

## PRINCIPLES FOR WATER MANAGEMENT

1. Water Management Plan. These Principles, approved by the appropriate authority of each party, are intended to form the basis from which the parties will develop a Water Management Plan (“Management Plan”) for the area described in Section 2. The Management Plan is being developed to ensure an adequate and reliable source of future water supply. The Management Plan is also intended to facilitate and accommodate a settlement of the claims of the Soboba Band of Luiseno Indians (“Soboba Tribe”).
2. Management Area. The area included in the Management Plan consists of the Canyon Sub-basin and the San Jacinto Upper Pressure Sub-basin, downstream to Bridge Street, and the Hemet Basins (“Management Area”). The Management Area is shown upon the attached map.
3. Pumpers within the Management Area. The primary pumpers within the Management Area are: Eastern Municipal Water District (“Eastern”), Lake Hemet Municipal Water District (“Lake Hemet”), City of San Jacinto (“San Jacinto”), and City of Hemet (“Hemet”) (individually

“Public Agency,” collectively “Public Agencies”); the Soboba Tribe (not a Management Plan participant); and approximately 62 individual agricultural and other private pumpers who pump more than 25 acre-feet per year (“Private Pumpers”).

4. Goals. The parties agree that the Management Plan shall incorporate and serve to implement the following goals:

A. Allowing for Future Urban Growth. The parties acknowledge that the Management Area will continue to experience residential, commercial, and industrial growth and development, and that existing water production and service systems will need to be expanded to meet this growth. It is estimated that at least 15,000 afy incremental water supply capacity over the existing base production rights of the Public Agencies must be dedicated to adequately serve this growth. The Management Plan should serve and provide a clear planning process so that each affected Public Agency will be able to meet these projected growth needs.

B. Water Quality Protection. Implementation of the Management Plan should protect and/or enhance Management Area water quality. However, implementation of certain elements of the Management Plan may cause limited localized water quality degradation. If such degradation impedes the then current beneficial use of any Public Agency in the Management Area, the Watermaster described in Section 22 (“Watermaster”) shall implement appropriate mitigation measures to ensure water supply to the affected Public Agency and bear the associated costs. The standards for local water quality degradation shall be defined in the Management Plan.

C. Cost-Effective Management. The Management Plan should serve to support the pursuit of cost-effective water supply and water treatment by the Public Agencies, both individually and collectively.

D. Overdraft. The groundwater levels within the Management Area have generally been declining for a number of years, and the Management Area is presently in a condition of overdraft. It is recognized that the Management Plan will, within a reasonable period, eliminate groundwater overdraft and enhance operational yield by

implementing a combination of available water resources management elements. These elements include: reduction in native groundwater production; enhanced recharge with native, imported and/or recycled water; development of supplemental supplies such as imported and recycled water; and water conservation programs.

E. Monitoring. The Watermaster shall implement a monitoring program to ensure the Management Plan activities follow best management and engineering principles to protect Management Area water resources.

5. Public Agencies Base Production Rights.

A. The base production rights of Eastern, Lake Hemet and Hemet in the first year of the Management Plan shall be based upon their average production for calendar years 1995-1999. This period was chosen to reflect these Public Agencies' recent pumping, and shall determine their base production rights.

B. The base production right of San Jacinto in the first year of the Management Plan, shall be based upon its average production for calendar years 1995-1999, plus 500 afy. The 500 afy is added because San Jacinto's recent production does not reflect its historic production because of water purchases and other factors.

C. Pursuant to Section 21 below, for the life of the Management Plan, Hemet and San Jacinto shall each add an additional 900 afy to their base production rights. The additional 900 afy shall not be subject to reduction by the Watermaster as provided in Section 5.D and shall not be subject to any Administrative or Replenishment Assessments as provided in Section 6, or other fee or charge imposed under the Management Plan.

D. It is the goal of the Management Plan to adjust base production rights over time to a level consistent with the Watermaster's calculation of the Public Agencies' share of safe yield for the Management Area. Based on current information, it appears that the total reduction in base production rights will need to be approximately 35%. The ultimate reduction will be based on periodic demand, hydrology, recharge and

availability of imported water. In order to implement this reduction in a phased manner, each Public Agency's base production rights shall be subject to adjustment as follows:

(1) A 10% reduction from the base production rights in the first year of the Management Plan; and

(2) Until base production rights are consistent with the Public Agencies' share of safe yield, Watermaster shall determine the reductions in base production rights in each subsequent year of the Management Plan, to achieve this goal within 6 years of approval of the Management Plan. Each reduction shall not be more than 10% of the base production right of the prior year.

(3) Pursuant to Section 7(A)(2)(b), upon conversion of a Class B Participant's land from agricultural to a use that requires water service from a Public Agency, the Public Agency shall receive an increase in its base production rights equal to the adjusted base production right of the Class B Participant.

6. Public Agency Production Assessments. The Public Agency production will be subject to the following assessments:

A. An Administrative Assessment on each acre-foot pumped by a Public Agency up to its adjusted base production right. The parties contemplate that the Administrative Assessment will be \$50.00 per acre-foot of water pumped in the first year of the Management Plan, and that such amount will thereafter be set by the Watermaster.

B. A Replenishment Assessment on each acre-foot pumped by a Public Agency in excess of its adjusted base production right equal to the cost of providing a like quantity of supplemental water to recharge the Management Area, including recharge losses. Pumping by a Public Agency in excess of its adjusted base production right in order to meet increasing demands is expected and permissible, provided that such excess extractions shall be subject to the Replenishment Assessment. The costs of providing a like quantity of supplemental water shall include the costs of water, O&M costs of the replenishment system, capital recovery and other administrative costs. Currently, the total of these cost items is estimated to be in the range

of \$300 to \$400 per acre-foot; the actual amount will reflect the costs at the time incurred.

7. Private Pumpers Water Rights. The Public Agencies recognize the overlying water rights of the Private Pumpers, and do not intend to take or adversely impact these rights without an agreement with the owner of such rights. The Management Plan will lay out alternatives for the retention, protection, or transfer of such rights, leaving selection of the alternative to the individual overlying water rights owner. A Private Pumper can elect not to participate in the Management Plan and not to formally acknowledge its existence. Such Pumpers shall be referred to herein as “Non-Participants”; such Pumpers shall continue to exercise whatever water rights they may hold under California law unaffected by the Management Plan. There is no intent to affect water use that is consistent with the historical use of the Private Pumpers. However, other pumpers under the Management Plan do not waive their rights to challenge new or expanded water rights. Non-Participants will not have the option of joining the program at a later date. The alternatives available to participants are as follows:

A. (1) Class A Participation. A Private Pumper can elect to sign a written agreement acknowledging the existence of the Management Plan. Such Pumper shall be a Class A Participant and shall be entitled to vote for and/or be elected to serve as the Private Pumper representative on the Management Plan's governing board or body described in Paragraph 22 below, but shall not otherwise be required to participate in the Management Plan implementation. A Class A Participant may, without any financial assessment by the Watermaster, pump from his/her/its property within the Management Area the amount of water that can be put to reasonable and beneficial use on the Pumper's land as may be authorized under California law. Class A Participants shall have the right to convert to Class B Participation during a grace period that shall end three (3) years after the effective date of the Management Plan, as approved by a judgment of the Superior Court for Riverside County, upon payment of the total assessments the Pumper would have paid had the Pumper elected to be a member of Class B from the outset, plus interest.

(2) Class B Participation. A Private Pumper can become a Class B Participant by electing to limit annual pumping to the Pumper's average annual production during the calendar years 1995 through

1999 and to pay replenishment assessments on amounts in excess of that average annual production. A Class B Participant shall enjoy the following benefits of Plan Participation:

a. Vote for and/or be elected to serve as the Private Pumper's representative on the Management Plan's Governing Board;

b. Upon conversion of Pumper's land from agricultural use to a use that requires water service from a participating Public Agency, Public Agency shall credit to the extent legally permissible, Pumper or Pumper's successor-in-interest's adjusted production right, using the formula in Section 5 towards satisfaction of any requirement then in effect for water supply assessment requirements. Furthermore, Pumper or Pumper's successor-in-interest shall be given a credit for Pumper's adjusted production right using the formula in Section 5 towards any fees associated with water supply that the Public Agency may then have in effect. The Public Agency serving the converted land shall receive a credit to its production right as set forth in Section 5.

c. To the extent the Pumper's land is not covered under Section 7(A)(2)(b), Pumper will be eligible to enter into a contract with the Management Plan, or a participating Public Agency, to sell for a defined period of time some portion of Pumper's adjusted production right, under terms and conditions mutually agreed upon by the Pumper and the Management Plan. Criteria used in consideration of such contract shall include:

(i) Management Plan's need to acquire additional water supplies to address Basin overdraft and recovery;

(ii) Submission of a water conservation plan, including use of in lieu water, by Pumper that will reasonably guarantee conservation of water that would otherwise be produced from the Basin;

(iii) Public policy considerations of local government jurisdictions, including economic and land use impacts of proposed water conservation plan.

B. In-Lieu Water Use. In the event a Private Pumper (or successor) receives recycled and/or imported water from a Public Agency to serve an overlying use in place of groundwater, or otherwise engages in an in-lieu program, the overlying water right of the Private Pumper (or successor) shall not be diminished by the receipt and use of such recycled and/or imported water or by engaging in an in-lieu program.

C. Well Monitoring. To become a Class A or B Participant, a Private Pumper shall authorize the metering of the Pumper's well(s) and the collection of groundwater level and quality data, and the reading thereof by Management Plan personnel. The metering and reading shall be at no cost to the Pumper, and the Pumper shall receive copies of the reports and information obtained upon request.

D. Future Production Participation. Any new Pumper after the effective date of the Management Plan, as approved by a judgment of the Superior Court for Riverside County, can only participate as a Class A Participant as described in Section 7A(1).

E. Replacement Wells. The redrilling of existing wells and the drilling of new wells to replace existing wells will not be considered new private production.

8. Capital Facilities. Each Public Agency shall continue to own its existing capital facilities for water management. However, capital facilities may be jointly constructed and owned by the Management Plan. Joint financing of such facilities may be funded by regional capital fees, loans and grants, contributions for storage by The Metropolitan Water District of Southern California (“Metropolitan”) or other third-parties, and municipal bonds. Responsibility for the costs of any existing and future capital facility of the Management Plan should be apportioned among the Public Agencies based on relative benefit to be derived by each Public Agency. Any of the participating Public Agencies may propose projects to be included in the Management Plan to increase Management Area water supply. Such proposals, after evaluation by the Watermaster, shall be included or rejected. If the Watermaster chooses to reject the proposal, the proposing Public Agency may implement the rejected project as long as it does not significantly impact the implementation of the Management Plan and/or interfere with the ongoing production by the Public Agencies.

9. Soboba Tribe's Water Rights. The Soboba Tribe's water rights shall be determined as part of a settlement among the Soboba Tribe, the United States, Eastern, Lake Hemet and Metropolitan. Major points of the proposed settlement are:

A. The Soboba Tribe shall have a senior, prior right in the Canyon and San Jacinto Upper Pressure Sub-basins of 9000 afy, but its use shall be limited to a maximum of 4100 afy during the first 50 years after the effective date of the settlement.

B. The Soboba Tribe shall have the right to purchase replenishment water for use pursuant to the Principles of Settlement at the Management Plan replenishment rate.

C. The Soboba settlement provides that, among other things, Metropolitan will use its best efforts to deliver sufficient water to yield a 15-year average of 7,500 afy to the Management Plan until 2035 at its long-term interruptible rate (currently \$233/af).

D. Subject to full funding of the settlement by the United States, the Management Plan shall pay the Soboba Tribe \$10 million.

E. The Management Plan will also pay the Soboba Tribe \$7 million. A Public Agency's payment of its share of this amount is optional, but in order to obtain the benefits of the low-cost Metropolitan water delivered pursuant to the settlement, a Public Agency shall pay its share of this amount.

F. The Management Plan will receive \$10 million for capital improvements from the United States, and all unused Soboba Tribe water based on the Public Agency's participation in the payment in Section 9(E) above.

10. Implementation of These Principles. These Interim Principles for Water Management shall be used by the parties as a basis for the preparation of the Management Plan, and a stipulated judgment in a water rights adjudication. As explained below, the Management Plan shall be administered by the Watermaster. The Watermaster will be under the continuing jurisdiction of the Court.

11. Assessment Program. The assessment program contemplated by the Management Plan shall be administered by the Watermaster subject to the governance provisions herein. All payments shall be made to the Watermaster and shall be maintained in a separate restricted fund. All assessments shall be used exclusively to acquire imported, recycled or Metropolitan water for the recharge of the Management Area, and for the facilities and operational and administrative expenses associated with the assessment and recharge programs. Subject to Management Plan approval, assessments may also be used by affected parties to acquire and deliver water for direct use by the parties, in lieu of pumping.

12. Replenishment Program. The replenishment program contemplated by the Management Plan shall also be administered by the Watermaster. The program shall include: the acquisition of supplemental water supplies (including imported, recycled and Soboba Tribe water); the expenditure of assessments; the recharge of the Management Area; and the construction and operation of all necessary facilities, including but not limited to, development of surface and sub-surface percolation and injection facilities. Priority for replenishment will be based on an equitable

apportionment of available replenishment water among the sub-basins after full consideration of: the Public Agency's participation in the payment in Section 9(E) above; the Management Area conditions; water demands; the availability of storage capacity to accommodate the recharge of natural flows; the availability of appropriate conveyance facilities; and the availability of replenishment or imported water. The Watermaster is encouraged to take advantage of surplus imported water that occasionally may be available at low cost, and to use available assessment funds to bank such recharge against future pumping in excess of adjusted production rights.

13. Rights to Groundwater. Groundwater in the Management Area may occur from: natural recharge; spreading operations of natural flows; replenishment with imported, recycled or Metropolitan water acquired with assessment funds; or in-lieu recharge programs financed with assessment funds. All such groundwater shall be available to support the pumping of the parties as allowed herein, and shall not be the property of any individual party, subject to the provisions of Section 14.

14. Storage Rights. The parties recognize that unused storage capacity exists in the Management Area, and the Management Plan contemplates that this capacity will be managed conjunctively with available imported and recycled water supplies. Subject to availability of the Management Plan fund for assessments and unused storage capacity as determined by Watermaster, the Management Area will be recharged and water stored therein when such supplies are available, and drawn upon by the Public Agencies in dry years when such supplemental water supplies may not be available. In addition, unused storage capacity as determined by Watermaster may be used for “put and take” operations of recycled or imported water that is paid for by any party to the Management Plan provided that:

A. Such operations do not interfere with the rights of any other pumper, or with the use of the storage capacity for recharge and storage under the Management Plan;

B. Water available for recharge is purchased first, as needed, for the Management Plan;

C. Later recovery of stored water shall exclude losses; and

D. Such recovered water may be used anywhere within the service area of the party.

Any conjunctive use programs for the benefit of territory outside of the Management Area shall be subject to the governance provisions herein. Any storage, conjunctive use programs by third parties or in-lieu recharge programs financed with assessment funds shall be subject to the governance provisions herein.

15. Spreading Operations. The Public Agencies shall independently or jointly operate their respective facilities to maximize the existing spreading and recharge operations of natural flow in the Management Area.

16. Recharge Water Quality. Consistent with Section 4(E) above all water used to replenish any sub-basin in the Management Area shall meet the Regional Water Quality Control Board requirements, and may be used in any sub-basin where such requirements are met.

17. Recharge Losses. The accounting for storage recharge of the Management Area shall not include any water that escapes therefrom and migrates downstream beyond the Management Area. Losses will be calculated based upon best engineering principles.

18. Recycled Water. The use of recycled water can be of substantial benefit in providing additional water in the Management Area. Each Public Agency may implement a recycled water program, including the ownership, operation and construction of all necessary facilities, and the application for and administration of any loan or grant applications. The Management Plan will support loan or grant applications, and the Public Agencies will work to integrate recycled water into the Management Plan to the extent economically feasible while meeting regulatory standards. Subject to existing recycled water contracts, the Management Plan will have a first right of refusal to purchase excess recycled water for recharge. Priority shall be given to Management Area recharge for the use of recycled water which originates therefrom.

19. Export. The Public Agencies may export water outside the Management Area, on a temporary basis, upon approval by the Watermaster.

However, any water exported shall be replenished with an appropriate amount of similar or better quality water as determined by Watermaster. Also, water exports by the Public Agencies shall not interfere with the Management Plan or any other Public Agency's operations. The Management Plan will set forth the specific criteria for the export of water, including, but not limited to, conjunctive use programs.

20. Credits. Recharge credits documented before the Management Plan shall be calculated pursuant to the Management Plan. Future recharge credits shall be established by replenishment of water or by not exercising the full, adjusted base production right, and shall be calculated pursuant to the Management Plan.

21. Tunnel Seepage, Stream Diversions, Fruitvale To resolve Eastern's use of Tunnel seepage, Lake Hemet's stream diversions and Eastern's use of Fruitvale water, 900 afy shall be added to Hemet's adjusted base production and 900 afy shall be added to San Jacinto's adjusted base production right as discussed in Section 5 above. This is intended to provide Hemet and San Jacinto a fair share of water from these disputed issues.

22. Governance. The Management Plan will be administered by a Watermaster as follows:

A. The governing board of the Watermaster shall consist of one elected official from each of the Public Agencies and one Private Pumper representative selected by the Private Pumpers who participate in the Management Plan. Each member shall have one vote.

B. The Watermaster's duties shall include: determining safe yield; determining replenishment needs; determining annual adjusted base production rights; purchasing and selling imported and recycled water; constructing future capital facilities; establishing assessment rates; initiating necessary conservation and drought management measures; and implementing other responsibilities identified in the Management Plan documents.

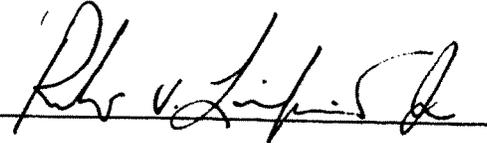
Dated: 1/28, 2004.

EASTERN MUNICIPAL WATER  
DISTRICT

By: 

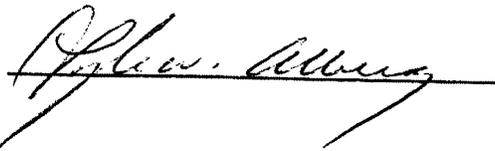
Dated: FEB. 23, 2004.

LAKE HEMET MUNICIPAL WATER  
DISTRICT

By: 

Dated: \_\_\_\_\_, 2004.

CITY OF HEMET

By: 

Dated: 2-23, 2004.

CITY OF SAN JACINTO

By: 