

**AGREEMENT FOR PARTIAL****ASSIGNMENT OF WATER SERVICE CONTRACT**

THIS AGREEMENT is made this 14th day of May 1999, by and among Mercy Springs Water District ("Mercy Springs"), Pajaro Valley Water Management Agency ("Pajaro Valley"), Westlands Water District ("Westlands"), Santa Clara Valley Water District ("Santa Clara") and the United States of America through the United States Bureau of Reclamation ("Reclamation").

**RECITALS**

A. On June 21, 1967, Mercy Springs and the United States entered into Contract No. 14-06-200-3365A providing for the annual delivery of up to Thirteen Thousand Three Hundred (13,300) acre feet of water from the Central Valley Project ("CVP"). On February 27, 1995, Mercy Springs and the United States entered into Interim Renewal Contract No. 14-06-200-3365A-IR1, which was effective through February 28, 1998, and on February 20, 1998, Mercy Springs and the United States entered into Interim Renewal contract No. 14-06-200-3365A-IR2 (the "Existing Contract"), which expires February 28, 2000; and thereafter shall, upon the request, be renewed for successive interim periods of not more than Two (2) years in length, and thereafter upon final completion of certain environmental documentation, and upon the request, shall be renewed for a term of Twenty-five (25) years, which may thereafter be renewed for terms not to exceed Twenty-five (25) years.

B. Article 30(a) of the Existing Contract provides for assignment of the Contract upon written approval of the Contracting Officer acting on behalf of the United States.

C. Upon execution of this Agreement, Mercy Springs will assign to Pajaro Valley, Westlands and Santa Clara all Mercy Springs' right, title, and interest in that portion of the Existing Contract as it relates to, and is for the benefit of, the One Thousand Six Hundred Five (1,605) acres of lands within Mercy Springs [more particularly described in Exhibit "A" (the "Subject Lands") and consisting of Six Thousand Two Hundred Sixty (6,260) annual acre-feet of entitlement under the Existing Contract (that portion referred to hereafter as the "Subject Water Supply"), including any rights to renew the Existing Contract for the Subject Water Supply].

D. Mercy Springs, Pajaro Valley, Westlands and Santa Clara have also entered into a separate agreement entitled "Agreement Relating to Partial Assignment of Water Service Contract" (hereafter referred to as the "Four-Party Agreement"), whereby the Subject Water Supply from this assignment will be provided to Westlands and Santa Clara for a period of at least ten (10) years. The Four-Party Agreement provides that if conditions specified therein do not occur within twenty (20) years of the effective date of this Agreement, all of Pajaro Valley's interest in the Existing Contract or a renewal thereof shall terminate.

E. The Subject Water Supply has been determined to be included in the average annual quantity of CVP water actually delivered to Mercy Springs under Contract No. 214-06-200-3365A during the last three years of normal water delivery prior to enactment of the Central Valley Project Improvement Act.

#### **AGREEMENT**

#### **IT IS THEREFORE AGREED AMONG THE BELOW PARTIES:**

1. Incorporation of Recitals. Each of the above RECITALS is hereby incorporated as a part of this Agreement.

2. Terms and Conditions. Subject to the terms of the terms of the Four-Party Agreement, upon execution of this Agreement, Pajaro Valley, Westlands, and Santa Clara accept all terms and conditions included in the Existing Contract, as may be modified upon renewal thereof, and as may be modified or supplemented herein, and those parties to this Agreement acknowledge and accept their proportionate share of the CVP capital obligation incurred under Contract Nos. 14006-200-3365A or 14-06-200-3365A-IR1, or the Existing Contract.

3. Payment of Existing Operation and Maintenance Deficit. Prior to delivery of any of the Subject Water Supply pursuant to this assignment, Mercy Springs shall have paid in full to the United States any operation and maintenance deficit that may be owed by Mercy Springs to the United States as a result of the delivery of CVP Water to Mercy Springs pursuant to Contract Nos. 14006-200-3365A or 14-06-200-3365A-IR1, or the Existing Contract delivered prior to the effective date of the Agreement.

4. Change in Service Area. The Existing Contract is hereby modified to include in the contract service area, the service areas of Westlands and Santa Clara, where the Subject Water Supply can be used.

5. Water Rates and Charges. The Subject Water Supply shall be subject to the applicable Rates, Charges, and Crediting determined annually in accordance with Federal law, associated regulations and the then current CVP ratesetting policies. To enable Reclamation to compute appropriate Rates, Charges, and Crediting, Westlands, Santa Clara, and/or Pajaro Valley shall submit water delivery schedules required by the Existing contract, as may be amended,

supplemented, or renewed, to Reclamation identifying to whom the Subject Water Supply will be delivered.

6. Use of Water By Pajaro Valley. The delivery to Pajaro Valley of any of the Subject Water Supply shall be contingent upon appropriate environmental review and modification of the contract service area described in the Existing Contract or the renewal thereof. In addition to the terms and conditions on the use of CVP water in the Existing Contract, as may be amended or supplemented, the delivery of any of the Subject Water Supply for M&I purposes to the Pajaro Valley service area is conditioned upon the prior written approval of the Contracting Officer.

7. Allocation of Water Shortages. Irrespective of actual use, the Subject Water Supply shall be acknowledged by the parties and treated by the United States as irrigation water for the purposes of allocating water shortages among CVP water service contractors.

8. Place of Use and Land Classification Requirements. The delivery of any of the Subject Water Supply to Pajaro Valley shall also be contingent upon inclusion, if not previously accomplished, of the lands in the permitted place of use for the CVP water rights by the California State Water Resources Control Board. The use of any of the Subject Water Supply for irrigation purposes must be preceded, if not previously completed, by appropriate Federal land classification and shall be consistent with Federal Reclamation law.

9. Retention of Rights. Upon execution of this Agreement, Mercy Springs will retain all right, title, and interest in that portion of the Existing Contract exclusive of the Subject Water Supply for the Subject Lands.

10. Applicability of the Reclamation Reform Act of 1982. The Subject Water Supply when used for irrigation purposes shall only be delivered to lands held by landholders who have elected to be subject to the provisions of the Reclamation Reform Act of 1982, 43 U.S.C. Sections 390aa *et seq.*, 96 Stat. 1263, by executing an irrevocable election or within a district subject to said Act.

11. Existing Contract Renewal Rights. All parties to this agreement acknowledge and understand that this agreement does not afford any of the parties any contractual rights to any renewal of the Existing Contract beyond that provided pursuant to the Existing Contract.

12. Effective Date. The effective date of this Agreement shall be the date on which it is approved by the United States.

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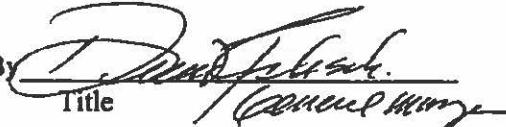
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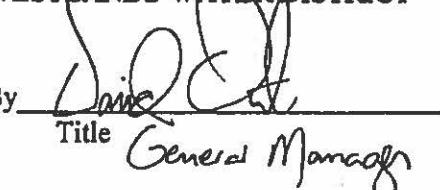
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IN WITNESS WHEREOF, the parties have executed this Agreement as of the day and  
year first above written.

MERCY SPRINGS WATER DISTRICT

By   
Title General Manager

WESTLANDS WATER DISTRICT

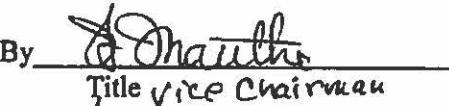
By   
Title General Manager

SANTA CLARA VALLEY DISTRICT

Reference SCVWD Agreement # A2263

By   
Title CEO

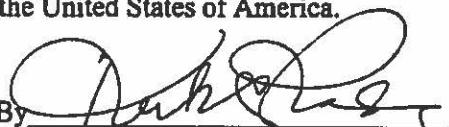
PAJARO VALLEY WATER  
MANAGEMENT AGENCY

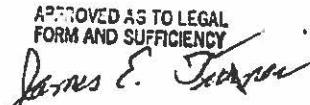
By   
Title Vice Chairman

By   
Title General Manager

The foregoing Agreement for Partial Assignment of the Existing Contract and the terms  
detailed above are hereby approved and accepted by the United States of America.

Dated: 10/22/99

By   
Title Regional Director, Mid-Pacific  
Region, Bureau of Reclamation

APPROVED AS TO LEGAL  
FORM AND SUFFICIENCY  
  
James E. Johnson  
OFFICE OF REGIONAL SOLICITOR  
DEPARTMENT OF THE INTERIOR



## PAJARO VALLEY WATER MANAGEMENT AGENCY

36 BRENNAN STREET • WATSONVILLE, CA 95076

TEL: (831) 722-9292 • FAX: (831) 722-3139

email: info@pwwma.dst.ca.us • http://www.pwwma.dst.ca.us

Board of Directors Meeting

May 7, 1999

### MINUTES

1. **Call to Order and Roll Call of PVWMA Directors:** The Regular Board meeting of Pajaro Valley Water Management Agency was called to order at 1:33 p.m. by Vice Chair Howard Mauthe.

Board Members Present: Frank Capurro, Gwen Carroll, Warren Koenig, Howard Mauthe, Joe Roediger

Board Members Absent: Brad Bennett, Rosemarie Imazio

Staff Members Present: Charles McNiesh, General Manager (GM)  
Barbara Jordan, Administrative Services Officer (ASO)  
Sharon Chappelar, Administrative Assistant (AA)

Others Present: Lyndel Melton, Consultant  
David Lindow, Consultant

2. **Closed Session (1:00 - 1:30 p.m.):** Pursuant to Government Code section 54956.8 - Real property negotiations: Mercy Springs Water District property and water contract assignment; negotiating parties: PVWMA, Mercy Springs Water District/Sloan/Sagouspe, Santa Clara Valley Water District, and Westlands Water District.
3. **Open Session** will begin at 1:30 p.m. Report on closed session. The closed session was not held and there is therefore, no report.
4. **Action Item:**
  - A. Execute Mercy Springs contract assignment document, execute water district agreement Supplementing the contract assignment document, and approve related escrow instructions. GM stated that escrow has been extended to May 14, 1999. Title company needs more time to secure signatures. After a short discussion, the following action was taken.

**ACTION:** Motion by Director Koenig to authorize the General Manager and the appropriate Board Member to negotiate and execute the final Mercy Springs documents unless there are substantial changes from the current document drafts. Motion carried by unanimous Aye vote, with Director Roediger abstaining.

5. **Oral Communications:** None

Director Imazio present at 1:38 p.m.

I hereby certify that this is a true copy of the approved minutes of the May 7, 1999 meeting of the Board of Directors of the Pajaro Valley Water Management Agency.

ATTEST:



Sharon A. Chappelear

Sharon A. Chappelear  
Acting Secretary/Board of Directors

Date: September 28, 1999

RESOLUTION NO. 5-96

MERCY SPRINGS WATER DISTRICT

RESOLUTION APPROVING THE ASSIGNMENT OF  
A PORTION OF THE WATER SERVICE CONTRACT BETWEEN  
THE UNITED STATES OF AMERICA AND MERCY SPRINGS WATER  
DISTRICT AND PROVIDING FOR THE COOPERATION OF  
DISTRICT TO CARRY OUT THE ASSIGNMENT

WHEREAS, the Mercy Springs Water District ("District") entered into a "Contract Between the United States and Mercy Springs Water District Providing for Water Service" dated February 27, 1965, Contract No. 14-06-200-3365A IR1 ("Bureau Contract"); and

WHEREAS, the District has adopted a policy entitled "Program Requirements for District Approval of Landowner Requests Relating to Partial Assignments/Long Term Transfers Affecting Central Valley Project Water Supply, dated December 10, 1996 ("District Policy"); and

WHEREAS, said District Policy is consistent with Water Code Section 382 which authorizes a local agency such as this District to transfer water outside of its boundaries, the use of which is voluntarily foregoing by water users within the agency; and

WHEREAS, certain landowners (the "Landowners") within the District have entered into an Agreement dated October 9, 1996 (the "Letter of Intent") with Pajaro Valley Water Management Agency ("Agency"), a copy of which is attached as Exhibit "A", participation in which Letter of Intent was offered to all District Landowners, which provides for the sale of Landowners of certain lands within the District and the right to receive water from the District under the Bureau contract related to such lands, and the assignment of a portion of the District Bureau Contract to the Agency for delivery of water to the Agency; and

WHEREAS, District has reviewed the terms and conditions of the Letter of Intent; and

WHEREAS, District desires to help facilitate the carrying out of the assignment of a portion of the Bureau Contract as set out in the Letter of Intent and is satisfied with its provisions, subject to compliance with the District Policy; and

WHEREAS, District will complete all actions necessary for compliance with the California Environmental Quality Act with respect to the Letter of Intent and its provisions for a sale of lands within the District, and assignment of a portion of the District Bureau Contract to Agency; the Bureau of Reclamation will comply with the National Environmental Policy Act; and

WHEREAS, although each member of the Board of Directors may participate in the partial assignment provided by the Letter of Intent, this Board has been advised action on such matter would not be a violation of Government Code §1090 in that the program provided for

under the District Policy and Letter of Intent is offered to all Landowners under the same term and conditions regardless of whether they are members of the Board of Directors; furthermore, members of the Board voting upon this resolution were drawn by lot after first disqualifying all directors from voting on the matter.

NOW, THEREFORE, BE IT RESOLVED by this Board of Directors as follows:

1. The facts set forth in the recitals above are true and correct, and the Board so finds and determines.

2. The District shall cooperate with and facilitate implementing the partial assignment provided for in the Letter of Intent, consistent with the District Policy, and the District's officers and staff are authorized and directed to do all things necessary and appropriate to carry out the foregoing, and

3. The District or the Agency will act as lead agency in carrying out the California Environmental Quality Act ("CEQA");

4. Subject to compliance with CEQA and any other applicable laws, it is the District's intent to execute the partial assignment and other necessary documents to carry out the Letter of Intent, consistent with the District Policy.

ALL THE FOREGOING, being on motion of Director Sloan  
seconded by Director Sac spe, was authorized by following vote, namely:

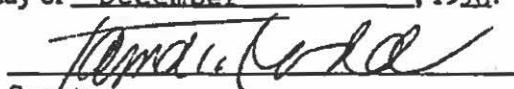
AYES: Director Sloan, Director Ed Koda, Director Sagouspe

NOES: None

ABSTAIN: Director Devine, Director Tama Koda

ABSENT: None

I HEREBY CERTIFY that the foregoing is a true copy of the resolution of the Board of Directors of Mercy Springs Water District as duly passed and adopted by said Board of Directors at an adjourned meeting held this 10th day of December, 1996.

  
Secretary

I hereby certify that this is a true copy of the approved minutes of the December 15, 1998, meeting of the Board of Directors of the Santa Clara Valley Water District.

ATTEST:

Elizabeth A. Ellis  
Elizabeth A. Ellis  
Deputy Clerk/Board of Directors

Date: May 14, 1999

7 ii). Ms. Maher reviewed the staff report regarding the Central Valley Project Dry-Year Option Agreement and responded to Board members' questions.

It was moved by Director Sanchez, seconded by Director Zlotnick, and unanimously carried that *Apvd Jt Assignment  
the Board authorize the General Manager to execute a joint assignment contract for Central Valley Contr for CVP  
Project water, consistent with terms and conditions described in the agenda memorandum, pending  
completion of environmental documentation and review of the final form of agreement by the District's  
General Counsel; and that a budget adjustment from the Water Enterprise Supplemental Water  
Appropriation account be approved in an amount sufficient to pay the District's share of costs to  
complete the joint assignment contract, as well as the District's share of debt service costs for the first  
year, not to exceed \$250,000. Directors Estremera and Judge were absent.*

Director Zlotnick requested a CALFED update from Ms. Amy C. Fowler, Special Programs Engineer, Project Management Group.

Chairperson Gross moved the agenda to Item 21 i).

**RESOLUTION NO. 116-99**  
**WESTLANDS WATER DISTRICT**

**A RESOLUTION OF THE BOARD OF DIRECTORS  
DESIGNATING THE DISTRICT'S REPRESENTATIVES FOR  
NEGOTIATIONS WITH THE BUREAU OF RECLAMATION FOR THE  
RENEWAL OF THE ASSIGNED PORTION OF THE MERCY SPRINGS WATER  
DISTRICT INTERIM AND LONG-TERM WATER SERVICE CONTRACTS**

WHEREAS, Section 3404(c) of the Central Valley Project Improvement Act (P.L. 102-575) provides for the long-term renewal of water services contracts following completion of the environmental review established for long-term contract renewals by said Act; and

WHEREAS, Contract No. 14-06-200-3385A-IR1 has been partially assigned, with the approval of the United States, to the Westlands Water District (the "District"); and

WHEREAS, Contract No. 14-06-200-3385A-IR1 will expire on February 29, 2000; and

WHEREAS, the Bureau of Reclamation has notified the District that it anticipates commencing contract negotiations for interim renewal contracts on September 29, 1999, long-term renewal contracts in mid-October, 1999, and has requested that each district designate those individuals authorized to represent and negotiate on behalf of the district during the negotiation process; and

WHEREAS, the Board has determined that it is in the best interest of the District to designate its General Manager David Orth, two members of its Board of Directors, C.A. Dingle and Thomas Hurlbutt, and District counsel Thomas W. Birmingham, to represent the District in these negotiations.

**NOW, THEREFORE, BE IT RESOLVED, AS FOLLOWS:**

Section 1. The matters stated in the recitals above are true and correct, and the Board so finds and determines.

Section 2. The General Manager, David Orth, two members of its Board of Directors, C.A. Dingle and Thomas Hurlbutt, and District counsel Thomas W. Birmingham, are hereby authorized to negotiate the interim and long-term renewal contracts for and on behalf of the District, and the General Manager is authorized to so notify the Bureau of Reclamation.

Section 3. The authorities granted hereby are for coordination and negotiation purposes only, and the terms of any interim and long-term renewal contract resulting from such negotiations shall be subject to final approval by the Board of Directors.

Section 4. The General Manager and any other District employee or consultant designated by the General Manager is hereby authorized and directed to take such additional actions as may be necessary or convenient to carry out the intention of this Resolution.

SECTION 4

Section 5. This Resolution shall take effect immediately,

PASSED AND ADOPTED THIS 20<sup>th</sup> Day of September, 1999

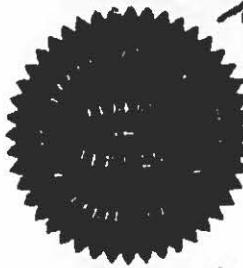


C.A. Dingle, President

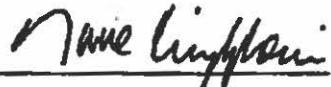
Attest:



Dave Ciapponi, Secretary



I hereby certify that the foregoing is a true and correct copy of a resolution duly adopted by Westlands Water District, a California water district, at a meeting of the Board of Directors thereof duly called and held at the office of the district on the 20<sup>th</sup> day of September, 1999.



Dave Ciapponi, Secretary

AGREEMENT RELATING TO  
PARTIAL ASSIGNMENT OF  
WATER SERVICE CONTRACT

THIS AGREEMENT is made this 14th day of May 1999, by and among Mercy Springs Water District ("Mercy Springs"), Westlands Water District ("Westlands"), Santa Clara Valley Water District ("Santa Clara"), and Pajaro Valley Water Management Agency ("Pajaro Valley").

RECITALS

A. On June 21, 1967, Mercy Springs and the United States entered into Contract No. 14-06-200-3365A providing for Project water service for the annual delivery of up to Thirteen Thousand Three Hundred (13,300) acre feet of water from the Central Valley Project ("CVP"). On February 27, 1995, Mercy Springs and the United States entered into Interim Renewal Contract No. 14-06-200-3365A-IR1, which was effective through February 28, 1998, and on February 20, 1998, Mercy Springs and the United States entered into Interim Renewal Contract No. 14-06-200-3365A-IR2 (the "Existing Contract"), which by its terms will be effective through February 28, 2000; and thereafter shall, upon the request of Mercy Springs, be renewed for successive interim periods of not more than Two (2) years in length, and thereafter upon final completion of certain environmental documentation, and upon the request of Mercy Springs, shall be renewed for a term of Twenty-five (25) years, which may thereafter be renewed

for terms not to exceed Twenty-five (25) years.

B. The Existing Contract at Article 30(a) provides for assignment of the Contract upon written approval of the Contracting Officer acting on behalf of the United States.

C. Mercy Springs by this Agreement intends to assign to Westlands, Santa Clara, and Pajaro Valley a portion of the Existing Contract to provide for delivery of water to Westlands, Santa Clara, and Pajaro Valley pursuant to the terms and conditions set forth herein.

D. Upon the United States' approval of the Agreement for Partial Assignment of Water Service Contract ("Assignment Agreement"), Mercy Springs will assign to Westlands, Santa Clara, and Pajaro Valley all its right, title, and interest in and to that portion of the Existing Contract as it relates to and is for the benefit of the One Thousand Six Hundred Five (1,605) acres of lands within Mercy Springs more particularly described in Exhibit "A" (the "Subject Lands") and consisting of Six Thousand Two Hundred Sixty (6,260) annual acre feet of entitlement under the Existing Contract (the "Subject Water Supply"), including any rights to renew the Existing Contract for the Subject Water Supply; and Westlands, Santa Clara, and Pajaro Valley shall assume that portion of the Existing Contract as it relates to the Subject Water Supply.

E. Westlands, Santa Clara, and Pajaro Valley will renew that portion of the Existing Contract for the Subject Water Supply under the provisions of the Central Valley Project Improvement Act, Title XXXIV of Public Law 102-575 for the annual delivery of up to

Six Thousand Two Hundred Sixty (6,260) acre feet of CVP water for irrigation, municipal, and industrial uses.

F. It is the intent of Westlands, Santa Clara, and Pajaro Valley, that the Subject Water Supply is being acquired for use within their respective service areas, and subject to the terms of this Agreement, if Westlands, Santa Clara or Pajaro Valley is unwilling or unable to take delivery of some or all of the Subject Water Supply for beneficial use within its service area, the unused supply will be made available to the other assignees of the Existing Contract.

G. Approval of this Agreement by Santa Clara is based, in part, on the desire to develop a right as provided in Paragraph 4 herein for Pajaro Valley to use the Subject Water Supply for protection and restoration of its groundwater basin. It is Pajaro Valley's intention to exercise its rights under this Agreement only upon the development of the physical capability to take delivery of the Subject Water Supply to its service area within approximately twenty (20) years following the effective date of this Agreement.

H. The Agreement for Purchase and Sale and Joint Escrow Instructions with Alan L. Sagouspe, Tamra M. Sagouspe, Stephen W. Sloan, Charlene A. Sloan, and the Sloan Living Trust Dated August 25, 1981, between Pajaro Valley and certain landowners within Mercy Springs is in full force and effect between the parties thereto, to which Mercy Springs is not a party, and will have no involvement as to matters therein mentioned, except as to delivery of the this Agreement executed by Mercy Springs to the escrow agent therein designated, and closing of the transaction under said Purchase Agreement being a prerequisite to the

implementation of the this Agreement. In the event of a dispute between the parties to the Purchase Agreement, Mercy Springs will not be named or made a party to any dispute or proceeding.

AGREEMENT

IT IS THEREFORE AGREED AMONG THE PARTIES AS FOLLOWS:

1. Incorporation of Recitals: Each of the Recitals herein before set forth is hereby incorporated as a part of this Agreement and shall be performed to the best of the ability of the parties hereto to perform the same.

2. Payment for Assignment: Upon approval of the Assignment Agreement by the United States, Westlands will pay \$5,617,500.00 (the "Capital Expenditure") into the escrow described in the Agreement for Purchase and Sale and Joint Escrow Instructions between Pajaro Valley and Alan L. Sagouspe, Tambra M. Sagouspe, Stephen W. Sloan, Charlene A. Sloan, and the Sloan Living Trust Dated August 25, 1981, on behalf of Pajaro Valley.

3. Partial Assignment: Mercy Springs hereby assigns to Westlands, Santa Clara, and Pajaro Valley its right, title, and interest in and to Six Thousand Two Hundred Sixty (6,260) annual acre feet of Project water under the Existing Contract previously delivered to the Subject Lands, and as setout in paragraph 6 herein, Westlands, Santa Clara, and Pajaro Valley shall be subject to the rights and duties under the Existing Contract associated therewith.

4. Right to Receive Water: For a period of Twenty (20) years following the effective date of this Agreement, Westlands and/or Santa Clara shall be entitled to receive the Subject Water Supply; provided, that between the expiration of the Tenth (10) year and the Twentieth (20) year following the effective date of this Agreement, Pajaro Valley may assume Westlands' entitlement to receive the Subject Water Supply for use in Pajaro Valley's service area; and provided further, that during the first Ten (10) years following the effective date of this Agreement, the total quantity of the water delivered to Santa Clara shall not exceed Twenty-five (25) percent of the total Subject Water Supply provided by the United States during said Ten (10) year period, and the total quantity of the water delivered to Santa Clara during said Twenty (20) year period shall not exceed Twenty-five (25) percent of the total Subject Water Supply provided by the United States during said period or 20,000 acre-feet, whichever is greater.

Pajaro Valley's assumption of Westlands' entitlement to receive the Subject Water Supply shall become effective on the first day of the contract year (March 1 through February 28) following the date of Pajaro Valley provides notice to Westlands and Santa Clara that it will assume those rights.

If Pajaro Valley fails to assume Westlands' entitlement to receive the Subject Water Supply prior to the expiration of said Twenty (20) year period, Westlands and Santa Clara shall thereafter have the exclusive right to receive the Subject Water Supply; provided, that the maximum quantity of water Santa Clara shall have the right to receive in each successive Ten (10) year period shall be Twenty-five percent (25%) of the Subject Water Supply delivered by the United States during such period. In the event the quantity of water received by Santa Clara exceeds Twenty-five percent (25%) of the Subject Water Supply delivered by the United States

during the subject Ten (10) year period, Santa Clara shall transfer or reallocate to Westlands the difference between the actual quantity of water received by Santa Clara and Twenty-five percent (25%) of the Subject Water Supply delivered by the United States during said period. Such transfer or reallocation shall occur in a year when Santa Clara receives none of the Subject Water Supply.

Subject to the limitations herein, during any year prior to the expiration of the twentieth (20th) year, Santa Clara shall, at its discretion, have a first priority to the Subject Water Supply or any portion thereof; provided that in any year Santa Clara anticipates that it will receive water under this Agreement, Santa Clara shall notify Westlands or Pajaro Valley in writing of the quantity of the Subject Water Supply which it will take no later than April 25th or five (5) days after the Bureau of Reclamation's April water supply announcement, whichever is earlier. In the absence of such notice, Westlands, or Pajaro Valley if it has assumed Westlands' entitlement to receive the Subject Water Supply, shall be entitled to receive the Subject Water Supply during that year.

For a period of thirty (30) years following the effective date of this Agreement, Westlands and Santa Clara shall have a right of first refusal to acquire from Pajaro Valley, at an annual cost of Fifty-four dollars and thirty cents (\$54.30) per acre-foot, the Subject Water Supply, or any portion thereof, if Pajaro Valley enters into any agreement to transfer or assign the Subject Water Supply, or any portion thereof. Westlands and/or Santa Clara shall exercise said right within ninety (90) days from the date Pajaro Valley provides notice of the transfer or assignment to them, which notice shall be effective five (5) days after it is sent via first class mail. If both Westlands and Santa Clara exercise said right, Seventy-five percent (75%) of the subject water shall be transferred or assigned to Westlands and Twenty-five percent (25%) of the

subject water shall be transferred or assigned to Santa Clara. A water exchange or banking agreement that results in alternative water supplies being made available for use within Pajaro Valley's service area shall not constitute a transfer giving rise to this right of first refusal.

**5. Payments Among the Parties:** For a period of Thirty (30) years following the effective date of this Agreement or, until any indebtedness incurred by Westlands to finance the acquisition of the Subject Water Supply has been refinanced or defeased pursuant to any defeasance instrument accompanying the debt, Santa Clara shall reimburse Westlands an amount equal to one-half of the annual net debt service costs incurred by Westlands to finance or refinance the acquisition of the Subject Water Supply; provided, that Westlands shall not refinance the debt incurred to acquire the Subject Water Supply without the written consent of Santa Clara. Payments from Santa Clara shall be made to Westlands twice per year, on a date not less than ninety (90) days prior to the date on which Westlands is obligated to pay principal and interest on the debt.

In the event assumes Westlands' entitlement to receive the Subject Water Supply, Pajaro Valley shall pay to Westlands an amount equal to fifty-four dollars and thirty cents (\$54.30) times 6,260 acre-feet per year for the number of years remaining until the end of the thirtieth (30th) year following the effective date of this Agreement times a reliability factor of seventy percent (70%). Thereafter, Westlands shall be relieved of any further obligation or duty under this Agreement and the Existing Contract or any renewal thereof. Until the expiration of the Twenty (20) year period describe in paragraph 4, Santa Clara shall make payments to Pajaro Valley in amounts equal to what would have been paid by Santa Clara to Westlands had Pajaro Valley not exercised its option. In the event Pajaro Valley has assumed Westlands' rights under

this Agreement, it shall have the exclusive right to receive the Subject Water Supply for use in its service area after the expiration of the Twenty (20) year period described in paragraph 4, above, and Santa Clara shall be relieved of any further obligation or duty under this Agreement and the Existing Contract or any renewal thereof.

6. Assumption of Obligations: Westlands and Santa Clara hereby accept all rights and assume all duties contained in the Existing Contract or any renewal thereof applicable to the Subject Water Supply, subject to the remaining obligations of Mercy Springs under the balance of the Existing Contract or renewal thereof. In particular, Westlands and Santa Clara shall be responsible for all financial obligations under the Existing Contract applicable to the Subject Water Supply owed to the United States by Mercy Springs as it relates to the Subject Water Supply delivered after the effective date of this Agreement. The balance of the Existing Contract or renewal thereof not assigned hereby shall continue to be held by Mercy Springs for the benefit of land within Mercy Springs.

In the event Pajaro Valley assumes Westlands' entitlement to receive the Subject Water Supply, Pajaro Valley will accept and assume all of the duties contained in the Existing Contract or any renewal thereof applicable to the Subject Water Supply assumed by Westlands pursuant to this Agreement, and Westlands shall have no further obligations under this Agreement or the Existing Contract or a renewal thereof. Upon the expiration of said Twenty (20) year period, all rights accepted and duties assumed hereby shall be Pajaro Valley's exclusively, and Santa Clara shall have no further obligations under this Agreement or the Existing Contract or a renewal thereof.

7. Payment of Costs of Approval: Westlands, Santa Clara and Pajaro Valley shall pay all costs associated with processing and seeking approval of the Assignment Agreement, including, but not limited to, compliance under the National Environmental Policy Act ("NEPA") and the California Environmental Quality Act ("CEQA"), and related processes.

8. Obligation to Defend and Indemnify: In the event any action is brought challenging the propriety of this Agreement by a landowner or resident within the boundaries of one of the parties hereto, that party shall defend, indemnify and hold harmless the other parties from any such action.

9. Entire Agreement: This Agreement contains the entire agreement and understanding between the parties to it with respect to the matters covered by it and supersedes all prior agreements, negotiations, and discussions.

10. Amendment: This Agreement may be amended only by a writing signed by the party against whom enforcement of the change is sought.

11. Effective Date: The effective date of this Agreement shall be the date on which the United States approves the Assignment Agreement.

12. Multiple Originals: This Agreement may be executed in counterparts, each of which shall be deemed an original.

IN WITNESS WHEREOF, the parties have executed this Agreement Relating to  
Partial Assignment of Water Service Contract as of the day and year first above written.

MERCY SPRINGS WATER DISTRICT

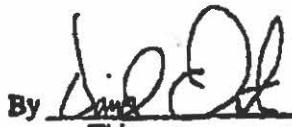
SANTA CLARA VALLEY WATER  
DISTRICT

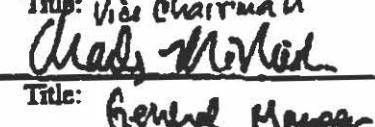
By \_\_\_\_\_  
Title: \_\_\_\_\_

By \_\_\_\_\_  
Title: \_\_\_\_\_

WESTLANDS WATER DISTRICT

PAJARO VALLEY WATER  
MANAGEMENT AGENCY

By   
Title: General Manager

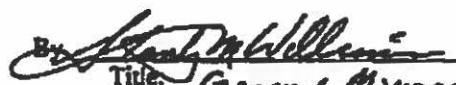
By   
Title: Vice Chairman  
By   
Title: General Manager

IN WITNESS WHEREOF, the parties have executed this Agreement Relating to  
Partial Assignment of Water Service Contract as of the day and year first above written.

MERCY SPRINGS WATER DISTRICT

SANTA CLARA VALLEY WATER  
DISTRICT

By \_\_\_\_\_  
Title:

  
Title: General Manager

WESTLANDS WATER DISTRICT

PAJARO VALLEY WATER  
MANAGEMENT AGENCY

By \_\_\_\_\_  
Title:

By \_\_\_\_\_  
Title:

By \_\_\_\_\_  
Title:

IN WITNESS WHEREOF, the parties have executed this Agreement Relating to  
Partial Assignment of Water Service Contract as of the day and year first above written.

MERCY SPRINGS WATER DISTRICT

SANTA CLARA VALLEY WATER  
DISTRICT

By   
Title: *Deeby Laski  
Area Mgr.*

By \_\_\_\_\_  
Title: \_\_\_\_\_

WESTLANDS WATER DISTRICT

PAJARO VALLEY WATER  
MANAGEMENT AGENCY

By \_\_\_\_\_  
Title: \_\_\_\_\_

By \_\_\_\_\_  
Title: \_\_\_\_\_

By \_\_\_\_\_  
Title: \_\_\_\_\_