand and official seal.

Lupe M. Perez
Signature



ACKNOWLEDGMENT

STATE OF CALIFORNIA)
): ss.
COUNTY OF Yolo)

On April 4, 1996, before me, Kara K Walker,
a Notary Public, duly commissioned and sworn, personally appeared
SUSANNE IRVINE ARMSTRONG

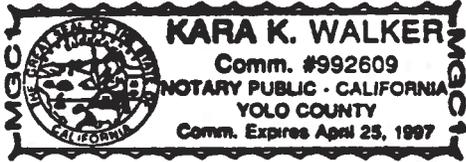
- personally known to me, or
- proved to me on the basis of satisfactory evidence

to be the person whose name is subscribed to the within instrument and
acknowledged to me that she executed the same in her authorized
capacity, and that by her signature on the instrument, the person, or
the entity upon behalf of which the person acted, executed the same.

WITNESS my hand and official seal.

Kara K. Walker
Signature

{Seal}



ACKNOWLEDGMENT

STATE OF CALIFORNIA)
): SS.
COUNTY OF MONTEREY)

On MAY 4, 1996, before me, PAUL M. HAMERLY,
a Notary Public, duly commissioned and sworn, personally appeared
WALTER J. McCULLOUGH

- personally known to me, or
- proved to me on the basis of satisfactory evidence

to be the person whose name is subscribed to the within instrument and
acknowledged to me that he executed the same in his authorized
capacity, and that by his signature on the instrument, the person, or
the entity upon behalf of which the person acted, executed the same.

WITNESS my hand and official seal.

Paul M. Hamerly
Signature

{Seal}



ACKNOWLEDGMENT

STATE OF CALIFORNIA)
): SS.
COUNTY OF MONTEREY)

On MAY 6, 1996, before me, Paul M. Hamerly,
a Notary Public, duly commissioned and sworn, personally appeared
ELIZABETH S. ARMSTRONG

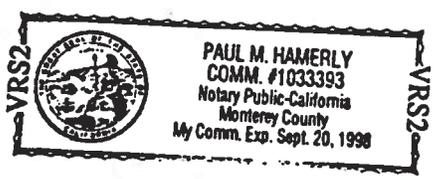
- personally known to me, or
- proved to me on the basis of satisfactory evidence

to be the person whose name is subscribed to the within instrument and
acknowledged to me that she executed the same in her authorized
capacity, and that by her signature on the instrument, the person, or
the entity upon behalf of which the person acted, executed the same.

WITNESS my hand and official seal.

Paul M. Hamerly
Signature

{Seal}



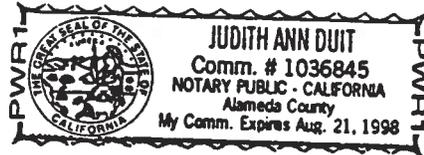
State of California

County of Alameda

On April 1, 1996, before me, Judith Ann Duit/Notary Public, personally appeared Ronald L. Blick, personally known to me to be the person whose name is subscribed to the within instrument and acknowledged to me that he executed the same in his authorized capacity, and that by signature on the instrument the person, or the entity upon behalf of which the person acted, executed the instrument.

WITNESS my hand and official seal.

Judith Ann Duit
Judith Ann Duit, Notary Public



OPTIONAL INFORMATION

The information below is not required by law. However, it could prevent fraudulent attachment of this acknowledgment to an unauthorized document.

CAPACITY CLAIMED BY SIGNER (PRINCIPAL)

- INDIVIDUAL
- CORPORATE OFFICER

President RMC LONESTAR
TITLE(S)

- PARTNER(S)
- ATTORNEY-IN-FACT
- TRUSTEE(S)
- GUARDIAN/CONSERVATOR
- OTHER: _____

SIGNER IS REPRESENTING:
Name of person(s) or entity(ies)
RMC LONESTAR

DESCRIPTION OF ATTACHED DOCUMENT

Annexation Agreement and Groundwater Mitigation Framework for Marina Area Lands
TITLE OR TYPE OF DOCUMENT

27 plus exhibit A - I
NUMBER OF PAGES

3/26/96
DATE OF DOCUMENT

OTHER

ACKNOWLEDGMENT

STATE OF CALIFORNIA)
 : ss.
COUNTY OF MONTEREY)

On March 29, 1996, before me, Jeannine L. Kreider,
a Notary Public, duly commissioned and sworn, personally appeared
DONALD G. HUBBARD

- personally known to me, or
- proved to me on the basis of satisfactory evidence

to be the person whose name is subscribed to the within instrument and
acknowledged to me that he executed the same in his authorized
capacity, and that by his signature on the instrument, the person, or
the entity upon behalf of which the person acted, executed the same.

WITNESS my hand and official seal.

Jeannine L. Kreider
Signature

{Seal}



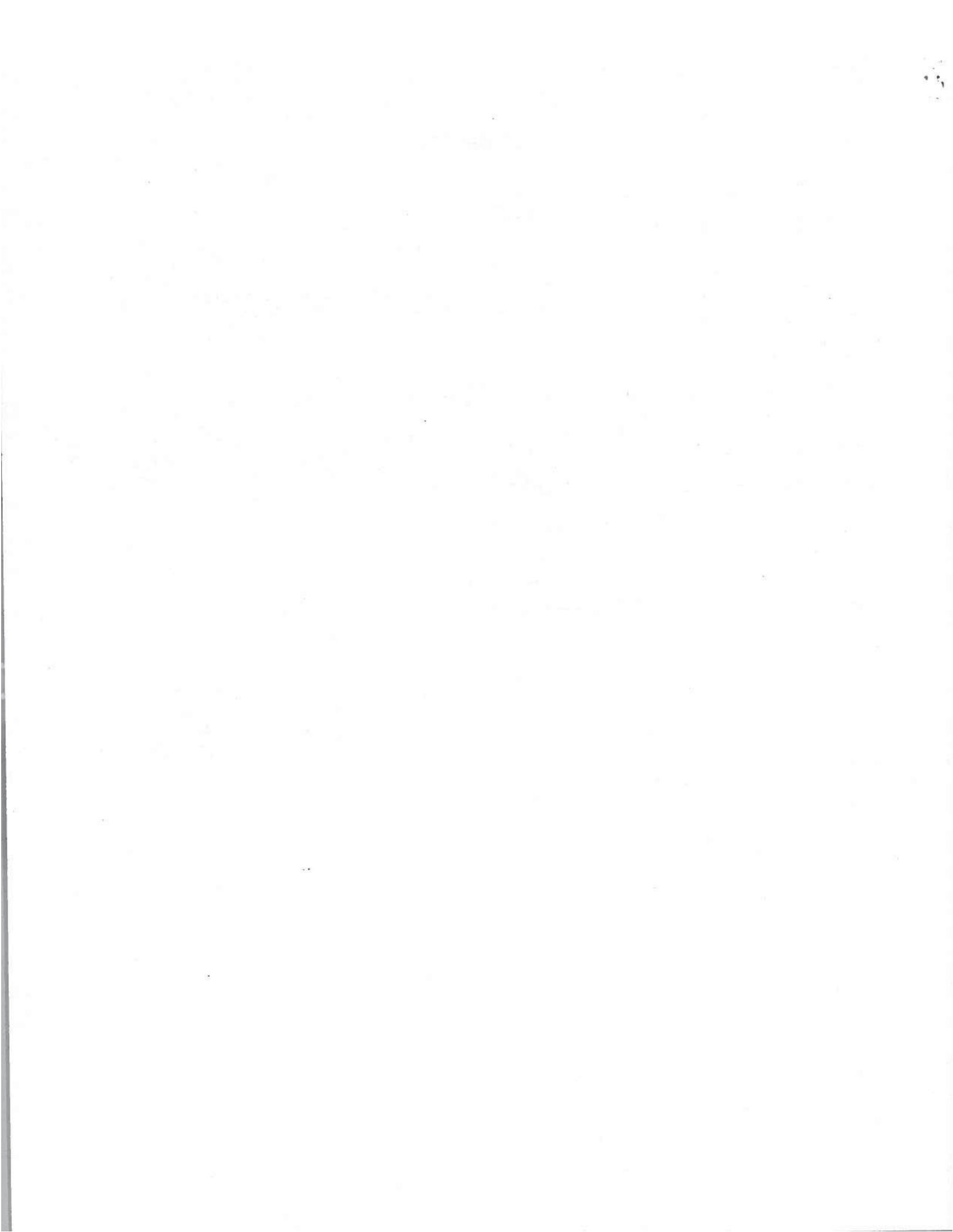


EXHIBIT 3

A-6078

AGREEMENT BETWEEN
THE MONTEREY COUNTY WATER RESOURCES AGENCY AND
THE MONTEREY REGIONAL WATER POLLUTION CONTROL AGENCY
FOR CONSTRUCTION AND OPERATION OF A TERTIARY TREATMENT SYSTEM

This is an agreement between the Monterey County Water Resources Agency, hereinafter referred to as "WRA," and the Monterey Regional Water Pollution Control Agency, hereinafter referred to as "WPCA." Its date for reference purposes is June 16, 1992.

RECITALS

This agreement is made with respect to the following facts:

A. WRA is in the process of developing a Seawater Intrusion Program (SIP), in order to limit the advance of seawater intrusion into the Salinas Valley groundwater basin.

B. One element in the SIP is the construction of a 29.6 MGD tertiary treatment system (hereinafter referred to as "the project") for wastewater. Reclaimed water produced by the project for the SIP will be delivered to a distribution system, known as the Castroville Irrigation System, at the points indicated on Exhibit A, attached hereto, and through that system it will be delivered to farmers in the Castroville area, for use in the irrigation of crops.

C. The parties have already expended substantial sums in preliminary efforts regarding the project, and an environmental impact report has been prepared for the project as part of the SIP.

D. The preliminary estimate for the cost of the project, as set forth in the loan application prepared by WPCA in connection with this project for submittal to the U.S. Bureau of Reclamation (hereinafter referred to as the "USBR loan application"), is approximately \$28,000,000. This cost estimate includes the components shown in the USBR loan application report, including but not limited to costs for physical construction, engineering, inspection, financing, legal, administrative, permits, land costs (24 acres at \$25,000 per acre, plus additional rights of way), and other related costs.

E. WRA, as lead agency, has completed and certified a combined Environmental Impact Report under California law and Environmental Impact Statement under federal law (hereinafter the "EIR/EIS") for the SIP. The EIR/EIS discusses the project as an element of the SIP, and serves as the environmental review for this Agreement. In connection with

(MRWPCA/MCWRA - 6/16/92)

that environmental review, the WRA has approved the project description and mitigation measures for this project. The project description and mitigation measures so approved are set forth in Exhibit C, attached hereto.

F. Additional uses have been discussed for a portion of treated water from the project, to promote conservation of groundwater and to mitigate seawater intrusion.

G. The purpose of this contract is to provide for the construction and operation of the project to meet the needs of the SIP.

COVENANTS

Now, therefore, the parties agree as follows:

I. CONSTRUCTION OF THE PROJECT.

1.01. WPCA to construct project. Upon the receipt of final commitments for the financing described below by all applicable governmental agencies, and upon final approval of the Castroville Irrigation System by WRA, WPCA will construct the project, in substantial conformity with designs and plans approved by the parties in writing, and in conformity with the project description and mitigation measures attached hereto as Exhibit C.

1.02. Change orders. Change orders must be approved in writing. Any change order or related set of change orders that increases the project cost by \$100,000 or more shall require the consent of both parties. Any change order or related set of change orders that increases the project cost by less than \$100,000 or that lowers the project cost may be approved by WPCA alone, without the consent of the WRA, except that a copy of any proposed or executed change order shall promptly be provided to WRA as soon as it is available to WPCA. Each party's contract administrator shall be authorized to give consent to change orders for that party. Neither party's consent to a change order will be unreasonably withheld or delayed.

1.03. Design to meet performance standards. The project will be designed and built to meet the performance standards set forth herein for water quality, to the maximum extent feasible with existing technology within the cost limitations contemplated by the parties. The project will have the capacity to produce 29.6 MGD of tertiary treated water.

1.04. Design to allow additions. The project shall be designed and built so as (a) to allow the later construction of reverse osmosis or other facilities on the treatment plant site to enhance the quality of water produced by the project,

(MRWPCA/MCWRA - 6/16/92)

(b) to allow the later construction of an aquifer storage and recovery system (to be constructed primarily off the treatment plant site) to provide for underground storage of water in seasons of low demand, and (c) to allow expansion of the plant beyond 29.6 MGD of tertiary treated water. Any such addition or expansion shall be a separate project and not be part of the present project.

1.05. Interties with other agencies. The project shall be designed and built to accommodate possible future interties with other agencies, so that tertiary treated water from the project could be delivered to such agencies. However, no connections shall be made between the project and any distribution system other than the Castroville Irrigation System until WPCA or the agency proposing to take delivery of the water completes environmental review of the proposed connection in conformity with all applicable environmental laws. In addition, if such connection is made before the USBR loan or any other loan obtained to finance the project has been paid in full, then such connection shall comply with all requirements of the USBR or other lender whose loan remains unpaid.

1.06. Location of project. The project shall be located on or near the site of the existing WPCA regional treatment plant, on lands owned by WPCA. WPCA will acquire any rights-of-way necessary for the construction and maintenance of pipelines between the tertiary treatment plant and the points of delivery to the Castroville Irrigation System. The treatment plant site and the general location of the necessary rights-of-way are shown on Exhibit A, attached hereto.

1.07. Cooperation between agencies. WPCA and WRA shall work cooperatively and with diligence to obtain all permits, approvals, and financing to construct the project.

1.08. Implementation schedule. Promptly after WRA and WPCA approve the project and the Castroville Irrigation System, representatives of the two agencies shall meet and jointly develop an implementation schedule for the project, with the goal that the project and the Castroville Irrigation System will be completed and ready for operation at or about the same time. Subject to any delays that are appropriate or necessary to coordinate completion of the project with completion of the Castroville system, WPCA shall begin construction work on the project as soon as possible after all permits and financing have been obtained. The parties may revise the implementation schedule from time to time as may be necessary due to changes in the schedule for disbursement of loan proceeds by the federal or state governments or for other reasons beyond the control of the parties.

(MRWPCA/MCWRA - 6/16/92)

1.09. Regular meetings. After development of the implementation schedule, representatives of the parties will meet on a monthly basis, or more often if necessary, in order to ensure that the project is proceeding according to the schedule and in conformity with this contract and the approved plans and designs.

II. INITIAL COSTS AND FINANCING.

2.01. Burden of initial costs. Initially, WPCA shall bear all the costs of building the project shown in the USBR loan application report. WPCA will finance these costs as provided below, and WRA will repay these costs as provided in Section VI. WRA will bear all the study and investigation costs paid by WRA to date. WRA will also bear the cost of environmental review and all necessary permits from the U.S. Army Corps of Engineers, except that WPCA will initially bear any costs related to environmental review incurred by WPCA to date.

2.02. Construction financing.

(a) Duty to arrange for financing. To obtain funds for the construction of the project, WPCA will apply to the US Bureau of Reclamation (USBR) for a loan of approximately \$20,000,000 and to the State Water Resources Control Board (SWRCB) for a loan of approximately \$6,000,000. WPCA has already begun the process of preparing applications for these loans and will work with due diligence to complete the applications and will take all reasonable and necessary steps to obtain the loans. WPCA will take all reasonable and necessary steps to obtain any other financing (including, but not limited to bonds, certificates of participation, or government or private institutional loans) to pay for the other initial costs required to be borne by WPCA and to provide interim or supplemental financing.

(b) Effect of denial of financing. If any loan application is denied or if WPCA, after due diligence, fails to obtain other financing, WPCA shall promptly give written notice of the denial or failure to WRA. If, after exercising reasonable diligence and after exhausting all reasonable and available possibilities, WPCA does not obtain one or more of the financing elements described in subparagraph (a) that are needed to fund the project fully, then this contract shall have no further force or effect, unless substitute financing is obtained as provided in subparagraph (c), below.

(c) Substitute financing. If, within 1 year after WPCA gives notice to WRA of the denial of or failure to obtain financing needed to fund the project fully, WRA obtains financing to replace that which WPCA was unable to obtain or keep, in amounts sufficient to meet the costs then

(MRWPCA/MCWRA - 6/16/92)

anticipated beyond the local share to be contributed by the parties pursuant to this contract or any loan application filed pursuant to this contract, then this contract shall remain in effect and the parties shall perform according to its terms. The substitute financing obtained under this paragraph may designate either WRA or WPCA as the borrower or person obligated to repay. If substitute financing is obtained, the parties will make any necessary adjustments to the payment provisions and any other provisions of this contract in order to effectuate the original intent of this contract.

III. OWNERSHIP, OPERATION AND MAINTENANCE OF PROJECT.

3.01. Ownership, operation, and maintenance, in general. WPCA will own, operate, and maintain the project, and will keep the project in good condition and repair for the term of this agreement. WRA shall be required to reimburse WPCA for such costs and expenses only as provided in this contract. After expiration of this contract and any extension thereof, the project will be the property of WPCA, except that WRA will own the discharge pipelines from the flanges on the discharge side of the pressure-regulating pond to the connections with the Castroville Irrigation System.

3.02. Safety and loss prevention program. WPCA will develop, maintain, and implement a safety and loss prevention program for the project, and in connection with that program will provide appropriate training for its employees working on the project.

3.03. Dedication of incoming flows. WPCA will commit all of its incoming wastewater flows to the project, up to the project capacity of 29.6 MGD, except for

(a) flows taken by Marina County Water District (MCWD) pursuant to the Annexation Agreement between MCWD and WPCA dated April 25, 1989,

(b) such flows as are lost or as must be diverted in the ordinary course of operating and maintaining the treatment plant and ocean outfall, and

(c) such flows as are not needed to meet WRA's anticipated demand under Article IV.

3.04. Warranties. WPCA warrants that all water committed to the project shall be transferred to the project free and clear of all claims by any person or entity, except as otherwise specified herein, and that all water produced by the project, up to the project's initial capacity of 29.6 MGD, shall be distributed in conformity with the terms of this contract.

(MRWPCA/MCWRA - 6/16/92)

3.05. Right to inspect. WRA shall have the right to inspect the project, while under construction and at any time thereafter during the term of this contract, upon the giving of reasonable advance notice to WPCA. Such inspections may take place at any time during the day or night; however, night time inspections will not take place without at least one week's notice, except in case of emergency or by agreement between the parties. However, WPCA shall have the sole right to direct the construction work and the work of WPCA's own employees. WRA's right to inspect is for the purpose of observation and not for the purpose of supervision of the work observed. Any comments WRA might wish to make as a result of such inspection shall be made to WPCA's contract administrator or other designated personnel.

3.06. Daily operation. The project will be in operation and will supply water to WRA on a daily basis, except for temporary periods of shut-down authorized by this agreement or made necessary by circumstances beyond the control of WPCA.

3.07. Incidental uses. WPCA may use such amounts of tertiary treated water from the project as may be needed for the normal operation and maintenance of WPCA's facilities, including, but not limited to, the project itself as well as the secondary treatment plant and ocean outfall.

3.08. Notice of temporary cessation of water deliveries. WPCA will give immediate notice to WRA, by telephone to WRA's general manager or to the person designated by the general manager to receive such notices, with a prompt follow-up notice in writing, as soon as WPCA becomes aware of the need to cease deliveries to WRA, whatever may be the reason for such interruption in service. Whenever an unforeseen cessation of deliveries occurs without prior notice to WRA, WPCA shall immediately give notice to WRA as provided above. In addition, whenever a cessation of deliveries occurs, WPCA shall use every reasonable effort to restore service as soon as possible.

IV. DELIVERY OF WATER TO WRA.

4.01. Quantity of water to be delivered to WRA. Each year during the term of this contract, WPCA shall deliver tertiary treated water from the project to the Castroville Irrigation System. The quantity so delivered shall include water provided in response to WRA's basic demand and water provided in response to WRA's supplemental demand, determined as set forth in this Article IV.

4.02. WRA's basic demand schedule in initial term. For water which will be delivered during the initial term of this

(MRWPCA/MCWRA - 6/16/92)

agreement, WRA shall, not later than December 15 each year, submit to WPCA a schedule of requested water deliveries for the next calendar year. The schedule may request water deliveries of up to 19,500 AF/YR as WRA's basic demand. This basic demand schedule shall show the amount requested for each calendar month in the year. The demand may vary from month to month, and in any particular month, the schedule may show a demand for the entire available monthly production capacity of the project, provided that the total basic demand does not exceed 19,500 AF for the entire year. A sample basic demand schedule is attached hereto as Exhibit B.

4.03. WRA's basic demand schedule in extended term.

(a) For water to be delivered during any extended term, WRA shall submit to WPCA its basic demand schedule as set forth in paragraph 4.02. However, instead of a maximum basic demand for 19,500 AF/YR, the schedule may request each year an amount of water equal to the amount of water originating in the Salinas Valley that was delivered to the WPCA during the year preceding the year for which the water deliveries are requested.

(b) The basic demand schedule shall be based on accurate figures for the months in which such figures are available and upon estimates for those months in which accurate figures are not available. If any member agency delivers water to the WPCA that originates partly from the Salinas Valley and partly from sources outside the Salinas Valley, an allocation shall be made based upon records showing the quantities received from each source of water, upon reasonable estimates, or upon an allocation formula approved by the parties; then, only the portion of the water allocated to a Salinas Valley origin shall be included in the final total.

(c) Water originates in the Salinas Valley when the source of the fresh water before its distribution to the water consumer is the Salinas Valley groundwater basin, for groundwater, and the Salinas River watershed with all its tributaries, for surface and rain waters. Water delivered to WPCA by MCWD shall not be counted as water originating in the Salinas Valley for the purpose of this calculation.

4.04. WPCA's duty to comply with basic demand schedule. Each month during the initial and any extended term of this contract, WPCA shall supply the amount of water demanded for that month in accordance with the basic demand schedule submitted by WRA, provided that WPCA may supply less than the monthly demand, in conformity with paragraph 4.05, when WPCA has exhausted any water it may have had in storage to help meet WRA's demand and when, in addition, WPCA has exercised due diligence to meet the demand and one or more of the following circumstances occur:

(MRWPCA/MCWRA - 6/16/92)

(a) the project cannot produce enough water, either because there is not enough wastewater flowing into the project, or because, for reasons beyond the reasonable control of WPCA, the project is unable to operate for a sufficient period of time during the month in question, or

(b) the project fails to produce enough water of adequate quality for use in the Castroville Irrigation System.

4.05. Alternative when basic demand schedule cannot be met. When, pursuant to paragraph 4.04, WPCA is excused from supplying all of WRA's demand, WPCA shall provide to WRA all the water that is produced by the project during the month in question that meets applicable water quality standards.

4.06. Make-up for deficiencies. If in any month WPCA fails to deliver the full amount of WRA's basic demand, then WRA shall be entitled to take delivery of all or part of the deficiency in any month within 12 months after the close of that month, to the extent that water is available.

4.07. WRA's supplemental demand schedule. At the same time as WRA provides its basic demand schedule to WPCA, it may also provide a schedule of water deliveries for its supplemental demand. WRA's supplemental demand for water shall be its demands in excess of its basic demand. In this supplemental demand schedule, WRA may request that all excess water be made available to WRA, or it may request that excess water be made available in specified quantities in specified months. WRA may amend its supplemental demand schedule from time to time.

4.08. WPCA's duty to comply with supplemental demand schedule. To meet WRA's supplemental demand, WPCA shall deliver the remaining water from the project to WRA, up to the limit of WRA's demand, subject to allocations made to other future intertie projects that may be approved.

V. MAINTENANCE OF WATER QUALITY.

5.01. Quality of water delivered. The project will produce tertiary treated water of a quality suitable for the irrigation of edible crops, such as artichokes, Brussels sprouts, and row crops (e.g., lettuce, cauliflower, broccoli, and celery) that do not require cooking prior to human consumption. All water produced from the project and delivered to WRA shall meet all applicable standards of quality prescribed by the State of California (including, but not limited to, the regulations promulgated by the State Health Department and set forth in the California Code of Regulations, Title 22), by the County of Monterey, or by

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separate agreement of the parties, so that the water may be used for the purposes specified herein.

5.02. Duty to monitor water quality; cessation in deliveries. WPCA will monitor the quality of water produced by the project on a regular basis, to ensure that the water delivered to the SIP meets the quality standards herein mentioned. The parties understand that it may not be possible for the water produced by the project to meet these standards 100% of the time, and that water quality will vary from time to time. During periods when water quality does not meet applicable standards, flows will not be sent to the SIP. For those occasions, WRA will need a backup water source for the SIP. WPCA will provide special attention to minimize any such events to the extent that it has control over them. WPCA will notify WRA promptly, whenever it appears that there is or will soon be a change in the quality of water produced by the project that may adversely affect the agricultural users of the water.

5.03. Regulations to protect water quality. WPCA will, to the extent feasible, enact reasonable and appropriate regulations governing the kinds of wastes and other materials that may be discharged into the sewer system, in order to protect the quality of water ultimately produced by the project.

5.04. Water quality committee. Before completion of the project, the parties shall form a committee. The membership of the committee shall consist of representatives of the parties and the areas receiving project water. The committee shall have access to and shall share all pertinent information concerning the operation of the project, the quality of water produced by the project, and the needs of the growers receiving water from the project, in order to discuss and make recommendations for maintaining or improving the project so that it will continue to meet the needs of the agricultural operations served by the project. No private sector member of the committee and no grower or private sector user of water from the project shall be required to disclose proprietary information in connection with the committee's work.

VI. PAYMENTS BY WRA TO WPCA.

6.01. Consideration paid by WRA. As consideration for the water provided and the other obligations performed by WPCA under this contract, WRA shall make payments to WPCA pursuant to this contract.

6.02. Amount to be paid. The consideration paid by WRA shall be the dollar amount that equals 100% of the annual costs reasonably and necessarily incurred in connection with

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the project (including both direct and indirect expenses), and no more. The annual costs include the following:

(a) amortization of any loans (USBR, SWRCB, etc.), bonds, certificates of participation, and any interim or other financing;

(b) the project operation, maintenance, repair, replacement, power, capital improvements, contingency, and reserve costs; and

(c) the cost of acquiring rights-of-ways over property not previously owned by WPCA plus all project costs incurred after execution of this contract by the parties and before commencement of project operation, including but not limited to planning, engineering design, and project coordination costs.

(d) If the costs identified in subparagraph (c), above, are not funded with financed money and reimbursed under (a), then such costs will initially be funded by WPCA and will later be reimbursed by WRA in accordance with terms jointly agreed upon by WPCA and WRA. WRA will reimburse such costs to WPCA along with the other costs of the project following commencement of project operation under paragraph 6.04(c) and (d). WPCA will consult with WRA before incurring such costs).

6.03. Draw account. WPCA will set up a draw account which WPCA will use to pay the operation, maintenance and reserve expenses of the project on a monthly basis. WRA will fund the account initially, before the project commences operation, with a payment in the amount of 55% of the projected operation, maintenance, and reserve expenses for the first year of the project's operation. Thereafter, WPCA will deposit into this account the payments noted in paragraph 6.04(c) and (d).

6.04. Payment schedule. WRA will make four payments to WPCA each year, as follows:

(a) Thirty days before the date that WPCA's annual payment on the USBR loan is due, WRA will pay an amount equal to the current payment on the USBR loan;

(b) Thirty days before the date that WPCA's annual payment on the SWRCB loan or other financing is due, WRA will pay an amount equal to the current payment on the SWRCB loan or other financing;

(c) On March 1, WRA will pay the operation, maintenance, reserve, and all other costs for the immediately preceding July-December that are allocable to WRA;

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(d) On September 1, WRA will pay the operation, maintenance, reserve, and all other costs for the immediately preceding January-June that are allocable to WRA.

6.05. Request for payment. At least thirty days before the date that the WRA's payment is due, WPCA will send to WRA a request for payment, indicating the amount due, the date payment from WRA is due, and the nature of the payment. When the request is for payment of operation, maintenance, reserve, and other costs, such request shall include supporting information in such form and detail as shall be agreed upon by the parties.

6.06. Levy of assessments. In order to guarantee the payment of its obligations hereunder, WRA shall, no later than twelve months after execution of this contract by both parties or earlier if necessary, take all steps necessary to implement all elements in the Financing Plan dated March 1992 set forth in the USBR loan application, as subsequently revised by the Board of Supervisors, including the following:

(a) the formation of a new zone or sub-zone 2B for the specified benefited properties,

(b) the levy of property assessments throughout WRA's existing Zone 2A and the new Zone or Sub-zone 2B, and

(c) the establishment of water delivery charges to be paid by all users of reclaimed water.

Such assessments and water charges shall take effect on such date as may be necessary in order to insure that WRA will have sufficient funds to pay when due the first and all successive payments required of WRA under this contract. Each year WRA will adjust said property assessments and water charges to maintain full payment capacity and satisfy the project funding requirements for the upcoming year, and the assessments and charges shall be levied in such amounts as are sufficient to make up for any anticipated delinquency rate. Nothing in this section shall be construed as limiting in any way the obligations of WRA to make all payments to WPCA under this contract.

6.07. Reduction or termination of water delivery for lack of payment. Notwithstanding anything to the contrary in this contract, if WRA should fail to make any payment to WPCA required under this Article VI for a period of 90 days or more after the due date, then WPCA, upon 15 days' written notice to WRA, may act to reduce or terminate the delivery of tertiary treated water from the project to the Castroville Irrigation System. Such reduction or termination in the delivery of water may continue only for such period of time as payments from WRA to WPCA remain delinquent, and may continue even though dispute resolution procedures pursuant

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to Article XII are pending between the parties, unless WRA makes full payment of the amount in question, under protest, as provided in paragraph 12.01.

6.08. Prior review of budget by WRA. Each year, in accordance with its normal budgeting schedule, WPCA will adopt a budget for the operation of the project, in advance of the operating year for which the budget is proposed, including therein all expenses to be paid by WRA. In preparing the budget, WPCA's agency manager will consult with WRA's general manager to obtain comments from WRA's general manager concerning the development of the budget, all in a timely manner so as to allow incorporation of such comments or responses thereto into the budget whenever appropriate. Before approving the budget, WPCA will submit the budget to WRA in a timely manner sufficient to enable review and recommendations by the WRA Board of Directors and Board of Supervisors before the WPCA budget hearings take place. Once the budget is approved by WPCA's Board of Directors, WPCA will not modify the budget so as to exceed the amount of expenditures approved by WPCA without first submitting the proposed changes to WRA's Board of Directors and Board of Supervisors for review and recommendations, except in case of emergency. WPCA will give WRA special notice at least two weeks in advance of any hearing at which the budget for the project, or any modification of the budget, will be considered by WPCA's Board of Directors. WPCA will notify WRA of any emergencies that occur in the operation of the project which require an expenditure of funds outside of the funds budgeted.

VII. RECORDS AND AUDITS.

7.01. Accounting system. WPCA shall maintain an accounting system that properly allocates costs to the project and to WPCA's other activities that are not subject to reimbursement by WRA under this contract. The accounting system shall provide the ability to track direct costs and adequately identify and allocate indirect costs of the tertiary treatment plant. Cost accounting, including any overhead distributions, shall be in accord with generally accepted accounting principles. WPCA shall make the details of such system available to or known to WRA or to WRA's auditor, at WRA's request.

7.02. Direct and indirect costs.

(a) Direct costs of the tertiary treatment plant project are costs which can be tracked as costs of this particular project through invoices, time cards, record-keeping systems, and other records that specifically allocate a cost to the project. Indirect costs are all other

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costs incurred by WPCA in order to manage, maintain, support, and operate the project.

(b) WPCA shall implement an accounting system that uniformly identifies and allocates all direct and indirect costs for the tertiary treatment system and for all of WPCA's other activities and projects. To this end, WPCA will not include in the pool of indirect costs to be paid in part by WRA any cost that should be identified as a direct cost of another activity or project. Similarly, if certain kinds of costs are identified as direct costs of the tertiary treatment system, then the same kinds of costs should be identified as direct costs of WPCA's other activities and projects; and, in any event, those kinds of costs should not be included in the pool of indirect costs to be paid in part by WRA. WPCA will make reasonable efforts to maximize the extent to which costs to be paid by WRA can be identified as direct costs rather than as indirect costs, both through incorporation of aids in the design and construction of the project itself (e.g., by the installation of metering devices for electricity used by the project) and through the use of time and expense records and the development of other cost accounting aids.

(c) The parties anticipate that indirect costs will be allocated to WRA based on the relative share of direct costs paid by WRA in comparison to the direct costs allocated to all other WPCA activities and projects. For purposes of allocating indirect costs, WPCA will not include as a direct cost the debt service (principle and interest) on the loans obtained for the project, and WPCA will not include as a direct cost any of the construction costs.

7.03. Annual audit. In connection with WPCA's regular annual audit, WPCA will have the auditors include a schedule or statement to support the charges billed to WRA under this contract and shall provide a copy of the audit to WRA promptly upon its completion.

7.04. Right to inspect and audit records. WRA shall have the right to inspect WPCA's records pertaining to the project, upon reasonable advance notice. WRA shall also have the right to audit WPCA's records pertaining to the project, or to have them audited by an auditor selected by WRA, at WRA's sole cost and expense. Such audit may be performed at any time during regular business hours, upon the giving of reasonable advance notice. If the audit shows that WPCA has overcharged annual costs to WRA by more than five percent, WPCA shall promptly on demand by WRA reimburse WRA for the cost of the audit.

7.05. Reimbursement for overcharge or undercharge. If any audit shows that WRA has been overcharged, WRA shall receive a credit against its next payment or payments for the

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overcharge, or WPCA shall otherwise reimburse WRA for the overcharge within 90 days of any demand for such reimbursement. If any audit shows that WRA has been undercharged, WRA will add the amount of the undercharge to its next O&M payment, or WRA shall otherwise reimburse WPCA for the undercharge within 90 days of any demand for such reimbursement.

VIII. REPAIR AND MODIFICATION OF PROJECT AND RELATED FACILITIES.

8.01. Reserve for replacement. WPCA shall at all times during the term of this agreement accumulate and maintain an equipment replacement reserve. The funds in this reserve may be used only for repairing or replacing major components of the project, or repairing major structural damage following a natural or man-caused disaster. If insurance or self-insurance moneys are available for the work, the reserve funds shall be used only after all such moneys have been used. The exact amount to be added to the reserve each year shall be agreed upon in writing by the parties. WPCA shall prepare each year a budget for the reserve fund and shall submit the budget to WRA for WRA's approval. The reserve fund will at a minimum be accumulated and maintained in accordance with the terms of the P.L. 984 loan repayment contract with the USBR.

8.02. Expansion of treatment plant capacity. WPCA may expand the project above the current capacity of 29.6 MGD and may construct additional reclamation facilities, at its sole cost and expense and without receiving the consent of WRA. Any increases in capacity and any additional reclamation facilities so constructed shall be used at WPCA's discretion.

8.03. Limit on interruptions of service. No work of construction, remodeling, renovation, replacement, repairs, addition, or expansion authorized under this agreement or performed on the project or any related facility at the WPCA's treatment plant site shall, either before, during, or after such work, interfere with, interrupt, or reduce the delivery of tertiary treated water to WRA under this contract, except that minor interferences, interruptions, or reductions shall be allowed when necessary, unavoidable, or beyond the control of WPCA. Any other interference, interruption, or reduction shall require the prior written consent of WRA. WRA shall not unreasonably withhold or delay its consent. In case of any such interference, interruption, or reduction, WPCA shall give notice in the same manner as required by paragraph 3.08.

8.04. Duty to apply insurance proceeds. If either party recovers any insurance proceeds on account of loss or damage to the project, such proceeds shall be applied to

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repair or replace the damaged portion of the project, and not otherwise. If either party is self-insured and any loss or damage occurs that would have been covered by insurance otherwise required to be maintained by such party under this contract, then such party shall provide the funds that would have been recovered had the party been insured and shall apply the funds to repair or replace the damaged portion of the project.

8.05. Payment of uninsured losses. If the project is damaged or destroyed during the term of this contract, and the amount of available insurance and self-insurance moneys plus replacement reserves is insufficient to repair or replace the damage, then WRA shall pay the balance necessary to restore the plant to its condition prior to the damage, except for losses caused by WPCA's breach of this contract.

8.06. New agreement on replacement of project. Should the project require replacement, whether from insurance or self-insurance moneys or from the reserve for replacement, the parties will in good faith negotiate a new agreement on terms substantially in accord with the present agreement. The new agreement shall be an extension of the present agreement.

IX. INDEMNIFICATION.

9.01. Indemnification. Subject to any limitations elsewhere in this agreement, each party shall indemnify, defend, and hold harmless, the other party from and against any and all damages, liabilities, losses, and costs or expenses suffered or incurred by such other party, arising out of, or resulting from, any breach of the indemnifying party's representations, warranties or agreements set forth in this contract.

9.02. Procedure for indemnification.

(a) If any legal proceedings are instituted, or any claim or demand is asserted, by any third party which may give rise to any damage, liability, loss, or cost or expense with respect to which either party has indemnified the other party in this contract, then the indemnified party shall give the indemnifying party written notice of the institution of such proceedings, or the assertion of such claim or demand, promptly after the indemnified party first becomes aware thereof. However, any failure by the indemnified party to give such notice on such prompt basis shall not affect any of its rights to indemnification hereunder unless such failure materially and adversely affects the ability of the indemnifying party to defend such proceeding.

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(b) The indemnifying party shall have the right, at its option and at its own expense, to utilize counsel of its choice in connection with such proceeding, claim or demand, subject to the approval of the indemnified party, which approval shall not be unreasonably withheld or delayed. The indemnifying party shall also have the right to defend against, negotiate with respect to, settle or otherwise deal with such proceeding, claim or demand. However, no settlement of such proceeding, claim or demand shall be made without the prior written consent of the indemnified party, which consent shall not be unreasonably withheld or delayed, unless, pursuant to the terms and conditions of such settlement, the indemnified party is released from any liability or other exposure with respect to such proceeding, claim or demand. The indemnified party may participate in any such proceeding with counsel of its choice at its own expense.

(c) In the event, or to the extent, the indemnifying party elects not to, or fails to, defend such proceeding, claim or demand and the indemnified party defends against, settles or otherwise deals with any such proceeding, claim or demand, any settlement thereof may be made without the consent of the indemnifying party if it is given written notice of the material terms and conditions of such settlement at least ten days before a binding agreement with respect to such settlement is reached.

(d) Each of the parties agrees to cooperate fully with each other in connection with the defense, negotiation or settlement of any such proceeding, claim or demand.

9.03. Payment of indemnified claims. The indemnifying party shall forthwith pay all of the sums owing to or on behalf of the indemnified party, upon the happening of any of the following events:

(a) Upon the rendition of a final judgment or award with respect to any proceeding described in paragraph 9.02, above, by a court, arbitration board or administrative agency of competent jurisdiction and upon the expiration of the time in which an appeal therefrom may be made; or

(b) Upon the making of a settlement of such proceeding, claim or demand; or

(c) Upon the parties' making of a mutually binding agreement with respect to each separate matter indemnified hereunder.

9.04. Contribution in the event of shared liability. In the event any proceeding, claim or demand described in paragraph 9.02 is brought, in which allegations of fault are made against both of the parties, the extent of any

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indemnification shall be determined in accordance with the agreement of the parties, or, if there is no agreement, then in accordance with the findings of the court as to the relative contribution by each of the parties to the damage suffered by the party seeking indemnity with respect to such proceeding.

9.05. Exclusion from O&M costs. Amounts payable by either party as indemnification shall not be included in the O&M costs of the project.

X. INSURANCE.

10.01. General insurance requirements. Without limiting WPCA's duty to indemnify, WPCA shall maintain in effect throughout the term of this agreement a policy or policies of insurance meeting the requirements hereinafter set forth. All such insurance shall meet the following requirements:

(a) Each policy shall be with a company authorized by law to transact insurance business in the State of California, and shall be written on an occurrence form.

(b) Each policy shall provide that WRA shall be given notice in writing at least thirty days in advance of any change, cancellation or non-renewal thereof.

(c) Except with respect to workers compensation insurance, each policy shall provide an endorsement naming the WRA and its officers, agents and employees as additional insureds, and shall further provide that such insurance is primary to any other insurance maintained by the WRA.

(d) Each policy shall provide identical coverage for each general contractor and sub-contractor performing construction work under this contract, or be accompanied by a certificate of insurance showing that the contractor or sub-contractor has identical insurance coverage or an appropriate substitute for such coverage approved by the parties hereto.

10.02. Comprehensive general liability insurance. WPCA shall maintain comprehensive general liability insurance, covering all of WPCA's operations with a combined single limit of not less than \$2,000,000.

10.03. Motor vehicle insurance. WPCA shall maintain insurance covering all motor vehicles (including owned and non-owned) used in providing services under this agreement, with a combined single limit of not less than \$2,000,000.

10.04. Fire and casualty insurance. WPCA shall maintain insurance covering the project against loss or damage due to fire, flood, earthquake, and other natural or man-caused disasters to the extent that such insurance is readily and practically available. The amount of the insurance shall be not less than the then current replacement cost of the project, without depreciation.

10.05. Workers compensation insurance. WPCA shall maintain a workers' compensation plan covering all of its employees as required by Labor Code Sec. 3700, either (a) through workers' compensation insurance issued by an insurance company, with coverage meeting the statutory limits and with a minimum of \$100,000 per occurrence for employer's liability, or (b) through a plan of self-insurance certified by the State Director of Industrial Relations, with equivalent coverage. If WPCA elects to be self-insured, the certificate of insurance otherwise required by this agreement shall be replaced with a consent to self-insure issued by the State Director of Industrial Relations.

10.06. Certificate of insurance. For insurance required during construction, prior to commencement of construction -- and for other insurance, prior to the commencement of project operation -- WPCA shall file certificates of insurance with the WRA and with the Monterey County Risk Management Division, showing that WPCA has in effect the insurance required by this contract. WPCA shall file a new or amended certificate promptly after any change is made in any insurance policy which would alter the information on the certificate then on file.

10.07. Self-insurance. WPCA may, instead of obtaining insurance, elect to participate in a self-insurance pool or be self-insured, provided that WRA first gives its written consent. WRA will not unreasonably withhold or delay its consent.

10.08. O&M Costs. Insurance expenses and equivalent self-insurance expenses are O&M costs, except for costs excludable under indemnification.

10.09. Periodic increases in coverage requirements. The coverage limits stated herein in dollar values shall be adjusted upwards by 15% for every 15% increase in the consumer price index for all urban consumers in the San Francisco Bay area over the level in effect on the date of execution of this contract, or, if such index is not available, for any substitute or replacement index. Either party shall notify the other when such increase is requested or made.

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XI. TERM OF AGREEMENT.

11.01. Initial and extended terms. This contract shall remain in effect for an initial term which shall expire on December 31, 2035, or on December 31 of the first year following final payoff of the loans issued by the USBR to WPCA for this project and to WRA for the Castroville Irrigation System, whichever is later. The term of the contract shall be extended as hereinafter provided.

11.02. Automatic extension. The term of the contract shall, at the expiration of the initial term and each extension of the term thereafter, automatically be extended for an additional 5-year term, expiring on December 31 of the fifth year of the extended term, subject to paragraph 4.03.

11.03. Conditions of agreement during extended term. All the terms of this agreement shall remain in effect during any extended term, except as otherwise provided in this contract.

11.04. Option to cancel. Not later than one year before the expiration of the initial or any extended term, WRA may cancel the contract by giving written notice of cancellation to WPCA. In addition, not later than five years before the expiration of the initial or any extended term, WPCA may cancel the contract by giving written notice of cancellation to WRA. Upon the giving of such notice, the contract terminates at the end of the term in which the notice period ends, unless the parties by agreement specify a different date. However, in no case shall the cancellation take effect before the USBR loans for both this project and the Castroville Irrigation System are paid in full.

11.05. Rights on termination. Upon any termination of this contract, WRA shall have the continuing right to receive from WPCA the same quantity of tertiary treated wastewater, according to the same delivery schedule, as WRA was or would have been entitled to receive during any extended term of this contract under Article IV; provided, that WRA shall provide facilities for treating the water beyond secondary treatment level at its sole cost and expense or through a cooperative agreement with WPCA or any other entity. However, if WPCA is then under an obligation imposed by the state or federal government to treat its wastewater to achieve water quality of tertiary treatment or better, regardless of the existence of this contract, then the parties may negotiate any appropriate reallocation of responsibility for providing and paying for the project in light of such circumstances.

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XII. DISPUTE RESOLUTION.

12.01. Dispute resolution procedure. If any dispute arises between the parties as to the proper interpretation or application of this contract, the parties shall first seek to resolve the dispute in accordance with this contract, and the parties must proceed through arbitration under this contract before filing any court action. If a dispute concerns the amounts to be paid under paragraph 6.02, WRA shall pay the amount demanded on time, under protest, notwithstanding that WRA has commenced or proposes to commence the dispute resolution procedure.

12.02. Duty to meet and confer. If any dispute under this contract arises, the parties shall first meet and confer, in an attempt to resolve the matter between themselves. Each party shall make all reasonable efforts to provide to the other party all the information that the party has in its possession that is relevant to the dispute, so that both parties will have ample information with which to reach a decision.

12.03. Arbitration. If the dispute is not resolved by meeting and conferring, the matter shall be submitted to arbitration. The parties shall jointly select a single arbitrator, or, if the parties are unable to agree, they shall each select an arbitrator, and the matter shall be handled by two arbitrators. The two arbitrators may, if they deem it appropriate and warranted by the nature and significance of the dispute and after consultation with the parties, themselves select a third arbitrator. Any person selected as an arbitrator shall be a qualified professional with expertise in the area that is the subject of the dispute, unless the parties otherwise agree. Before commencement of the arbitration, the parties may elect to have the arbitration proceed on an informal basis; however, if the parties are unable so to agree, then the arbitration shall be conducted in accordance with CCP Secs. 1280 et seq., and to the extent that procedural issues are not there resolved, in accordance with the rules of the American Arbitration Association. The decision of the arbitrator or arbitrators shall be binding, unless within 30 days after issuance of the arbitrator's written decision, either party files an action in court.

XIII. GENERAL PROVISIONS.

13.01. Compliance with laws. WPCA will comply with all permit and licensing requirements applicable to the project, and will operate the project in accordance with all requirements of law and governmental regulations.

13.02. Amendments. No amendment or modification shall be made to this agreement or to any other agreement referred to herein or incorporated herein by reference, except in writing, duly signed by both parties.

13.03. Contract administrator - WRA. WRA hereby designates its General Manager as its contract administrator for this contract. All matters concerning this contract which are within the responsibility of WRA shall be under the direction of or shall be submitted to the General Manager or such other WRA employee in the WRA as the General Manager may appoint. WRA may, in its sole discretion, change its designation of the contract administrator and shall promptly give written notice to WPCA of any such change.

13.04. Assignment. Any assignment of this agreement shall be void without the written consent of the non-assigning party.

13.05. Negotiated agreement. This agreement has been arrived at through negotiation between the parties. Neither party is to be deemed the party which prepared this agreement within the meaning of Civil Code Sec. 1654.

13.06. Time is of essence. Time is of the essence of this agreement.

13.07. Headings. The article and paragraph headings are for convenience only and shall not be used to limit or interpret the terms of this agreement.

13.08. Entire agreement. This written agreement, together with all exhibits attached hereto and incorporated by reference, is the complete and exclusive statement of the mutual understanding of the parties, except to the extent that this agreement expressly refers to or requires the preparation of additional agreements. Any such additional agreement shall be in writing. This agreement supersedes and cancels all previous written and oral agreements and communications relating to the subject matter of the contract.

13.09. Notices. All notices and demands required under this agreement shall be deemed given by one party when delivered personally to the principal office of the other party; when faxed to the other party, to the fax number provided by the receiving party; or five days after the document is placed in the US mail, first class postage prepaid, addressed to the other party as follows:

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To WPCA:

Agency Manager
MRWPCA
5 Harris Court, Bldg. D
Monterey, CA 93940

Fax No: 372-6178

To WRA:

General Manager
MCWRA
P.O. Box 930
Salinas, CA 93902-0930

Fax No.: 424-7935

13.10. Execution of documents. The parties will execute all documents necessary to complete their performance under this agreement.

13.11. Exhibits. The following exhibits are attached to this agreement:

A. Diagram of project location and rights-of-way, also showing points of delivery to Castroville irrigation system. See Recitals, paragraph B, and paragraph 1.06.

B. Sample basic demand schedule. See paragraph 4.02.

C. Project description and mitigation measures.

13.12. Severability. If any provision of this contract is declared invalid or unenforceable by any court of competent jurisdiction, then such portion or provision shall be deemed to be severable, to the extent invalid or unenforceable, from this contract. Such declaration shall not affect the remainder of this contract, which shall remain in full force and effect, as though the invalid portion had never been included.

13.13. Waiver. No waiver of any right or obligation of any of the parties shall be effective unless in a writing, specifying such waiver, executed by the party against whom such waiver is sought to be enforced. A waiver by any of the parties of any of its rights under this contract on any occasion shall not be a bar to the exercise of the same right on any subsequent occasion or of any other right at any time.

13.14. Contract contingent on further approvals. This contract is contingent on further approvals of the project and the initial assessments necessary to finance the project, which approvals can be given by WRA only in compliance with the hearing and protest procedures established by the Monterey County Water Resources Agency Act (1990 Stats. 1159 and 1991 Stats. 1130), Water Code Appendix, Chapter 52, Sections 20, 24, and 24.1. Upon execution of this contract or before, WRA will promptly initiate the necessary proceedings for such approvals.

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XIV. EXECUTION.

In witness whereof, the parties execute this agreement as follows:

WPCA

WRA

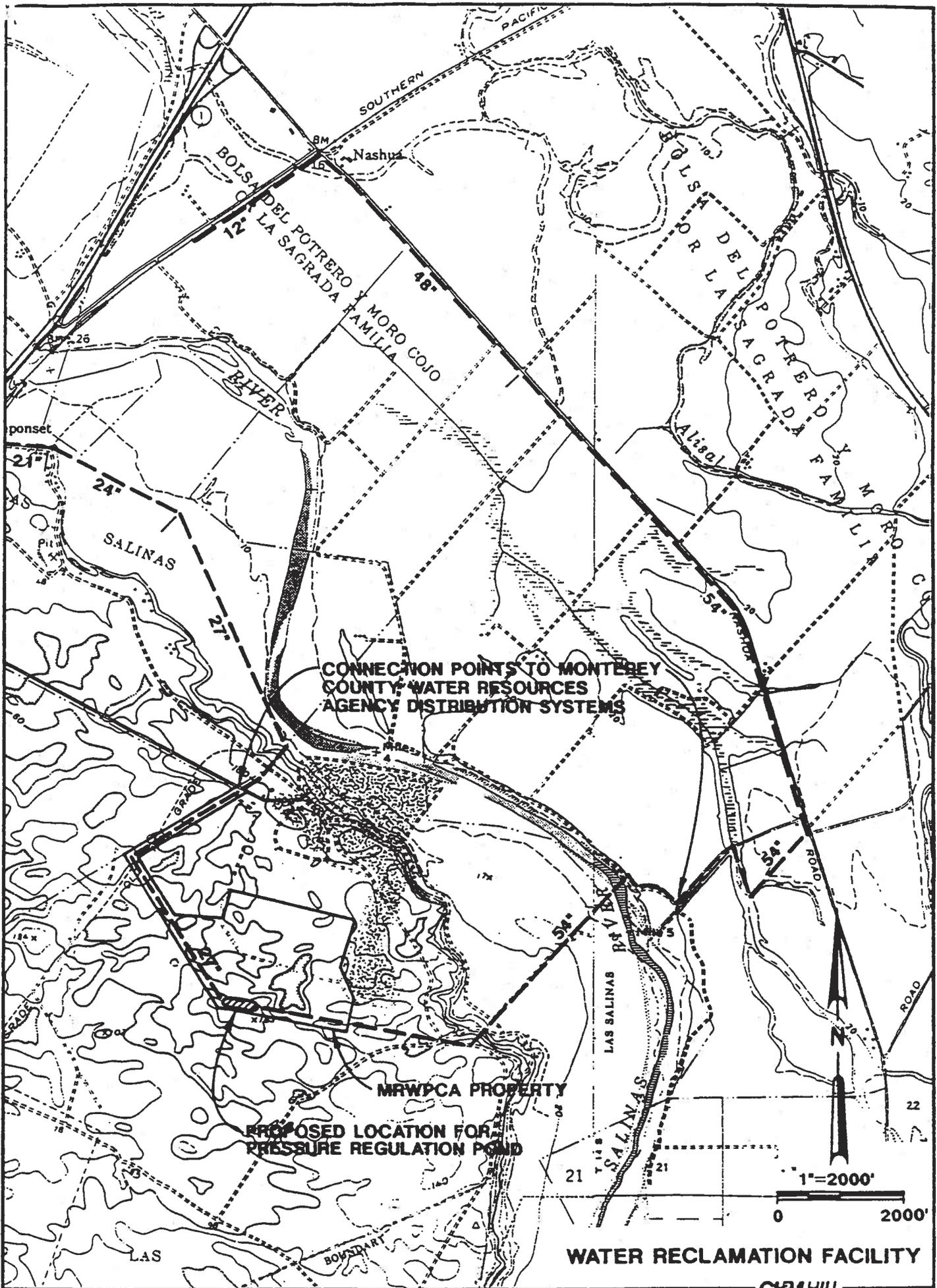
Dated: 7/9/92
Charles W. Benson
Charles W. Benson
Chairman, Board of Directors

Dated: July 7, 1992
Karin Strasser Kauffman
Karin Strasser Kauffman
Chair, Board of Supervisors

Approved as to form:

Dated: 7/9/92
Robert R. Wellington
Robert R. Wellington
Counsel, WPCA

Dated: 7/6/92
William K. Rentz
William K. Rentz
Deputy County Counsel, WRA



WATER RECLAMATION FACILITY

CRM HILL

EXHIBIT "A"

EXHIBIT B
SAMPLE MCWRA BASIC DEMAND SCHEDULE

MONTH	REGIONAL PLANT WASTEWATER AVAILABLE FOR RECLAMATION (in acre-feet)	MCWRA's BASIC DEMAND SCHEDULE FOR RECLAIMED WASTEWATER
JANUARY	2,390	190
FEBRUARY	2,440	480
MARCH	2,410	1,620
APRIL	2,410	2,410
MAY	2,490	2,490
JUNE	2,480	2,480
JULY	2,500	2,500
AUGUST	2,520	2,520
SEPTEMBER	2,250	2,520
OCTOBER	2,490	1,650
NOVEMBER	2,450	340
DECEMBER	<u>2,370</u>	<u>250</u>
TOTAL	29,470	19,450

(MRWPCA/MCWRA - 6/16/92)

Exhibit B

WASTEWATER RECLAMATION SYSTEM
PROJECT DESCRIPTION AND MITIGATION MEASURES

PROJECT DESCRIPTION

General description of the system

The Wastewater Reclamation System will be implemented through a contract between the Monterey County Water Resources Agency (MCWRA) and the Monterey Regional Water Pollution Control Agency (MRWPCA), whereby the MRWPCA will have primary responsibility for construction of the Wastewater Reclamation System. The primary facility in the system is a 29.6 million-gallon-per-day (mgd) capacity reclamation plant, which will produce tertiary treated water suitable for irrigation of edible crops. Two pipelines will connect the reclamation plant to the Castroville Irrigation System, so that reclaimed water from the reclamation plant can be delivered to the Castroville system for irrigation uses. The ultimate goal of the Wastewater Reclamation System is to produce at least 19,500 acre-feet of tertiary treated water for use each year in the Castroville Irrigation System. The reclamation plant will be constructed on a site adjacent to the existing MRWPCA regional treatment plant. It will intercept wastewater flows after secondary treatment in the regional plant and process them to produce filtered effluent suitable for irrigation uses.

The following facilities will be constructed as part of the Wastewater Reclamation System, under the contract with the MRWPCA:

1. A structure to divert the flow of secondary treated wastewater from the effluent pipeline of the existing regional treatment plant;
2. A pump station and pipeline to pump treated effluent to the tertiary treatment plant;
3. The 29.6 mgd tertiary treatment plant, consisting of coagulation, flocculation, filtration, and disinfection facilities;
4. Storage and pressure-regulating ponds for tertiary treated water, with approximately 75 acre-feet of storage capacity;
5. A pump station to lift reclaimed water from the storage pond to the pressure-regulating pond for gravity flow to the Castroville Irrigation System; and
6. Two pipelines connecting the reclamation facilities to the Castroville Irrigation System.

(MRWPCA/MCWRA - 6/16/92)

EXHIBIT C

Additional details concerning this project are included in the proposed contract between the MCWRA and the MRWPCA. The location of the various reclamation facilities is shown on the map attached hereto as Exhibit A.

Operational Goals of the Wastewater Reclamation System

Flows at the 1995 projected startup date of the reclamation project are estimated to average 23.0 mgd (25,763 af/yr). Flows are projected to increase gradually to 29.6 mgd (33,156 af/yr) by 2005. These flows, minus allowances for outfall flushing, are potentially available for reclamation. However, because wastewater flows are generally constant while irrigation demand varies seasonally, the plant will not treat all secondary effluent. Summaries of the irrigation demand and the resulting reclaimed wastewater usable for irrigation are given in Table 2-1 of the Draft EIR/EIS prepared for the Salinas Valley Seawater Intrusion Program and dated December 14, 1990. Secondary effluent in excess of that diverted for reclamation will be discharged through the existing ocean outfall.

To the fullest extent possible, reclaimed wastewater will be used to meet irrigation demand. The reclaimed wastewater pump station and pipeline, with a capacity of approximately 83 cfs, will be operated up to 24 hours a day or as required. A priority goal of the system will be to provide a minimum of 19,500 af/yr of reclaimed wastewater for use in the irrigation system; maximum monthly use will be about 2,500 af in July and August. It is possible that at some time in the future an amount averaging up to 3.5 mgd of reclaimed wastewater would be diverted to other MRWPCA member agencies, with approximately half of that amount taken during the period November through February. Reclaimed water could also be provided to the Lonestar and Sea Mist Farm properties. Diversion of reclaimed wastewater for such uses would be scheduled to minimize conflicts in use. Any such delivery to MRWPCA agencies, Sea Mist, and Lone Star would require independent environmental review and U.S.B.R approval.

Castroville farmlands will rely exclusively on reclaimed wastewater most of the year and on a combination of reclaimed wastewater and groundwater during summer.

Pipelines to Castroville Irrigation System

The first pipeline connection to the tertiary treatment facility is a 54-inch diameter main line that will run adjacent to and parallel the MRWPCA and Monterey County landfill southern and eastern property boundaries to the Salinas River.

On the northeast side of the river, the pipeline alignment will be on the cultivated field side of the river levee. Here, there is cultivated field up to the connection with the Castroville Irrigation System main pipeline. The alignment is

(MRWPCA/MCWRA - 6/16/92)

EXHIBIT C

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on disturbed lands, existing roads, or cultivated lands along the entire route except for the Salinas River crossing and approximately 150 feet on the southwest side of the river. Scrub brush and trees in this area will need to be cleared for pipeline construction. Some brush and limb trimming and road widening of the 500 feet of scrub brush and trees along the southwest side of the river may be required. The proposed alignment on the southwest side of the river is located almost entirely on existing roads, most of which are on the landfill site. The proposed alignment will affect .8 acre of forest and scrub riparian habitat.

Construction of the river crossing will include driving interlocking sheet piles on each side of the trench with cross bracing as required, dewatering and removing the soil, placing the pipe and encasement, and replacing the soil. The sheet piles will be cut off at river bottom level and left in place to improve stability of the pipeline crossing. The crossing will be constructed in sections to permit water flow in the river during construction. Cranes located on the riverbanks are expected to be used to drive the sheet piles in the river. A construction easement of 30-50 feet in width will be required through the scrub brush and trees.

The second connection to the Castroville Irrigation System is a 27-inch diameter pipeline lateral to serve the Castroville Irrigation System service area southwest of the Salinas River.

MITIGATION MEASURES

The following mitigation measures will be implemented with the project. The MCWRA and MRWPCA will by contract allocate to one agency or the other the responsibility for completion of these measures:

1. MRWPCA will locate siting of facilities and schedule construction of pipelines to reduce agricultural production losses.

2. MRWPCA will implement the recommendations contained in seismicity and geotechnical reports prepared before final foundation designs are completed. These reports will include a detailed review of the seismic history of the project area, correlation of seismicity to faulting, details about soil conditions and constraints, and recommendations for foundations appropriate to the existing seismic risks and soil constraints.

3. MRWPCA will implement an erosion control plan prepared by a registered civil engineer. The erosion control plan will limit vegetation removal, call for revegetation and slope stabilization measures, and contain a drainage plan.

(MRWPCA/MCWRA - 6/16/92)

EXHIBIT C

4. MRWPCA will require that steel corrosion be prevented by using plastic pipe, coated pipe, cathodic protection, or other corrosion prevention methods and materials.

5. A DFG 1601 or 1603 permit (Streambed or Lake Alteration Agreement) will be obtained to construct the pipeline crossing on the Salinas River. The permit will specify construction conditions to minimize impacts. MRWPCA will implement these conditions.

6. MRWPCA will require that construction activities in the Salinas River streambed be limited to low-flow periods and to summer and early fall, following and preceding peak spawning of resident and migratory species.

7. MRWPCA will require that construction-related byproducts (e.g., soil, oil or cement) will be prevented from entering the stream. Construction of temporary sedimentation basins and implementation of sediment stabilization measures may be necessary.

8. MRWPCA will require that sheet piles be placed around the construction site for the Salinas River crossing to prevent movement of disturbed sediments and other materials into the Salinas River.

9. MRWPCA will retain a qualified biologist to conduct preconstruction surveys of the pipeline alignments crossing the Salinas River. The surveys will be conducted to determine the presence of the California red-legged frog and the southwestern pond turtle. The surveys shall be conducted 1 day before pipeline construction in riparian habitat. If California red-legged frogs and southwestern pond turtles are found during the preconstruction surveys of the pipeline alignments, the qualified biologist will move them to an area of suitable habitat that will not be disturbed during project construction. Construction will not begin until all species have been moved.

10. MRWPCA will maintain a biological monitor during construction of the pipelines across the Salinas River. The monitor will ensure that red-legged frogs and southwestern pond turtles that may wander into the construction areas are not harmed during pipeline construction. The monitor will be provided with the authority to stop activities that would adversely affect these species until the species can be moved to a safe, suitable habitat.

11. MRWPCA will require contractors to take appropriate steps to reduce settlement and embankment cracking.

12. MRWPCA will require contractors to apply construction-period traffic management techniques. These include using:

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EXHIBIT C

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- * regulatory signs,
- * warning signs,
- * guide signs,
- * barricades,
- * channelization devices,
- * lighting, and
- * flaggers.

13. MRWPCA will require contractors to apply dust-reducing construction practices, including minimizing the time surfaces are left exposed, periodically sprinkling exposed areas and soil piles with water, and covering soil piles with plastic sheets or tarpaulins to limit emissions.

14. MRWPCA will require contractors to properly maintain construction equipment to reduce emissions from internal combustion engines.

15. MRWPCA will require contractors to limit to daytime hours the use of construction equipment powered by internal combustion engines, the use of impact equipment, or other construction activity that would disturb residents. When these construction activities occur within 800 feet of an occupied residential structure, they will be limited to between 7:00 am. and 7:00 p.m.

16. MRWPCA will require the contractor to inspect excavations and fills. Highly organic material, expansive soils, or clean sands will not be used in embankment construction.

17. For excavations in shallow groundwater areas, MRWPCA will require a dewatering system to maintain cutslope stability.

18. MRWPCA will require contractors for the tertiary treatment plant to remove organic layers and replace them with nonorganic soils or by recompacting existing soils. Other alternatives may be employed, including vibroflotation, grouting, or dynamic deep compaction.

19. MRWPCA will restore riparian scrub and forests removed during construction. During construction, 0.8 acres of riparian habitat will be permanently lost. MCWRA will replace these lost acres with 1.6 acres of new riparian habitat. Success criteria and monitoring procedures for riparian forest and scrub impacts are described in the Draft EIR/EIS. Restoration of the riparian habitat will be conducted at a site on the southwest side of the Salinas River near the wastewater pipeline crossing.

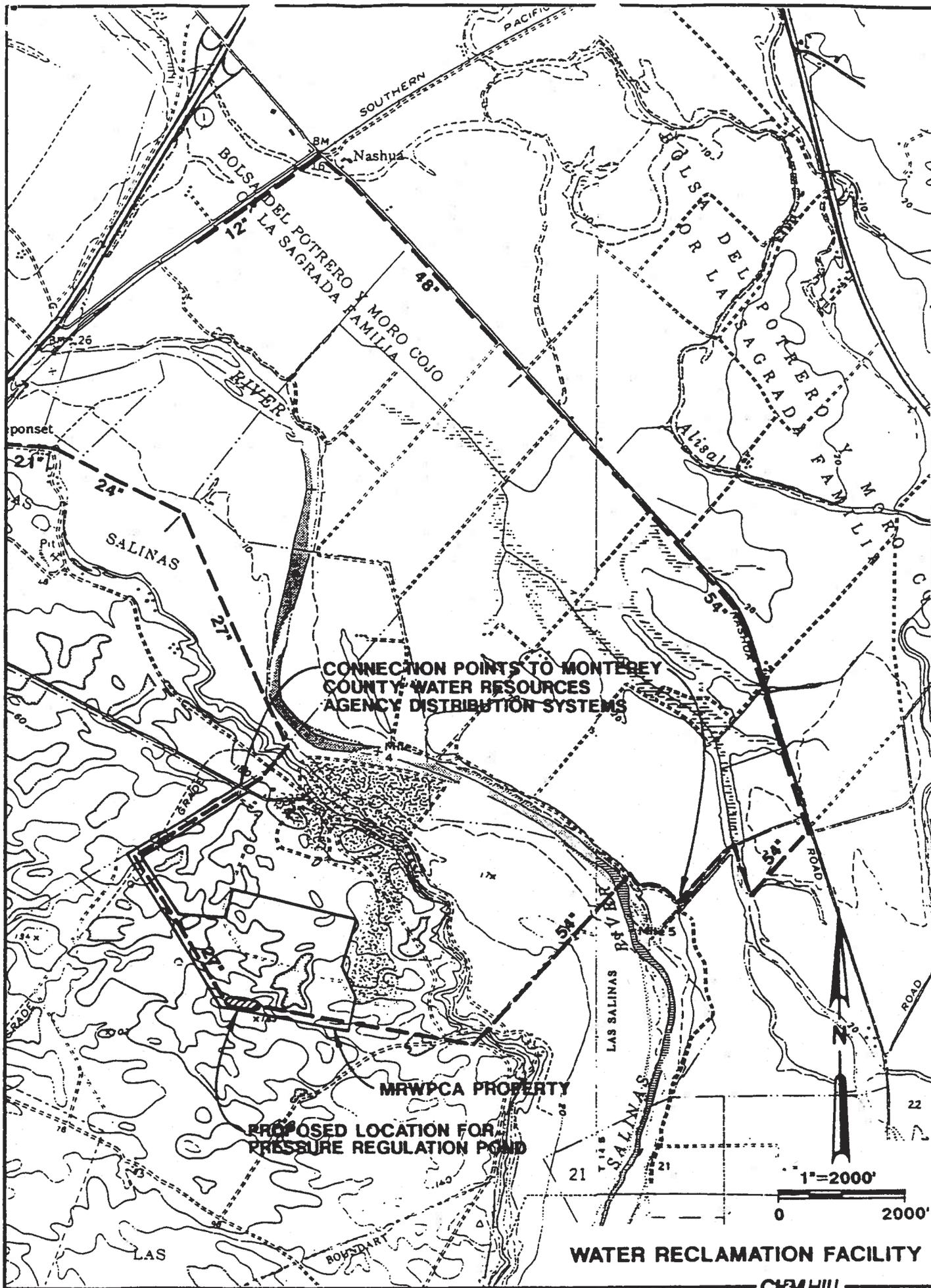


EXHIBIT "A"

CH2M HILL

EXHIBIT 4

Amendment No. 3
To Agreement Between
The Monterey County Water Resources Agency
And
The Monterey Regional Water Pollution Control Agency
For Construction and Operation of a Tertiary Treatment System

This is Amendment No. 3 to that certain Agreement between the Monterey County Water Resources Agency, hereinafter referred to as "WRA", and the Monterey Regional Water Pollution Control Agency, hereinafter referred to as "WPCA", dated June 16, 1992 and amended by Amendment No. 1 thereto on May 30, 1995, and further amended by Amendment No. 2 thereto on February 16, 1998.

RECITALS

This Amendment No. 3 is made with respect to the following facts:

A. By agreement dated June 16, 1992, WRA and WPCA agreed to the construction of a 29.6 mgd tertiary treatment system for wastewater and the conveyance of tertiary treated water to the Castroville area for use in the irrigation of crops. The tertiary treatment plant (known as the Salinas Valley Reclamation Project or "SVRP") would be constructed on land owned by the WPCA, adjacent to the Regional Treatment Plant owned and operated by the WPCA. As envisioned in the 1992 agreement, WPCA would operate the SVRP, and WRA would operate the distribution system (known as the Castroville Seawater Intrusion Project or "CSIP"), as both projects are described in said agreement.

B. Pursuant to Ordinance No. 3636 adopted October 6, 1992, the Board of Supervisors of the Monterey County Water Resources Agency confirmed approval of the above-described project and approved certain assessments to be levied for the project in WRA Zones 2A and 2B. In approving the project assessments for Zone 2A, the Board of Supervisors found that "[t]he implementation of the Salinas Valley Seawater Intrusion Program is therefore necessary in order to protect the water supplies in Zone 2A that are inland from the seawater intruded areas, to reduce the dependence of the coastal areas on water from the southern part of the groundwater basin, and to restore equity in the distribution of Zone 2A water supplies." In approving the project assessments for Zone 2B, the Board of Supervisors found that "[t]he Castroville Irrigation System and Wastewater Reclamation System portions of the Seawater Intrusion Program will, in addition, provide a special benefit to Zone 2B, the new zone to be established, in that the program involves the construction of

distribution facilities that will deliver water directly to the individual parcels to be served within Zone 2B.

C. Financing for the project was obtained using the resources of both the WRA and the WPCA. WPCA provided the essential resource of treated wastewater influent as set forth in the 1992 agreement as amended.

D. The June 16, 1992 agreement was amended by written instruments executed by WRA and WPCA dated May 30, 1995 (Amendment No. 1) and February 10, 1998 (Amendment No. 2). Pursuant to Amendment No. 2, WPCA assumed responsibility for the operation and maintenance of the CSIP and WPCA has, and continues to, carry out those responsibilities.

E. Exhibit C to the June 16, 1992 agreement contemplates that tertiary treated water would be allocated to municipal and industrial uses in recognition of the critical need to assist WPCA's members many of whom who face serious shortages of fresh water, and the fact that most or all of the influent which is used to create tertiary treated water is provided by WPCA members. After many months of negotiation, WRA and WPCA now desire to enter into this Amendment No. 3 to the June 16, 1992 agreement in order to specify a WPCA allocation of tertiary treated water for municipal and industrial uses via interties with the SVRP. A further purpose and benefit of this Amendment No. 3 is to ensure WRA of a dedication of tertiary treated water for the CSIP and related seawater intrusion projects in the Salinas Valley as provided for in this Amendment No. 3.

F. The specific future projects that will use the treated wastewater addressed in this Amendment No. 3 are not known at this time. The adoption of this Amendment No. 3 shall not be deemed to exempt from the CEQA review process any such future projects using the treated wastewater for municipal, industrial, agricultural, or seawater intrusion retardation purposes. Each project proposed for use of the treated wastewater allocation provided for herein shall be reviewed to ensure CEQA compliance.

G. The Parties further acknowledge that one potentially desirable approach to achieving reasonable and beneficial use of tertiary treated water for urban uses may result from joint application of portions of MCWD's and WPCA's tertiary treated water allocations. Notwithstanding the foregoing, the beneficial uses of tertiary treated water by WPCA and MCWD to which those agencies are respectively entitled shall be determined solely by those respective agencies and their governing boards.

H. The Parties have structured this Amendment No. 3 to provide for both urban and agricultural benefits. These benefits include, but are not limited to, enhancements to the SVRP to maintain or increase the amount of tertiary treated water available for use by the CSIP to retard seawater intrusion, while providing tertiary treated water for urban applications by WPCA.

AGREEMENT

Now, therefore, the Parties agree that their Agreement dated June 16, 1992, as amended by Amendment No. 1 dated May 30, 1995 and Amendment No. 2 dated February 16, 1998, is hereby further amended as follows, and that all other terms and conditions of the original agreement and Amendment Nos. 1 and 2, to the extent not superceded by this Amendment No. 3, shall remain in full force and effect.

1. The existing Table of Contents is hereby deleted and replaced in its entirety with the following.

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**EXHIBIT D: MRWPCA SEASONAL CAP ON TERTIARY TREATED WATER
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**EXHIBIT E: CALCULATION OF PAYMENTS PURSUANT TO SECTION 17.08
OF THIS AGREEMENT**

2. For the purposes of this Amendment No. 3, the following definitions are added to those provided in the Agreement, as amended:

C. The terms "reclaimed water", "reclaimed wastewater", "recycled water", and "tertiary treated water" as used in the June 16, 1992 Agreement and Amendments No. 1 and 2 all refer to the water produced by the 29.6 MGD tertiary treatment system and are all hereinafter referred to simply as "tertiary treated water".

D. The term "Annexation Agreements" refers to the Annexation Agreement between MCWD and WPCA dated April 25, 1989, and the Annexation Agreement between MCWD and WRA dated March 26, 1996. The individual Annexation Agreements are referenced herein by their respective dates.

E. The "Contract Between the United States and the Monterey Regional Water Pollution Control Agency (MRWPCA) for A Loan for Construction of a Small Reclamation Plant" dated June 2, 1995 shall be referred to herein as the "Bureau Loan Contract", and the "Contract between the State Water Resources Control Board (SWRCB) and MRWPCA for a State Revolving Fund Loan for Construction of a Tertiary Treatment Facility Project" dated December 15, 1995 shall be referred to herein as the "SWRCB Loan Contract".

F. "Proportional" for purposes of Section 17.08 shall mean the percentage of tertiary treated water delivered to the WPCA for its M&I uses relative to the total annual plant output of tertiary treated water, and excludes tertiary treated water delivered for M&I or other uses by other entities.

G. For purposes of Section 17.08 (a), "Supplemental Well Pumping Costs" shall mean the net additional well pumping costs to the extent they exceed the sum of: WRA's avoided costs of producing an equal volume of tertiary treated water plus other financial benefits generated by WPCA's performance pursuant to this Amendment No. 3 including pursuant to Sections 17.08 and 17.09 hereof ("Performance"). The volume of well water for purposes of this calculation shall be the volume of well water pumped by WRA during May-August to provide water to Zone 2B agricultural recipients to offset amounts of tertiary treated water taken by WPCA pursuant to Section 17.03, if and to the extent that volume of well water exceeds the volume of additional tertiary treated

water generated by WPCA's Performance. WPCA shall determine Supplemental Well Pumping Costs every three calendar years. The first three year period shall commence with the first year when WPCA takes delivery of 500 or more acre feet of tertiary treated water pursuant to Section 17.03. The Parties shall share the expense of such determinations equally.

4. The title of existing Article III is hereby deleted and replaced in its entirety with the following:

III. OWNERSHIP, OPERATION AND MAINTENANCE OF PROJECT.

5. Existing Section 3.08 is hereby deleted and replaced in its entirety with the following:

3.03. Dedication of incoming flows. WPCA will commit all of its incoming wastewater flows to the regional treatment plant from sources within the WPCA service area as it existed on December 31, 2001 ("2001 WPCA Service Area") to the project, up to the project capacity of 29.6 MGD, except for:

(a) flows taken by Marina Coast Water District (MCWD) pursuant to the Annexation Agreements,

(b) such flows as are lost or as must be diverted in the ordinary course of operating and maintaining the treatment plant and ocean outfall,

(c) such flows as are not needed to meet WRA's authorized demand pursuant to this Agreement, and

(d) flows to which the WPCA is entitled as set forth in Articles IV and XVII.

The location(s) of wastewater treatment facilities for and disposition of flows from sources outside of the WPCA 2001 Service Area are not governed by this Agreement except as specifically provided herein, and shall be determined by WPCA. To the extent WPCA treats such flows at the SVRP, WPCA agrees that then WRA may use up to fifty percent (50%) of the resulting tertiary treated water for the CSIP, on substantially the same schedule as the tertiary treated water is produced due to such flows as determined by WPCA. WPCA shall retain all rights to the remainder, which rights are not subject to Section 17.03.

6. Existing Article IV is hereby deleted and replaced in its entirety with the following:

IV. DELIVERY OF WATER TO WRA.

4.01. Quantity of water to be delivered to WRA. Each year during the term of this contract, WPCA shall deliver tertiary treated water from the project to the Castroville Irrigation System. Subject to WPCA's rights to the water as set forth in Articles IV and XVII, the quantity so delivered shall include water provided in response to WRA's demand and water provided in response to WRA's supplemental demand, determined as set forth in this Agreement.

4.02 WRA's demand schedule in initial term. For water which will be delivered during the initial term of this agreement, WRA shall, not later than December 15 each year, submit to WPCA a schedule of requested water deliveries for the next calendar year. The schedule may request water deliveries of up to 19,500 AF/YR as WRA's demand. This demand schedule shall show the amount requested for each calendar month in the year. The demand may vary from month to month, and in any particular month, the schedule may show a demand for the entire available monthly production capacity of the project, less amounts needed to meet the requirements for WPCA as set forth in Articles IV and XVII, provided that the WRA total demand does not exceed 19,500 AF for the entire year. A sample demand schedule is attached hereto as Exhibit B.

4.03 WRA's demand in extended term.

(a) For tertiary treated water to be delivered during any extended term, WRA shall submit to WPCA its demand schedule as set forth in paragraph 4.02. However, instead of a maximum demand for 19,500 AF/YR, WRA may only request each year an amount of water equal to the amount of wastewater originating in the Salinas Valley that was delivered to the WPCA during the year preceding the year for which the water deliveries are requested.

(b) The demand schedule shall be based on accurate figures for the months in which such figures are available and upon estimates for those months in which accurate figures are not available. If any member agency delivers wastewater to the WPCA and the wastewater is produced from fresh water that originates partly from the Salinas Valley and partly from sources outside the Salinas Valley, an allocation shall be made based upon records showing the quantities received from each source of water, upon reasonable estimates, or upon an allocation formula approved by the Parties; then, only the portion of the wastewater allocated to a Salinas Valley origin shall be included in the final total.

(c) Wastewater originates in the Salinas Valley when the source of the fresh water before its distribution to the wastewater discharger is from the Salinas Valley groundwater basin, for groundwater, and the Salinas River

watershed with all its tributaries, for surface and rain waters. For purposes of this calculation: (i) all of the wastewater delivered to WPCA by MCWD which results in tertiary treated water to which MCWD is entitled pursuant to the 1996 Annexation Agreement, and which MCWD takes delivery of for use, shall not be counted as wastewater originating in the Salinas Valley; and (ii) fifty percent (50%) of the wastewater delivered to WPCA by MCWD which results in tertiary treated water to which MCWD is entitled pursuant to the 1996 Annexation Agreement but which MCWD does not take delivery of for use, shall be counted as wastewater originating in the Salinas Valley, and fifty percent (50%) shall be counted as not originating in the Salinas Valley.

(d) It is understood and agreed that the wastewater committed by WPCA pursuant to Section 3.03, to which WRA is entitled pursuant to this Agreement, is dedicated for use by WRA for purposes of the CSIP, as that sea water intrusion retardation project exists as of the date of this Amendment No. 3, and thereafter, for direct application for such other non-urban agricultural irrigation projects in the Salinas Valley as WRA may develop for the purpose of curing saltwater intrusion and other severe impacts of the groundwater imbalance in the Salinas Valley which threaten the viability of the groundwater basin as a water supply for agricultural and municipal uses, and for no other purpose. Where otherwise consistent with WRA's entitlement pursuant to this Agreement, WRA may use tertiary treated water produced by the SVRP for non agricultural irrigation applications in the Salinas Valley only if WPCA declines in writing to undertake such application, and consents in writing to WRA's doing so, which consent shall not be unreasonably withheld. In no event shall WPCA's obligation to provide wastewater influent exceed the amount needed to produce the tertiary treated water to which WRA is entitled and needs pursuant to this Agreement.

(e) Allocation of Costs Given Expanded Purposes of Use. WPCA may relocate its wastewater treatment facilities, and establish new wastewater treatment facilities, as determined by WPCA. If such relocation occurs while WRA is still operating the CSIP, WPCA shall fund facilities necessary to continue to deliver tertiary treated water to the CSIP and/or SVRP to the extent required by this Agreement. In the event that WRA uses tertiary treated water for projects other than CSIP, to which it is entitled pursuant to this Agreement, WRA shall fund the costs if any associated with delivery of wastewater from WPCA's then-existing and new treatment plant location(s) to the SVRP or WRA project location, and any other additional costs.

4.04. WPCA'S duty to comply with WRA demand. Each month during the initial and any extended term of this contract, WPCA shall supply the amount of water demanded for that month in accordance with this Agreement and the demand schedule submitted by WRA, except to the extent that actual demand varies from scheduled demand in which case actual demand shall govern, and subject to WPCA's rights to the water as set forth in Articles IV and XVII; provided further that WPCA may supply less than the monthly demand, in

conformity with Section 4.05, when WPCA has exhausted any water it may have had in storage to which WRA is entitled to help meet WRA's demand and when, in addition, WPCA has exercised due diligence to meet the demand and one or more of the following circumstances occur:

(a) The SVRP cannot produce enough water to satisfy the WRA's demand, WPCA's demand, and MCWD's demand, all as limited by their respective entitlements, either because there is not enough wastewater flowing into the WPCA Regional Treatment Plant, or because, for reasons beyond the reasonable control of WPCA, the SVRP is unable to operate for a sufficient period of time during the month in question, or

(b) The SVRP fails to produce enough water of the quality described in Section 5.01, "Water quality," for use in the CSIP.

4.05. Alternative when demand schedule cannot be met. When, pursuant to Section 4.04, WPCA is excused from supplying all of WRA's demand, then subject to the rights of WPCA and MCWD, WPCA shall provide to WRA all the water that is produced by the project during the month in question that meets applicable water quality standards.

4.06. Make-up for deficiencies. If in any month WPCA fails to deliver the full amount of WRA's demand, then subject to the rights of WPCA and MCWD, WRA shall be entitled to take delivery of all or part of the deficiency in any month within 12 months after the close of that month, to the extent that water is available and can be used in the Castroville Irrigation System.

4.07. WRA's supplemental demand schedule. At the same time WRA provides its basic demand schedule to WPCA during the initial term pursuant to Section 4.02, it may also provide a schedule of water deliveries for its supplemental demand. WRA's supplemental demand for water shall be its demands in excess of its basic demand. In this supplemental demand schedule, WRA may request that all excess water be made available to WRA, or it may request that excess water be made available in specified quantities in specified months. WRA may amend its supplemental demand schedule from time to time.

4.08 WPCA'S duty to comply with supplemental demand schedule. To meet WRA's supplemental demand during the initial term, WPCA shall deliver the remaining tertiary treated water from the project to WRA, up to the limit of WRA's demand, subject to MCWD and WPCA rights and allocations made to other future intertie projects by WPCA or others pursuant to Section 1.05.

4.09. WRA Use of Surplus Tertiary Treated Water in Extended Term. WRA shall be able to use surplus tertiary treated water as provided in Section 17.04 of this Agreement.

7. Existing Section 11.02 is hereby deleted and replaced in its entirety with the following:

11.02 Automatic extension.

(a) The term of this Agreement as it applies to all matters covered by this Agreement including but not limited to WPCA operation of the CSIP, shall, at the expiration of the initial term, automatically be extended for an additional twenty year term (the second term) which shall expire on December 31 of the twentieth year (20 years after expiration of the initial term), subject to Sections 11.04 and 11.05. Thereafter, the term of the Agreement shall, at the expiration of the second term and each extension of the term thereafter, automatically be extended for an additional ten year term, expiring on December 31 of the tenth year of the extended term subject to Sections 11.04 and 11.05.

(b) The term of this Agreement, as it applies only to WPCA operation of the CSIP, and provisions directly related thereto which are severable from the remainder of the Agreement, shall, at the expiration of the initial term and each extension of the term thereafter, automatically be extended for an additional one (1) calendar year term, expiring on June 30 of the following year, subject to Sections 11.04 and 11.05.

8. Existing Section 11.04 is hereby deleted and replaced in its entirety with the following:

11.04 Option to cancel.

(a) As this Agreement applies to all matters including but not limited to WPCA operation of the SVRP and the CSIP: Not less than one (1) year before the expiration of the initial or any extended term, WRA may cancel the Agreement by giving written notice of cancellation to WPCA. In addition, not less than one (1) year before the expiration of the initial or any extended term, WPCA may cancel the Agreement by giving written notice of cancellation to WRA. Upon the giving of such notice, the Agreement terminates at the end of the term in which the notice period ends, unless the Parties by agreement specify a different date. However, in no case shall the cancellation take effect before the loans, notes and bonds issued as of the date of this amendment for both the SVRP and the CSIP, including but not limited to the USBR and SWRCB Loan Contracts, are paid in full. In the event either Party cancels the Agreement, WPCA shall be reimbursed for all costs it incurs in conjunction with cancellation. Such costs shall include, but not be limited to, site recovery, disposal of excess equipment and supplies, and termination of personnel.

(b) As this Agreement pertains only to WPCA operation of the CSIP and provisions directly related thereto which are severable from the remainder of the Agreement: Not less than nine (9) months before the expiration

of the initial or any extended term pursuant to Subsection 11.02 (b) above, WRA may cancel the Agreement by giving written notice of cancellation to WPCA. In addition, not less than nine (9) months before the expiration of the initial or any extended term pursuant to Subsection 11.02 (b) above, WPCA may cancel the Agreement by giving written notice of cancellation to WRA. Upon the giving of such notice, the Agreement as it pertains to WPCA operation of the CSIP and provisions directly related thereto which are severable from the remainder of the Agreement terminates at the end of the term in which the notice period ends, unless the Parties by agreement specify a different date. In the event either Party cancels the Agreement, WPCA shall be reimbursed for all costs it incurs in conjunction with cancellation. Such costs shall include, but not be limited to, site recovery, disposal of excess equipment and supplies, and termination of personnel.

9. Existing Section 11.05 is hereby deleted and replaced in its entirety with the following:

11.05 Rights on Termination.

(a) Upon any termination of this Agreement, WRA shall have the continuing right to receive from WPCA the same quantity of incoming wastewater flow as WRA was or would have been entitled to receive during any extended term of this Agreement under Articles III and IV; provided, that if termination is pursuant to Subsection 11.04 (a), WRA shall provide facilities for treating the water beyond secondary treatment level at its sole cost and expense or through a cooperative agreement with WPCA or any other entity. Upon any termination of this Agreement, WPCA shall have the continuing right to receive the same quantity of tertiary treated water as WPCA was or would have been entitled to receive during any extended term of this Agreement.

(b) In the event of cancellation by the WPCA pursuant to Subsection 11.04 (a), and upon written notice to WPCA within 90 days of such cancellation, WRA shall, at its sole discretion and to the extent permitted by law, have the option to lease or purchase (as determined by WPCA) the SVRP and the land upon which it sits, and thereafter to operate, maintain and otherwise be responsible for the SVRP at WRA's sole cost and liability. Upon notice from WRA of its intent to exercise this option, WPCA shall, within ninety days, inform WRA whether the land and the SVRP must be acquired, leased, or a combination thereof. WRA shall indemnify and defend WPCA with respect to such facilities and lands.

(c) If the Parties are unable to agree on the fair market value for the sale or lease of the SVRP and of the underlying land, that dispute shall be decided in accordance with the alternative dispute resolution provisions set forth in Article XII.

(d) WPCA's rights to tertiary treated water in accordance with this Agreement shall also survive cancellation, regardless of whether WRA exercises the option pursuant to Section 11.05(b).

10. Existing Section 12.01 is hereby deleted and replaced in its entirety with the following:

12.01 Dispute resolution procedure. If any dispute arises between the Parties as to the proper interpretation or application of this Agreement, the Parties shall resolve the dispute in accordance with this Section.

11. Existing Section 12.02 is hereby deleted and replaced in its entirety with the following:

12.02 Duty to meet and confer. If any dispute under this Agreement arises, the Parties shall first meet and confer, in an attempt to resolve the matter between themselves. Each Party shall make all reasonable efforts to provide to the other Party all the information that the Party has in its possession that is relevant to the dispute, so that both Parties will have ample information with which to reach a decision.

12. Existing Section 12.03 is hereby deleted and replaced in its entirety with the following:

12.03. Arbitration. If the dispute is not resolved within 60 days after it arises (or as extended by agreement of the Parties), the matter shall be settled by arbitration administered by the American Arbitration Association under its Construction Industry Arbitration Rules, and judgment on the award rendered by the arbitrator(s) may be entered in any court having jurisdiction thereof.

13. Add new Section 13.16, as follows:

13.16 Resolution of Inconsistency. In the event of inconsistency between this Amendment No. 3 and the 1992 Agreement as previously amended, this Amendment No. 3 shall prevail.

14. Add new Section 13.17, as follows:

13.17 No Third Party Beneficiaries. Except as specifically provided in Section 6.11 hereof, no third party beneficiaries are intended or shall be created by or for this Agreement including this Amendment No. 3.

15. Add new Section 13.18, as follows:

13.18 Applicable Term. Where the term during which a given section applies is not specified, that section shall apply during all terms of this Agreement.

16. Add new Section 13.19 as follows:

13.19 Addressing Change to Fundamental Assumptions of Long Term Agreement. The Parties recognize that the term of this Agreement, and provisions thereof including those that survive, is potentially very long, and that assumptions fundamental to this Agreement and provisions thereof may significantly change or be significantly affected by changes over time. Examples of such assumptions include, but are not limited to, WPCA's use of a regional wastewater treatment plant at Marina to provide wastewater treatment services, the method and level of treatment prerequisite to the urban and agricultural applications contemplated in this Agreement, and the persistence of saltwater intrusion in the Salinas Valley. The Parties intend that this Agreement enable the use of tertiary treated water for agricultural and urban applications in Monterey County such that the reasonable and beneficial uses of such water is maximized in accordance with Article X, Section 2 of the California Constitution, and the provision of efficient and effective wastewater treatment for Monterey communities. The Parties therefore agree that if either Party believes that such significant change has occurred, which change warrants renegotiation of this agreement or a portion thereof, that Party shall provide notice and written documentation of the circumstances of the change and the amendments to this Agreement proposed. Within 60 days of such notice, the Parties shall meet and confer and negotiate in good faith the proposed amendments and any alternatives thereto in furtherance of the Parties' intent as set forth above. If the Parties cannot agree within six months after the commencement of negotiations, the matter shall be submitted to dispute resolution in accordance with Article XII. Where applicable, the physical solution doctrine of California water law [City of Lodi v. EBMUD, 7 Cal.2d 316, 341 (1936)] shall be applied.

17. Add new Article XVII, as follows:

XVII. DELIVERY OF WATER TO WPCA.

17.01 WPCA's Need for Tertiary Treated Water for Municipal Applications. Since 1992, WPCA has conducted studies regarding the need for tertiary treated water for Municipal and Industrial uses. Immediate initiation of planning, design, environmental review and construction of urban recycled water systems is needed for the urban communities to be served. In accordance with Section 1.05, WPCA confirms that it now desires an allocation of tertiary treated water via intertie with the project and WRA agrees thereto. This allocation of tertiary treated water provided herein for M&I beneficial uses shall be considered a commitment by WRA to WPCA.

17.02. Quantity and Timing of WPCA Water Entitlement. Subject to the limitations set forth in Section 3.03 and adjustments allowed in Section 17.03, WPCA is entitled to take up to but no more than the following amounts of tertiary treated water during the initial term:

<u>Beginning Date Month</u>	<u>Year</u>	<u>Maximum Annual Cumulative Quantity</u>
Jan 1	2002	½ (one-half) AFY for demonstration, pilot and test projects
Jan 1	2005	1500* AFY
Jan 1	2007	2,000* AFY
Jan 1	2009	3,900* AFY
Jan 1	2013	3,900* AFY plus such additional amounts as are available because the tertiary treated water is any one or combination of the following: (i) not used by WRA as authorized pursuant to this Agreement; (ii) made available due to storage facilities undertaken pursuant to Section 17.05; (iii) not within WRA's entitlement; or (iv) generated by MCWD wastewater treated by WPCA but not used by MCWD for beneficial use. The rights to use surplus tertiary treated water [(i) and (iv) above] are not intended and shall not be interpreted to modify, in any way, MCWD's rights, entitlements, and obligations under the Annexation Agreements, nor shall they be interpreted as impairing either Party's firm entitlement to tertiary treated water.
<p>* The amounts stated in this table in numerals only, and marked with an asterisk (*), include in part the tertiary treated water to which MCWD is entitled and uses as provided by the 1996 Annexation Agreement. The inclusion of MCWD entitlement in this table is done solely to establish the amounts of tertiary treated water to which WPCA is entitled during the initial term and is not intended, nor shall it be interpreted to modify, in any way, MCWD's rights, entitlements, and obligations under either Annexation Agreement. With that sole exception, the WPCA, MCWD, and WRA entitlements are separately stated throughout this Agreement. This table does not include future interties pursuant to Section 1.05.</p>		

17.03 Seasonal Limitations on WPCA Entitlement. During the months of May through August during the initial term, WPCA shall not be entitled to more than a total of 766 AFY (exclusive of MCWD entitlement), which shall be available to WPCA in monthly amounts substantially as set forth in Exhibit D to this Amendment No. 3, except as set forth in Sections 3.03, 17.04, 17.05 and 17.06 and as otherwise agreed between the Parties. The demand may vary from month to month, provided that the cumulative May through August demand does not exceed the 766 acre foot cap set forth above by more than eleven per cent (11%). Except as specifically set forth herein, Exhibit D is exemplary only. The Parties shall reasonably cooperate with each other's requests for schedule changes. No additional amounts of water may be taken by WPCA during those months except (a) where for any reason WRA does not or cannot use the full amount of tertiary treated water produced during those months, in which case WPCA shall be entitled to take the unused amount, and (b) as provided pursuant to Sections 3.03, 17.04, 17.05 and 17.06 hereof.

17.04 WPCA Demand in Extended Term

(a) For water to be delivered during any extended term, and in light of WRA's demand in the extended term as set forth in Section 4.03, WPCA shall be entitled to the amount of wastewater which originates in all areas not included in the Salinas Valley as set forth in Section 4.03, and which was delivered to the WPCA during the year preceding the year for which the water deliveries are requested.

(b) The Parties recognize that urban areas in the Salinas Valley, including the City of Salinas, are some of the fastest growing areas in Monterey County. In light of the allocation of those areas' wastewater to WRA as set forth in Sections 3.03 and 4.03, if there is a need for urban use of tertiary treated water in the Salinas Valley portion of the WPCA service area, WRA shall provide to WPCA adequate tertiary treated water to serve such demand, for which WPCA shall pay in accordance with Section 17.08 hereof.

(c) WPCA shall have the right to use, on an "as available" basis, amounts of tertiary treated water to which WRA and/or MCWD are entitled, but do not use. WRA shall similarly have the right to use, on an "as available" basis, amounts which WPCA and/or MCWD are entitled, but do not use. Subject to Subsection 17.04 (d), these rights to use surplus shall not be interpreted as impairing any Party's firm entitlement.

(d) Conversion of Surplus Tertiary Treated Water to Firm Entitlement. In any extended term, in the event of an amount of surplus tertiary treated water produced by the SVRP (whether or not that water is part of a Party's firm entitlement) which amount has been physically available as surplus for an extended period of years, which one Party desires to and is capable of putting to reasonable and beneficial use, but is substantially deterred from doing

so or unable to do so because it is accessible on an "as available" basis only and hence is an unreliable source of the supply, the Parties shall meet and confer regarding the proposed use and other potential uses for such supply. Subject to Section 17.10, this Agreement shall be amended to provide a firm entitlement to the Party proposing the use requiring a firm entitlement ("Proposing Party"), provided that:

- (i) An uninterruptible and reliable supply is required or would be a significant benefit for the proposed use;
- (ii) The use would benefit all or a portion of Monterey County, and is located in Monterey County or the cities therein;
- (iii) The use is otherwise consistent with this Agreement as amended;
- (iv) The supply thus required does not use more than fifty (50)% of the annual surplus of tertiary treated water, which amount of annual surplus has been available for at least the five (5) immediately preceding years;
- (v) The proposed use will not interfere with the other Party's use of its firm entitlement to tertiary treated water pursuant to this Agreement, provided that that use is either ongoing or is reasonably anticipated to occur within the next five (5) years because one or more projects developing use for tertiary treated water within that Party's entitlement is being diligently pursued; and
- (vi) Tertiary treated water which has been dedicated for use pursuant to this section shall no longer be considered "surplus" provided that the project for which it is dedicated is being diligently pursued, and the dedicated tertiary treated water is put to use for that project within five (5) years after the dedication is made. The dedication shall endure for the life of the project to which the tertiary treated water is dedicated.

This Subsection 17.04 (d) shall apply during any extended term.

17.05 Storage of water. In order for WPCA to best utilize its tertiary treated water allocation pursuant to this Agreement, WPCA may decide in its sole discretion to develop a facility or facilities to store all or any portion of its tertiary treated water allocation, including available surplus and shall be entitled to do so at its own cost. WPCA and WRA shall cooperate in furtherance of such storage. WPCA may at any time withdraw for its use tertiary treated water from the storage facility or facilities, notwithstanding Section 17.03 or any other provision of this Agreement.

17.06 Demonstration, pilot and test projects. Commencing January 1, 2002 minor quantities of tertiary treated water, up to one-half (½) acre foot per year, shall be made available for WPCA use for demonstration, pilot, and/or test projects with respect to M&I use of tertiary treated water, upon request by WPCA. This category of use shall be exempt from the limitations set forth in Section 17.03. Upon completion of a project undertaken pursuant to this Section 17.06, WPCA shall provide to WRA at WRA's request data reflecting the results of the demonstration, pilot, or test project.

17.07 WPCA Monthly Demand Schedule. WPCA shall, no later than December 15 of each year, provide to WRA a schedule of tertiary treated water deliveries for the next calendar year. This schedule shall show the amount requested for each calendar month of the year. The demand may vary from month to month, provided the demand neither exceeds WPCA's entitlement nor the seasonal limitations set forth in section 17.03 where applicable, except as otherwise specifically provided by this Agreement. WPCA shall promptly inform WRA of any changes in the foregoing schedule. This section shall apply during all terms of this Agreement.

17.08 WPCA Payment.

(a) WPCA shall pay the Actual Costs of tertiary treated water it takes delivery of for its use, including portions of payments required pursuant to the Bureau Loan Contract and the SWRCB Loan Contract. The "Actual Costs" consist of the sum of: 1) the proportional SVRP operation and maintenance, plus 2) Supplemental Well Pumping Costs, if any plus 3) the proportional cost of SVRP debt service for the SWRCB Loan Contract, plus 4) the proportional cost of principal and interest payments for the SVRP due pursuant to Article 9 (b) of the Bureau Loan Contract, including any proportional interest due pursuant to Article 9 (b) (2) of the Bureau Loan Contract as a result of deliveries of tertiary treated water to the WPCA for its M&I use.

(b) Whenever tertiary treated water from CSIP is being put to M&I uses by WPCA and one or more other entities, WPCA shall pay a proportional share of costs and/or interest based upon the percentage of tertiary treated water WPCA is using for M&I purposes relative to the total amount of tertiary treated water being used for M&I purposes. Where tertiary treated water is delivered to the WPCA and/ one or more other entities for a project or projects undertaken jointly by those entities, WPCA shall provide to WRA the percentage allocation of treated wastewater taken by each entity for cost purposes.

(c) WPCA payments will be determined and made consistent with Exhibit E and, to the extent applicable, Articles VI and VII of this Agreement.

17.09 WPCA offset for summer water.

(a) In order to further the Parties' goal of increasing the future availability of tertiary treated water during the irrigation season, WPCA has initiated a filter testing program which is intended to increase the California Department of Health Services' rating of the SVRP filters from existing 5.0 gpm/FT² to up to 6.0 gpm/FT², which program is paid for by WRA. The WPCA agrees to reimburse the WRA for one-half of WRA's out-of-pocket direct cost of the above testing program.

(b) In the event that DHS's rating is not increased to at least 6.0 gpm/FT² by January 1, 2007, the Parties shall meet and confer regarding the likelihood of obtaining such increased rating, or a substantial portion thereof; the costs thereof compared to the cost and benefits of alternative approaches to increase the SVRP capacity; and the timing of the Parties' need if any for such increased capacity. The Parties shall in good faith determine whether to continue the effort to obtain such increased rating, and under what conditions. In the event that the Parties jointly determine that further efforts to obtain an increased rating from DHS are not merited as set forth above, WPCA shall pursue one or more alternative methods, as determined by WPCA, to increase the SVRP capacity such that the current plant capacity of 21.5 MGD is increased to 25 MGD. Such alternatives may include but are not limited to flow equalization and filter expansion. Such increase in capacity shall be in effect and operational within the later of: three and a half years after the above-referenced determination is made; when WPCA is consistently taking for use all of its tertiary treated water entitlement during the May through August period; or such later date as the 3.5 MGD of increased plant capacity is needed by WRA six or more months of each year.

(c) WPCA may provide at its sole discretion and cost an in-plant urban water project storage basin that can be used in part to enhance CSIP winter operations. When there is inadequate water to meet CSIP demand during the winter period (November through March), WRA shall be entitled to use tertiary treated water stored in this facility in excess of the amount needed for use by WPCA.

17.10. No Modification of MCWD Contract Entitlement. Nothing in this Amendment is intended to, nor shall it be interpreted to, expand, limit or otherwise modify MCWD's existing contractual rights, entitlements, and obligations pursuant to either of the Annexation Agreements.

18. EXECUTION

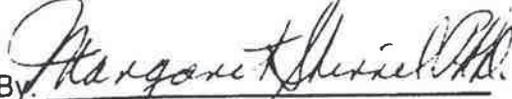
In witness whereof, the Parties execute this Amendment No. 3 as follows:

WPCA:

WRA:

Dated: May 10, 2002

Dated: 5-28-02

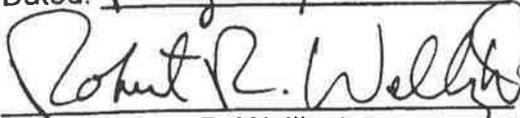
By: 
Margaret Shirrel, Ph.D.
Chair, Board of Directors

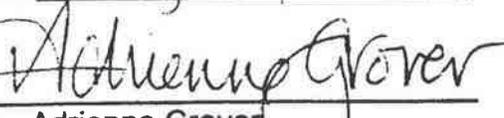
By: 
Dave Potter
Chair, Board of Supervisors

Approved as to Form:

Dated: May 15, 2002

Dated: May 28, 2002


Robert R. Wellington
Legal Counsel, WPCA


Adrienne Grover
County Counsel, WRA

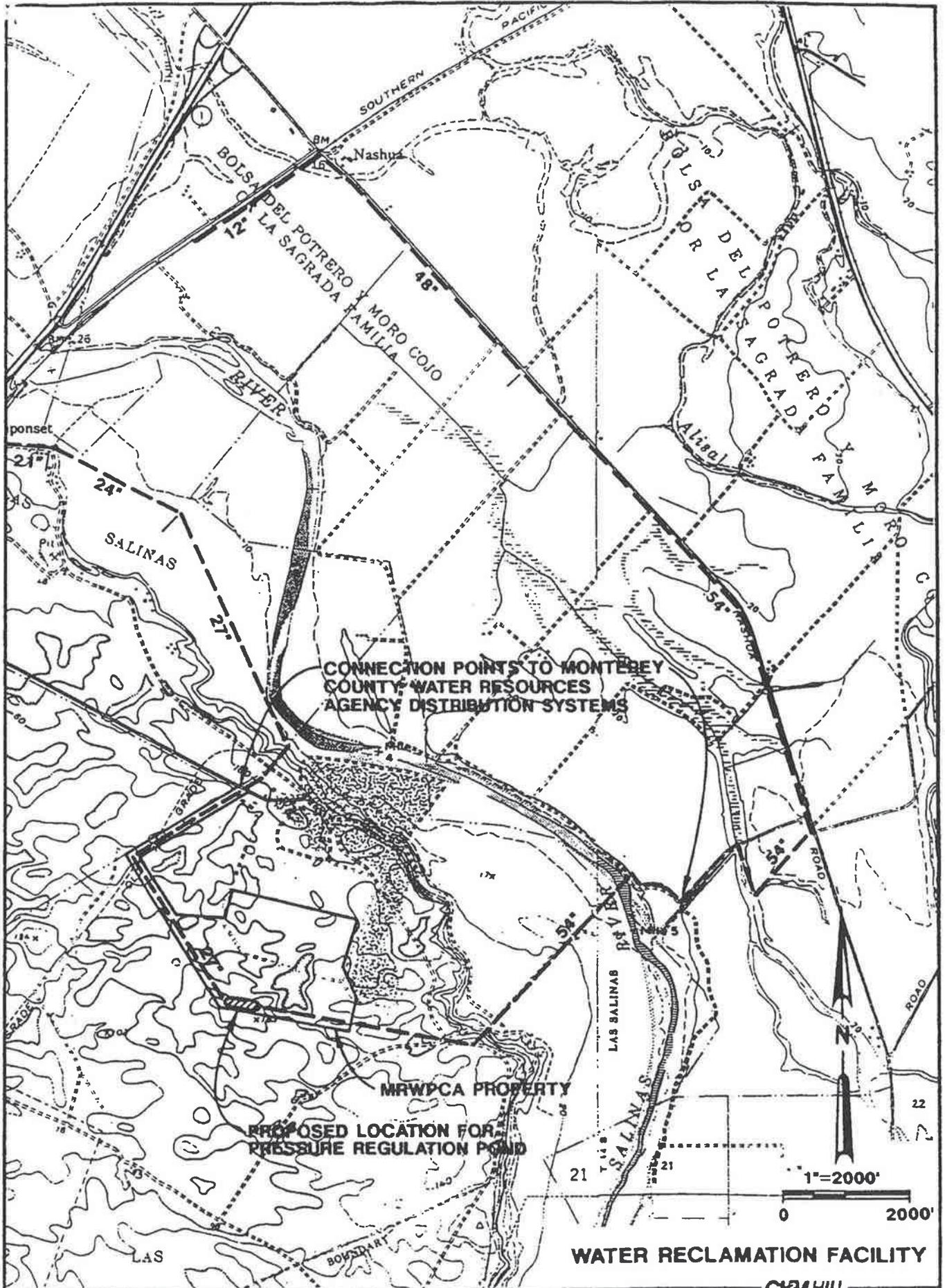


EXHIBIT "A"

CRM HILL

EXHIBIT B
SAMPLE MCWRA BASIC DEMAND SCHEDULE

MONTH	REGIONAL PLANT WASTEWATER AVAILABLE FOR RECLAMATION (in acre-feet)	MCWRA's BASIC DEMAND SCHEDULE FOR RECLAIMED WASTEWATER
JANUARY	2,390	190
FEBRUARY	2,440	480
MARCH	2,410	1,620
APRIL	2,410	2,410
MAY	2,490	2,490
JUNE	2,480	2,480
JULY	2,500	2,500
AUGUST	2,520	2,520
SEPTEMBER	2,250	2,520
OCTOBER	2,490	1,650
NOVEMBER	2,450	340
DECEMBER	<u>2,370</u>	<u>250</u>
TOTAL	29,470	19,450

WASTEWATER RECLAMATION SYSTEM
PROJECT DESCRIPTION AND MITIGATION MEASURES

PROJECT DESCRIPTION

General description of the system

The Wastewater Reclamation System will be implemented through a contract between the Monterey County Water Resources Agency (MCWRA) and the Monterey Regional Water Pollution Control Agency (MRWPCA), whereby the MRWPCA will have primary responsibility for construction of the Wastewater Reclamation System. The primary facility in the system is a 29.6 million-gallon-per-day (mgd) capacity reclamation plant, which will produce tertiary treated water suitable for irrigation of edible crops. Two pipelines will connect the reclamation plant to the Castroville Irrigation System, so that reclaimed water from the reclamation plant can be delivered to the Castroville system for irrigation uses. The ultimate goal of the Wastewater Reclamation System is to produce at least 19,500 acre-feet of tertiary treated water for use each year in the Castroville Irrigation System. The reclamation plant will be constructed on a site adjacent to the existing MRWPCA regional treatment plant. It will intercept wastewater flows after secondary treatment in the regional plant and process them to produce filtered effluent suitable for irrigation uses.

The following facilities will be constructed as part of the Wastewater Reclamation System, under the contract with the MRWPCA:

1. A structure to divert the flow of secondary treated wastewater from the effluent pipeline of the existing regional treatment plant;
2. A pump station and pipeline to pump treated effluent to the tertiary treatment plant;
3. The 29.6 mgd tertiary treatment plant, consisting of coagulation, flocculation, filtration, and disinfection facilities;
4. Storage and pressure-regulating ponds for tertiary treated water, with approximately 75 acre-feet of storage capacity;
5. A pump station to lift reclaimed water from the storage pond to the pressure-regulating pond for gravity flow to the Castroville Irrigation System; and
6. Two pipelines connecting the reclamation facilities to the Castroville Irrigation System.

(MRWPCA/MCWRA - 6/16/92)
EXHIBIT C

Additional details concerning this project are included in the proposed contract between the MCWRA and the MRWPCA. The location of the various reclamation facilities is shown on the map attached hereto as Exhibit A.

Operational Goals of the Wastewater Reclamation System

Flows at the 1995 projected startup date of the reclamation project are estimated to average 23.0 mgd (25,763 af/yr). Flows are projected to increase gradually to 29.6 mgd (33,156 af/yr) by 2005. These flows, minus allowances for outfall flushing, are potentially available for reclamation. However, because wastewater flows are generally constant while irrigation demand varies seasonally, the plant will not treat all secondary effluent. Summaries of the irrigation demand and the resulting reclaimed wastewater usable for irrigation are given in Table 2-1 of the Draft EIR/EIS prepared for the Salinas Valley Seawater Intrusion Program and dated December 14, 1990. Secondary effluent in excess of that diverted for reclamation will be discharged through the existing ocean outfall.

To the fullest extent possible, reclaimed wastewater will be used to meet irrigation demand. The reclaimed wastewater pump station and pipeline, with a capacity of approximately 83 cfs, will be operated up to 24 hours a day or as required. A priority goal of the system will be to provide a minimum of 19,500 af/yr of reclaimed wastewater for use in the irrigation system; maximum monthly use will be about 2,500 af in July and August. It is possible that at some time in the future an amount averaging up to 3.5 mgd of reclaimed wastewater would be diverted to other MRWPCA member agencies, with approximately half of that amount taken during the period November through February. Reclaimed water could also be provided to the Lonestar and Sea Mist Farm properties. Diversion of reclaimed wastewater for such uses would be scheduled to minimize conflicts in use. Any such delivery to MRWPCA agencies, Sea Mist, and Lone Star would require independent environmental review and U.S.B.R approval.

Castroville farmlands will rely exclusively on reclaimed wastewater most of the year and on a combination of reclaimed wastewater and groundwater during summer.

Pipelines to Castroville Irrigation System

The first pipeline connection to the tertiary treatment facility is a 54-inch diameter main line that will run adjacent to and parallel the MRWPCA and Monterey County landfill southern and eastern property boundaries to the Salinas River.

On the northeast side of the river, the pipeline alignment will be on the cultivated field side of the river levee. Here, there is cultivated field up to the connection with the Castroville Irrigation System main pipeline. The alignment is

(MRWPCA/MCWRA - 6/16/92)
EXHIBIT C

on disturbed lands, existing roads, or cultivated lands along the entire route except for the Salinas River crossing and approximately 150 feet on the southwest side of the river. Scrub brush and trees in this area will need to be cleared for pipeline construction. Some brush and limb trimming and road widening of the 500 feet of scrub brush and trees along the southwest side of the river may be required. The proposed alignment on the southwest side of the river is located almost entirely on existing roads, most of which are on the landfill site. The proposed alignment will affect .8 acre of forest and scrub riparian habitat.

Construction of the river crossing will include driving interlocking sheet piles on each side of the trench with cross bracing as required, dewatering and removing the soil, placing the pipe and encasement, and replacing the soil. The sheet piles will be cut off at river bottom level and left in place to improve stability of the pipeline crossing. The crossing will be constructed in sections to permit water flow in the river during construction. Cranes located on the riverbanks are expected to be used to drive the sheet piles in the river. A construction easement of 30-50 feet in width will be required through the scrub brush and trees.

The second connection to the Castroville Irrigation System is a 27-inch diameter pipeline lateral to serve the Castroville Irrigation System service area southwest of the Salinas River.

MITIGATION MEASURES

The following mitigation measures will be implemented with the project. The MCWRA and MRWPCA will by contract allocate to one agency or the other the responsibility for completion of these measures:

1. MRWPCA will locate siting of facilities and schedule construction of pipelines to reduce agricultural production losses.
2. MRWPCA will implement the recommendations contained in seismicity and geotechnical reports prepared before final foundation designs are completed. These reports will include a detailed review of the seismic history of the project area, correlation of seismicity to faulting, details about soil conditions and constraints, and recommendations for foundations appropriate to the existing seismic risks and soil constraints.
3. MRWPCA will implement an erosion control plan prepared by a registered civil engineer. The erosion control plan will limit vegetation removal, call for revegetation and slope stabilization measures, and contain a drainage plan.

4. MRWPCA will require that steel corrosion be prevented by using plastic pipe, coated pipe, cathodic protection, or other corrosion prevention methods and materials.

5. A DFG 1601 or 1603 permit (Streambed or Lake Alteration Agreement) will be obtained to construct the pipeline crossing on the Salinas River. The permit will specify construction conditions to minimize impacts. MRWPCA will implement these conditions.

6. MRWPCA will require that construction activities in the Salinas River streambed be limited to low-flow periods and to summer and early fall, following and preceding peak spawning of resident and migratory species.

7. MRWPCA will require that construction-related byproducts (e.g., soil, oil or cement) will be prevented from entering the stream. Construction of temporary sedimentation basins and implementation of sediment stabilization measures may be necessary.

8. MRWPCA will require that sheet piles be placed around the construction site for the Salinas River crossing to prevent movement of disturbed sediments and other materials into the Salinas River.

9. MRWPCA will retain a qualified biologist to conduct preconstruction surveys of the pipeline alignments crossing the Salinas River. The surveys will be conducted to determine the presence of the California red-legged frog and the southwestern pond turtle. The surveys shall be conducted 1 day before pipeline construction in riparian habitat. If California red-legged frogs and southwestern pond turtles are found during the preconstruction surveys of the pipeline alignments, the qualified biologist will move them to an area of suitable habitat that will not be disturbed during project construction. Construction will not begin until all species have been moved.

10. MRWPCA will maintain a biological monitor during construction of the pipelines across the Salinas River. The monitor will ensure that red-legged frogs and southwestern pond turtles that may wander into the construction areas are not harmed during pipeline construction. The monitor will be provided with the authority to stop activities that would adversely affect these species until the species can be moved to a safe, suitable habitat.

11. MRWPCA will require contractors to take appropriate steps to reduce settlement and embankment cracking.

12. MRWPCA will require contractors to apply construction-period traffic management techniques. These include using:

- * regulatory signs,
- * warning signs,
- * guide signs,
- * barricades,
- * channelization devices,
- * lighting, and
- * flaggers.

13. MRWPCA will require contractors to apply dust-reducing construction practices, including minimizing the time surfaces are left exposed, periodically sprinkling exposed areas and soil piles with water, and covering soil piles with plastic sheets or tarpaulins to limit emissions.

14. MRWPCA will require contractors to properly maintain construction equipment to reduce emissions from internal combustion engines.

15. MRWPCA will require contractors to limit to daytime hours the use of construction equipment powered by internal combustion engines, the use of impact equipment, or other construction activity that would disturb residents. When these construction activities occur within 800 feet of an occupied residential structure, they will be limited to between 7:00 am. and 7:00 p.m.

16. MRWPCA will require the contractor to inspect excavations and fills. Highly organic material, expansive soils, or clean sands will not be used in embankment construction.

17. For excavations in shallow groundwater areas, MRWPCA will require a dewatering system to maintain cutslope stability.

18. MRWPCA will require contractors for the tertiary treatment plant to remove organic layers and replace them with nonorganic soils or by recompacting existing soils. Other alternatives may be employed, including vibroflotation, grouting, or dynamic deep compaction.

19. MRWPCA will restore riparian scrub and forests removed during construction. During construction, 0.8 acres of riparian habitat will be permanently lost. MCWRA will replace these lost acres with 1.6 acres of new riparian habitat. Success criteria and monitoring procedures for riparian forest and scrub impacts are described in the Draft EIR/EIS. Restoration of the riparian habitat will be conducted at a site on the southwest side of the Salinas River near the wastewater pipeline crossing.

EXHIBIT D

MRWPCA SEASONAL CAP ON TERTIARY TREATED WASTEWATER ENTITLEMENT

Third Amendment Section 17.03

MONTH	TYPICAL MONTHLY SEASONAL SPREAD (AF)	CUMMULATIVE SEASONAL BASE ENTITLEMENT (AF)
MAY	163	766 AF *
JUN	202	
JUL	218	
AUG	183	

* Maximum entitlement cannot exceed base entitlement by more than 11%. The scope and other aspects of Section 17.03 are as set forth in the Third Amendment. To the extent of any inconsistency, the Third Amendment shall prevail.

EXHIBIT E**CALCULATION OF WPCA PAYMENTS PURSUANT TO SECTION 17.08 OF THIS AGREEMENT**

As required by Section 17.08 of this Agreement, WPCA shall pay the Actual Costs of tertiary treated water to which it takes delivery for its use. The Actual Costs will be calculated from the cost components which comprise WPCA's existing budget and actual spreadsheet model(s) for the annual SVRP and CSIP costs.

The four cost elements that compromise the Actual Costs will be computed as follows:

- (1) **SVRP O&M Costs:** The SVRP O&M budget will be calculated based on the Total Tertiary Treated Water Production needed to serve both the CSIP and M&I uses of tertiary treated water. The amount to be paid by WPCA will be computed using the formula below, in which:
- A = Total Tertiary Treated Water Production, AFY
 B = Tertiary Treated Water Production delivered to WPCA for WPCA use, AFY
 C = Total O&M Expenditures from the SVRP O&M budget, excluding debt service
 D = Amount to be paid by WPCA

$$D = \frac{B}{A} \times C$$

- (2) **Supplemental Well Pumping Cost:** The amount to be paid by WPCA will be computed as indicated in Section 2.G. of Amendment No. 3.

$$S = \text{Amount to be paid by WPCA}$$

- (3) **SWRCB Loan Contract Debt Service:** The amount to be paid by WPCA will be computed using the formula below, in which:

A = Total Tertiary Treated Water Production, AFY
 B = Tertiary Treated Water Production delivered to WPCA for its use, AFY
 E = SVRP SWRCB Loan Debt Service
 F = Amount to be paid by WPCA

$$F = \frac{B}{A} \times E$$

- (4) **Bureau Loan Contract Debt Service:** The amount to be paid by WPCA will be computed using the formula below, in which:

A = Total Tertiary Treated Water Production, AFY
 B = Tertiary Treated Water Production delivered to WPCA for its use, AFY
 G = SVRP Bureau Loan Debt Service, computed pursuant to Article 9 (b) (1) and 9 (c) of Bureau Loan Contract
 H = Additional interest charged by the Bureau for the Bureau loan on the SVRP pursuant to Article 9 (b) (2) of Bureau Loan Contract
 I = Amount to be paid by WPCA

$$I = \frac{B}{A} \times G + H$$

$$\text{TOTAL WPCA PAYMENTS} = D + S + F + I$$

EXHIBIT 5

MEMORANDUM OF UNDERSTANDING

Regional Urban Water Augmentation Project

This Memorandum of Understanding ("MOU") is made by and between Marina Coast Water District ("MCWD") and the Monterey Regional Water Pollution Control Agency ("the MRWPCA"), individually each a Party and collectively the Parties to this MOU, who agree as follows:

1. Regional Urban Water Augmentation Project (RUWAP).

1.1 RUWAP Planning, EIR. The Parties have been planning the Regional Urban Water Augmentation Project ("RUWAP"), for which MCWD is the lead agency under the California Environmental Quality Act ("CEQA"). Under the RUWAP, MCWD would provide recycled and desalinated water service to areas on the former Fort Ord ("Ord Area") to meet the projected water demands of the redevelopment requirements of the former Fort Ord as anticipated by the *Fort Ord Base Reuse Plan* and its accompanying EIR. MCWD certified an environmental impact report ("EIR") for the RUWAP in accordance with CEQA on October 27, 2004, by Resolution 2004-56, adopted Addendum No. 1 to the RUWAP EIR on November 15, 2006, and adopted Addendum No. 2 on February 14, 2007. Collectively, the EIR, Addendum No. 1 and Addendum No. 2 are referred to in this MOU as the "RUWAP EIR." This MOU is not intended to and shall not be interpreted or implemented to make an irreversible commitment of resources either formally or as a practical matter under the circumstances for any activities mentioned in this Agreement that may result in changes to the physical environment and that are not described and analyzed under the California Environmental Quality Act. MCWD has complied with the requirements of CEQA for a lead agency and MRWPCA has complied with the requirements of CEQA for a responsible agency in the consideration and approval of this MOU. MCWD and the MRWPCA shall each comply with their respective requirements under CEQA to implement the RUWAP in accordance with the RUWAP EIR.

1.2 Project Description. The RUWAP EIR analyzes desalination and recycled water project alternatives to provide up to 3,000 acre-feet per year (AFY) of water, or 600 AFY more than the primary project objective of obtaining 2,400 AFY of water for redevelopment of the former Fort Ord. Under the selected Hybrid Water Alternative, MCWD would provide 2,400 AFY for redevelopment of the former Fort Ord, 300 AFY of recycled water could be provided for the Monterey Peninsula and an additional 300 AFY of desalinated water could be provided to supply MCWD's other service areas. As a result of Addendum 2 to the RUWAP EIR, up to 1,727 AFY of recycled water would be used for the project. The RUWAP EIR, in Section 3.2, anticipates that subsequent project-level environmental review will be necessary prior to implementing the component to provide 300 AFY to the Monterey Peninsula.

1.3 FORA Water Allocation. The Fort Ord Reuse Authority ("FORA") Board of Directors has allocated 1,427 AFY of recycled water expected to be produced by the RUWAP to FORA's member jurisdictions with land use jurisdiction on the former Fort Ord. FORA's Board has left open the possibility that an additional 300 AFY may be made available from the MRWPCA, should the MRWPCA decide not to dedicate that recycled water to the Monterey Peninsula area. For a 1,727 AFY project, approximately 1,150 AFY of recycled water will be needed during the six months of April through September.

1.4 Parties' Intent. MCWD and the MRWPCA each have contractual rights to use recycled water from MRWPCA's regional treatment plant ("RTP"). MCWD has agreed to defer taking more than 300 AFY of its recycled water between April and September, and may take the balance of its entitlement between October and March, including the portion deferred from the preceding April through September period. MRWPCA has access to an additional 766 AFY of recycled water, with an agreed 11 percent variance, during the months of May through August (exclusive of MCWD's entitlement), and certain additional amounts during the months of September through April. Efforts will be made to not exceed the 766 AFY except during dry years. The RUWAP benefits from combining the rights of MCWD and MRWPCA. The Parties intend by this MOU to provide terms to implement the recycled water portion of the RUWAP as analyzed in the RUWAP EIR, as efficiently and cost-effectively as possible to benefit the customers and ratepayers of the Parties.

2. Cooperative Use of Recycled Water. MCWD and the MRWPCA will supply recycled water from MRWPCA's regional treatment plant ("RTP") as described and analyzed in the RUWAP EIR for the adopted Hybrid Alternative. The recycled water will be supplied by direct delivery from the RTP by such means as the Parties may agree, consistent with the RUWAP EIR. Under the adopted Hybrid Alternative, the MRWPCA and MCWD will supply recycled water equivalent to the FORA recycled water allocations of 1,427 acre-feet per year ("AFY"). As discussed in the RUWAP EIR, MRWPCA will undertake project-level environmental review of feasibility of providing 300 AFY to the Monterey Peninsula pursuant to prior discussions and understandings. The MRWPCA hereby commits 650 AFY of recycled water during the months of May through August each year from MRWPCA entitlements. MCWD hereby commits 300 AFY of recycled water during the months of April through September each year from MCWD entitlements. The MRWPCA and MCWD commit additional quantities of recycled water as needed during the months of September through April from MRWPCA entitlements and October through March from MCWD entitlements to assure delivery of the agreed water commitments to RUWAP.

3. Future Projects.

3.1 The Parties will meet and confer in good faith to evaluate the environmental, technical, managerial and financial feasibility of (a) a project to use the RTP outfall to transport and discharge brine byproduct from a water desalination facility, and (b) a ground water replenishment project to inject and store recycled water in the Seaside Groundwater Basin, and (c) any other recycled water project mutually identified by the Parties.

3.2 Concepts for all such discussions and negotiations will include that the Parties will share use and the proportional operations and maintenance ("O&M") and capital costs of the MRWPCA's RTP outfall should MCWD need to dispose of desalination brine, and the capital and O&M costs of any jointly used recycled water transmission/distribution facilities.

3.3 MCWD and MRWPCA each may continue discussions and negotiations with third parties about evaluating the feasibility of supplying recycled water to such third parties notwithstanding the provisions of this section 3.

4. Treatment Plant Facilities.

4.1 The elements of the RUWAP EIR for facilities on the RTP site to deliver recycled water for the RUWAP to the RTP site boundary ("RTP Additions") include recycled water pumping plant, tank modifications, flow metering and a pipeline to the MRWPCA property line. Upon execution of this MOU, MRWPCA will analyze the feasibility of MRWPCA implementing the elements of the RUWAP EIR for the RTP Additions. Based on that analysis, MRWPCA will determine how to proceed with respect to the RTP Additions and will notify MCWD of that determination within 90 days after execution of this MOU. After receiving notice of MRWPCA's determination, MCWD will notify the MRWPCA in writing when MCWD has obtained a firm financing commitment for the Backbone Transmission Facilities. Upon notification from MCWD, MRWPCA will seek a preliminary financing commitment for the RTP Additions. MRWPCA must notify MCWD in writing that MRWPCA has obtained a preliminary financing commitment for the RTP additions in writing within 90 days after MCWD has provided notification of its financing commitment for the backbone facilities.

4.2 If MRWPCA obtains a preliminary financing commitment and determines to finance, construct, own and operate and be responsible for the RTP Additions, MRWPCA shall coordinate the construction schedule for the MRWPCA RTP Additions with the construction schedule for MCWD's backbone transmission facilities. If any of the following occurs: (a) MRWPCA does not obtain a financing commitment or (b) MRWPCA determines not to construct the RTP Additions or (c) MRWPCA does not construct the RTP additions in coordination with the construction schedule for the backbone transmission facilities, MCWD, acting as lead agency under the RUWAP EIR may finance, construct, own and operate and be responsible for, facilities on the RTP site, in close coordination and consultation and cooperation with MRWPCA in connection with the location and operation of the RTP Additions and their interface with the RTP.

4.3 The costs of the RTP Additions will be invoiced with the wholesale cost (\$/AF) of recycled water, including Municipal and Industrial charges for water in accordance with U.S. Bureau of Reclamation loan procedures, treatment and operational costs (e.g., labor, power, repair and maintenance) involved in pumping water to the MRWPCA property line, and amortized capital charges. MRWPCA and MCWD will consult with each other regularly and will evaluate, plan, design and construct the RTP Additions in accordance with the California Environmental Quality Act and other applicable provisions of law.

4.4 The agency that finances and constructs the RTP Additions shall be responsible for obtaining permits and approvals and for complying with all laws to design and construct the RTP Additions.

5. Backbone Transmission Facilities. When MRWPCA has secured project funding for the treatment plant facilities identified in paragraph 4, or if MCWD is obligated to finance and construct the RTP Additions pursuant to section 4 of this MOU, MCWD will proceed to finance, construct, own and operate, in consultation with MRWPCA, and have full responsibility for, backbone transmission facilities ("the backbone") to deliver recycled water for the RUWAP from the southern boundary of the RTP site to MCWD's retail users in the Ord Area. The cost of these improvements will be included, along with the wholesale cost, in the retail cost of the water. The retail cost will include labor, power, repair and maintenance and amortized capital charges. MCWD will evaluate, plan, design and construct the

backbone in accordance with the California Environmental Quality Act and other applicable provisions of law. MCWD, as lead agency, is responsible for:

- 5.1 necessary environmental review and compliance,
- 5.2 obtaining necessary permits and approvals, and
- 5.3 complying with all laws to design and construct the backbone.

6. Monterey Peninsula Extension Financing and Responsibility. MRWPCA will finance, construct, own and operate, and be responsible for any transmission facilities ("Monterey Peninsula extension") that MRWPCA decides after appropriate environmental analysis and review to build to deliver recycled water from the southern boundary of the former Ft. Ord to the Monterey Peninsula. The MRWPCA will include the cost of these improvements and a proportional share of the backbone costs, along with the wholesale cost, in the retail cost of the water. The retail cost of this water will include labor, power, repair and maintenance and amortized capital charges for the backbone. MRWPCA will evaluate, plan, design and construct the MRWPCA Recycled Water Facilities in consultation with MCWD, and in accordance with the California Environmental Quality Act and other applicable provisions of law. MRWPCA is responsible for necessary environmental review and compliance, and for obtaining any necessary permits and approvals and agreements and for complying with all laws to design and construct and operate the Monterey Peninsula Extension.

7. Recycled Water Delivery.

7.1 MRWPCA will use its best efforts to meet all MCWD demands for recycled water pursuant to this MOU. To help with water planning, MCWD will submit a monthly usage report and an annual demand estimate to MRWPCA. MRWPCA shall be liable to MCWD for actual damages and claims caused by non-permit compliant water quality as set forth below and the breach of this MOU, but shall not be liable to MCWD for damages from failure, suspension, diminution, or other variations of service occasioned by any cause beyond the control of MRWPCA. Such causes may include, but are not restricted to, acts of God, acts of war, or criminal acts of others, acts of MCWD, water shortages, power failures, fires, floods, earthquakes, epidemics, quarantine restrictions, strikes, or failure or breakdown of transmission or other facilities.

7.2 All water supplied from the RTP pursuant to this MOU shall meet all applicable standards of quality prescribed by laws and regulations or by separate agreement of the parties, so that the water may be used for the purposes specified herein. The Parties acknowledge that recycled water may not be suitable for certain salt-sensitive plants and turf. To aid in user education on water quality, MRWPCA will provide annual water quality reports to MCWD for distribution by MCWD to current and prospective customers.

7.3 MCWD will use its best efforts to meet all MRWPCA's demands for distribution of recycled water pursuant to this MOU. MCWD shall be liable to the MRWPCA for damages from the breach of this Agreement, but shall not be liable to the MRWPCA for damages from failure, suspension, diminution, or other variations of service occasioned by any cause beyond the control of MCWD. Such causes may include, but are not restricted to, acts of God, acts of war, or criminal acts of others, acts of the MRWPCA, water shortages, fires, floods, earthquakes, epidemics, quarantine restrictions, strikes, or failure or breakdown of transmission or other facilities.

8. Curtailment of Delivery During Maintenance Periods.

8.1 Except in emergencies, the Parties may interrupt service to maintain or inspect the recycled water facilities only during the months of November through March. MCWD and MRWPCA shall exchange authorized schedules of planned facility maintenance, investigation, inspection and shutdown periods. Within 30-days of receipt of any such schedule, MRWPCA and MCWD shall meet and confer to review and approve the schedule.

(a) Planned facility maintenance does not include service interruptions due to emergency repairs.

(b) MRWPCA will make all reasonable effort to provide continuous service to MCWD in accordance with the approved schedule. If the supply of recycled water is interrupted or reduced at any time, MCWD may elect to receive at another time during the year, and the MRWPCA shall use its best efforts to provide the amount of recycled water not received during the interruption or reduction.

9. Time for Payment. Each Party shall invoice the other Party monthly, on or before the tenth day of each month, for charges under this MOU. The Parties shall pay promptly all charges invoiced, such invoices to be rendered on or about the fifth day of each month for charges incurred in the preceding month and to become due and payable within forty-five (45) days from date of invoice. If the billed Party contests an invoice submitted under this Section, it shall give the billing Party notice of the dispute at least ten (10) days prior to the day upon which payment of the stated amount is due. To the extent that billing Party finds the billed Party's contentions regarding the statement to be correct, it shall revise the statement accordingly and the billed Party shall make payment of the revised amounts within forty-five (45) days of receiving notice of the revised amount. If the billing Party rejects the billed Party's contentions or where time is not available for a review of such contentions prior to the due date, the billed Party shall make payment of the invoiced amount on or before the due date and make the contested part of such payment under protest and seek to recover the amount thereof from the billing Party.

10. Notices. All notices or other writings in this MOU provided to be given or made or sent, or which may be given or made or sent, by one party hereto to another, shall be deemed to have been fully given or made or sent when made in writing and deposited in the United States mail, registered, certified or first class, postage prepaid, and addressed as follows:

To MRWPCA:

General Manager
Monterey Regional Water Pollution Control Agency
5 Harris Court, Building D
Monterey, Ca 93940

To MCWD:

General Manager
Marina Coast Water District
11 Reservation Road
Marina, CA 93933

The address to which any notice or other writing may be given or made or sent to any party may be changed upon written notice given by such party as provided above.

11. Severability. If a court of competent jurisdiction determines any term or condition in this MOU to be unenforceable, then such term or condition shall be null and void and shall be deemed severable from the remaining terms or conditions and shall not affect the validity of the remaining provisions of this MOU.

12. Section Headings. Section headings in this MOU are for convenience only and are not to be construed as a part of this contract or in any way limiting or amplifying the provisions hereof.

13. Waiver. None of these terms or conditions herein contained can be waived except by mutual written consent. The waiver by either Party of any breach or breaches hereof shall not be deemed, nor shall the same constitute, a waiver of any subsequent breach or breaches.

14. Use of Information. Both Parties shall have access to and any party may use and have copies of any information and writings associated with performance of this MOU, including but not limited to working papers, plans, specifications, designs, and environmental data and documents, developed by or for either party relating to production and delivery of recycled water pursuant to the RUWAP and as analyzed in the RUWAP EIR. One copy of such information shall be provided to the requesting party at no cost. Agreements entered into by either Party for the performance of this MOU will include a requirement that a copy of all such information and writings be made available to the Party at the Party's office for use by both Parties.

15. Counterparts. This MOU may be executed in counterparts, and each fully executed counterpart shall be deemed an original document, constituting one agreement, binding on and benefiting the parties and their successors and assigns.

16. Effect; Amendment. This MOU constitutes the full and complete agreement of the parties regarding its subject matter, and any prior agreements or arrangements are hereby superseded. This MOU may be amended or modified only by a writing signed by the parties.

17. Duty to Meet and Confer. If any dispute under this MOU arises, the Parties shall first meet and confer, in an attempt to resolve the matter between themselves. Each Party shall make all reasonable efforts to provide to the other party all the information that the Party has in its possession that is relevant to the dispute, so that both Parties will have ample information with which to reach a decision.

18. Disputes. The Parties must submit any disputes arising under this MOU to non-binding mediation before filing suit to enforce or interpret this MOU. Upon request by either Party, the Parties will within ten days select a single mediator to mediate the dispute within fifteen days of such selection. If the Parties cannot agree on a mediator within ten days, either Party may ask the then presiding Judge of the Monterey County Superior Court to select a mediator to mediate the dispute within fifteen days of such selection. If the dispute is not resolved within forty-five days of such selection, either Party may file suit to specifically enforce or interpret this MOU and to seek any damages to which the Party may be entitled.

19. Administrators. MRWPCA and MCWD hereby designate their respective General Managers as their Administrators for this MOU. All matters concerning this MOU shall be submitted to the MOU Administrators or such other representatives as the MOU Administrators may designate for their respective agencies. Any Party may, in its sole discretion, change its designation of the MOU administrator and shall promptly give written notice to the other Parties of any such change.

20. Exhibits. Exhibits and Schedules attached to this Agreement are incorporated into this MOU by reference.

21. Assignment. MRWPCA and MCWD may assign their respective rights under this MOU, but neither MCWD nor MRWPCA may assign any obligations under this MOU without the prior written consent of the non-assigning party, which consent shall not be unreasonably withheld. As a condition precedent to the effectiveness of any assignment of obligations, the assignee shall agree in writing to perform the assigned obligations.

22. Reporting to Fort Ord Reuse Authority (FORA). As long as requested by FORA, MRWPCA and MCWD agree to report jointly to the Administrative Committee of FORA, or other entity within FORA as determined by the FORA Executive Officer on a quarterly basis. The subject of such reports will be the progress made under this MOU toward the objectives stated in paragraphs 1 through 3.

23. Term of MOU. This MOU shall be effective upon the date of the last duly authorized signature of the parties executing this MOU and shall remain in effect for a period of fifty (50) years from the date hereof, unless terminated earlier by mutual agreement. This MOU shall be automatically extended for successive ten (10) year terms after the initial fifty (50) year term unless either party gives written notice of termination not later than five (5) years before the end of the initial term or later term as extended per this section.

WHEREFORE, the parties have caused this MOU to be executed by persons authorized to execute the agreement on behalf of the parties, effective on the date of the last signature.

MRWPCA:

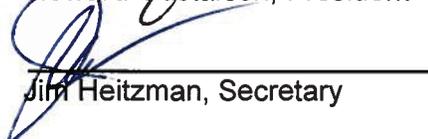

Lou Calcagno, Chair


Keith Israel, Secretary

Date: JUNE 8, 2009

DISTRICT:


Howard Gustafson, President


Jim Heitzman, Secretary

Date: 6-16-2009

APPROVED AS TO FORM:

Dated: July 20, 2009

NOLAND, HAMERLY, ETIENNE & HOSS
A Professional Corporation

By Lloyd W. Lowrey, Jr.
Lloyd W. Lowrey, Jr.
Legal Counsel for MCWD

Dated: June 8, 2009

WELLINGTON AND ASSOCIATES

By Robert R. Wellington
Robert R. Wellington
Legal Counsel for MRWPCA