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WATER PURCHASE AND EXCHANGE AGREEMENT

LAFCO

San Bernardino County

This Agreement is made this 7th day of July, 2005, by and between the San Bernardino Valley Municipal Water District ("SBVMWD") and the Crestline-Lake Arrowhead Water Agency ("CLAWA").

Recitals.

A. The Department of Water Resources of the State of California ("DWR") owns and operates the State Water Project ("SWP") and has entered into contracts with twenty-nine (29) water purveyors ("State Water Contractors" or "Contractors") for the annual delivery of water from the SWP to those Contractors.

B. SBVMWD and CLAWA are both State Water Contractors which receive an annual allocation of water from the SWP pursuant to their respective contracts with DWR. SBVMWD's contract with DWR provides for the delivery of 102,600 acre-feet of water per year from the SWP (SBVMWD's "Table A Amount"), and CLAWA's contract with DWR provides for the delivery of 5,800 acre-feet of water per year from the SWP (CLAWA's "Table A Amount").¹

C. CLAWA's contract with DWR authorizes the use of water which CLAWA receives from the SWP only within CLAWA's boundaries. CLAWA's boundaries were originally approved by DWR to include the area surrounding Lake Arrowhead which currently receives water service from the Lake Arrowhead Community Services District. However, this area (the "Lake Arrowhead Exclusion Area") was ultimately excluded from

¹ The quantity of SWP water actually delivered to each Contractor varies from year to year based upon a number of factors, including hydrologic conditions within the SWP watershed, the ability of the SWP to capture and store runoff, and each Contractor's request for water in any given year. In most years, Contractors are allocated less than their Table A Amounts; in some years, Contractors have the opportunity to receive more than their Table A Amounts.

CLAWA's boundaries when CLAWA was formed, and therefore does not receive any SWP water allocated to CLAWA pursuant to CLAWA's Table A Amount.

D. SBVMWD's contract with DWR (specifically, paragraph 15(a) thereof) authorizes the use of the water which it receives from the SWP outside of SBVMWD's boundaries so long as such use does not materially impair SBVMWD's capacity to make payment to DWR as required by its contract with DWR.

E. The SWP water which SBVMWD receives pursuant to its contract with DWR flows through Lake Silverwood, a reservoir of the SWP, then through the Devil Canyon power plant, also a facility of the SWP, en route to the delivery structures ("turnouts") which supply SWP water to SBVMWD south of Devil Canyon. SBVMWD receives credit on its annual invoice from DWR for the value of energy generated at the Devil Canyon power plant due to SWP water delivered to SBVMWD through its turnout south of Devil Canyon. The amount of the power generation credit per acre foot of water delivered to SBVMWD each year is calculated by DWR and is reflected in Table B-17 of DWR's Bulletin 132, prepared and published by DWR each year.

F. The SWP water which CLAWA receives pursuant to its contract with DWR also flows through Lake Silverwood en route to CLAWA's turnout in Lake Silverwood.

G. SBVMWD has agreed to sell to CLAWA, and CLAWA has agreed to purchase from SBVMWD, 8,000 acre-feet of SBVMWD's 2005 allocation of water from the SWP for use, via exchange, within the Lake Arrowhead Exclusion Area pursuant to the terms hereinafter set forth.

H. The purpose of this Agreement is to set forth in writing the terms of the purchase and sale and for the use of that water, via exchange, outside of the boundaries of SBVMWD.

Terms

1. Purchase by CLAWA. SBVMWD agrees to sell to CLAWA, and CLAWA agrees to purchase from SBVMWD, 8,000 acre-feet of water from SBVMWD's allocation of SWP water in calendar year 2005. Although sold by SBVMWD and purchased by CLAWA, this water will be delivered to SBVMWD in 2005 for use by SBVMWD as SBVMWD deems appropriate, consistent with its normal annual operations.

2. Exchange By SBVMWD. In return for the 8,000 acre-feet of SWP water purchased by CLAWA but delivered to SBVMWD in 2005, CLAWA shall have the right to take a total of 7,600 acre-feet of water ("Exchange Water") from SBVMWD's annual allocation of SWP water, beginning in calendar year 2005, upon the terms set forth in this Agreement. SBVMWD and CLAWA shall keep an account ("Exchange Account") of the quantity of Exchange Water which CLAWA is entitled to take pursuant to this Agreement, and the balance remaining in the Exchange Account each time CLAWA withdraws Exchange Water from the Exchange Account.

3. Annual Withdrawals from the Exchange Account. By October 1 of each year, CLAWA will confer with SBVMWD and provide DWR with a schedule showing the total quantity of Exchange Water, by month, which CLAWA intends to take from SBVMWD's allocation of SWP water in the next subsequent year. The schedule may be revised until March 1 of the following year, or thereafter during the course of the year as mutually agreed between

CLAWA, SBVMWD and DWR. However, CLAWA's right to take Exchange Water as set forth in the proposed schedule shall be limited as follows:

- (a) The total quantity of Exchange Water which CLAWA may take in any calendar year shall not exceed 15% of the SWP water allocated to SBVMWD in that year, unless approved in advance by SBVMWD.
- (b) CLAWA shall not take Exchange Water in quantities or rates of flow which, when added to the water taken by CLAWA from its own allocation of SWP water in any year, exceed the total quantity or rate of flow which would cause CLAWA to be in violation of its contract with DWR.
- (c) If any calendar year is determined by DWR to be critically dry, CLAWA will be entitled to take only that quantity of Exchange Water which SBVMWD determines that it can spare from its allocation of SWP water for that year without impairing SBVMWD's ability to satisfy the needs of its own customers, after conferring with CLAWA in good faith.

4. Place of Use. The Exchange Water delivered to CLAWA will be supplied by CLAWA to the Lake Arrowhead Community Services District for use within the Lake Arrowhead Exclusion Area; provided, however, that in any year CLAWA will be entitled to utilize the Exchange Water within its own boundaries to satisfy the consumptive needs of customers within its boundaries, and thereafter either (a) replace the Exchange Water utilized within its own boundaries with an equal quantity of SWP water allocated to CLAWA, for use

within the Lake Arrowhead Exclusion Area, or (b) reduce the quantity of water which the Lake Arrowhead Community Services District must purchase from CLAWA, pursuant to separate agreement between CLAWA and that District.

5. Purchase Price. Within 15 days after execution of this Agreement by all parties hereto, CLAWA will pay to SBVMWD the amount of \$3,794,640 (which is the Total Equivalent Unit Charge to SBVMWD of \$474.33 per acre-foot for SWP water delivered to SBVMWD as reflected in Table B-24 of DWR's Bulletin 132-04 times 8,000 acre-feet) plus the amount of \$212,040 (which is the value of the hydropower generation credit per acre-foot of water delivered through the Devil Canyon power plant as reflected in Table B-17 of DWR's Bulletin 132-04, or \$27.90 per acre-foot, times 7,600 acre-feet). The sum of these two charges equals a total payment of \$4,006,680. Upon receipt of this payment, SBVMWD shall provide notice to DWR that CLAWA has purchased 8,000 acre-feet of water from SBVMWD's 2005 allocation of SWP water from DWR, which shall entitle CLAWA to subsequently take Exchange Water from SBVMWD's annual allocations of SWP water in an aggregate quantity not to exceed 7,600 acre-feet, pursuant to the terms of this Agreement. As soon as reasonably possible thereafter, CLAWA and SBVMWD will review the Total Equivalent Unit Charge for SWP water delivered to SBVMWD as reflected in Table B-24 of DWR's Bulletin 132-04 to determine whether any portion of that charge is attributable to SBVMWD's share of capacity in or use of the extension of the East Branch of the California Aqueduct beyond Devil Canyon ("East Branch Extension"), and if so then SBVMWD will immediately refund to CLAWA that portion of CLAWA's payment for the purchase of 8,000 acre-feet of SWP water from SBVMWD. As CLAWA subsequently takes Exchange Water, an adjustment shall be made in the amount paid to SBVMWD by CLAWA to reflect (a) the Total Equivalent Unit Charge reflected in Table B-24

or a corresponding table of DWR's Bulletin 132 (less any portion of such charge attributable to SBVMWD's share of capacity in or use of the East Branch Extension) for the year in which the Exchange Water is taken, times the number of acre-feet of Exchange Water taken by CLAWA in that year; and (b) the value of the hydropower generation credit per acre foot of water that would have been delivered to SBVMWD through the Devil Canyon power plant in that year (if not taken by CLAWA as Exchange Water) as reflected in Table B-17 of DWR's Bulletin 132 for the year in which the Exchange Water is taken, times the number of acre-feet of Exchange Water taken by CLAWA in that year. The appropriate adjustments shall be made by SBVMWD and CLAWA within 60 days after DWR publishes its Bulletin 132 reflecting the Total Equivalent Unit Charge per acre-foot and the Devil Canyon power generation credit per acre-foot for the year in which the Exchange Water was taken by CLAWA. If any such adjustment results in an extra charge to CLAWA, SBVMWD will send an invoice to CLAWA for the amount of the additional charge, and CLAWA will pay the amount due within 30 days after the date of the invoice. If the adjustment results in a refund of a portion of the amount previously paid by CLAWA to SBVMWD pursuant to this Agreement, CLAWA will send an invoice to SBVMWD for a refund of that amount, and SBVMWD will pay the amount due within 30 days after the date of the invoice. Any amounts due by either CLAWA or SBVMWD which are not paid when due will accrue interest at the rate of 1% per month until paid. In the event of disagreement between CLAWA and SBVMWD as to any amounts due under this Agreement, CLAWA and SBVMWD agree to confer in good faith to resolve such disagreement amicably, without waiving any of the legal equitable rights which either may have against the other.

6. DWR's Charges to SBVMWD. SBVMWD will remain responsible for payment of DWR's charges for water purchased by CLAWA but delivered to SBVMWD in

2005 for use within its service area and for Exchange Water thereafter delivered to CLAWA from SBVMWD's annual allocation of SWP water, as provided in SBVMWD's contract with DWR.

7. Term. CLAWA anticipates taking all of its Exchange Water prior to December 31, 2015. However, in the event that CLAWA does not take all of its Exchange Water by then, CLAWA will have the option to continue taking Exchange Water until its Exchange Account is fully depleted, which is expected to occur by December 31, 2020. If CLAWA has not taken all of its Exchange Water by December 31, 2020, CLAWA and SBVMWD agree to perform any necessary environmental review of an appropriate term extension to provide for delivery of any water remaining in the Exchange Account. Following any such environmental review, the term of this Agreement will be extended accordingly by written agreement signed by the parties hereto. The term of this Agreement will expire when CLAWA has taken all of its Exchange Water contained in the Exchange Account and all of the other obligations set forth herein have been satisfied.

8. Indemnification of DWR In the event any claim against DWR or any of its officers or employees for liability arising under this Agreement, or out of actions undertaken pursuant to this Agreement, for which CLAWA and SBVMWD may be responsible, CLAWA and SBVMWD agree to indemnify, defend and hold DWR and its officers and employees harmless from such claim.

9. Mutual Indemnification. CLAWA and SBVMWD each agrees to indemnify, defend and hold the other party harmless from any claim of loss or liability for damage to person or property arising out of or resulting from the indemnifying party's acts or omissions in the performance of this Agreement. In the event of a third party loss caused by the negligence,

wrongful act or omission of the parties to this Agreement, each party shall bear financial responsibility in proportion to its percentage of fault as judicially determined or as otherwise agreed between them.

10. No Detriment to Other State Water Contractors. CLAWA and SBVMWD agree that DWR has the authority to limit the delivery of Exchange Water to CLAWA in any year as deemed necessary or appropriate by DWR in order to satisfy DWR's other obligations to deliver SWP water to Contractors.

11. Compliance with All Laws. CLAWA will assume responsibility to ensure compliance with such laws as may apply to the implementation of this Agreement, including without limitation the California Environmental Quality Act, and for securing such consents or permits as may be required therefor. SBVMWD agrees to cooperate with CLAWA in achieving such compliance.

12. Attorneys Fees and Costs. In the event of legal action to interpret or enforce the provisions of this Agreement, the prevailing party shall be entitled to reimbursement of reasonable attorneys fees and costs incurred in such action, as determined by a court or as agreed between the parties.

IN WITNESS WHEREOF, the parties have executed this Agreement effective as of the date first above written.

CRESTLINE-LAKE ARROWHEAD WATER AGENCY

By: James J. McCrow
President, Board of Directors

(Date) 8/25/05

ATTEST:

Patricia Kelly
Secretary

SAN BERNARDINO VALLEY MUNICIPAL WATER DISTRICT

By: [Signature]
President, Board of Directors

(Date) 7-20-05

ATTEST:

[Signature]
Secretary

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APR 23 2010

LAPCO
San Bernardino County

AGREEMENT FOR THE SALE, TREATMENT AND DELIVERY OF WATER

This Agreement is made this 7th day of July, 2005, by and between the Lake Arrowhead Community Services District ("LACSD") and the Crestline-Lake Arrowhead Water Agency ("CLAWA").

RECITALS

A. LACSD is an independent special district of the State of California located in the San Bernardino Mountains. LACSD provides retail water service to customers located within its boundaries.

B. Lake Arrowhead is located within the boundaries of LACSD and serves as a primary source of the water which LACSD supplies to its customers. During the recent drought and also during previous periods of drought, the surface level of Lake Arrowhead dropped significantly, which has prompted the LACSD to investigate alternative water supplies and thus reduce its reliance on Lake Arrowhead to satisfy consumptive demands within its service area.

C. CLAWA is one of twenty-nine (29) water purveyors in the State of California ("State Water Contractors") which have entered into contracts with California's Department of Water Resources ("DWR") to obtain imported water from the State Water Project ("SWP"). The quantity of SWP water allocated to CLAWA each year is calculated by DWR in accordance with the terms of CLAWA's contract with DWR. CLAWA takes delivery of its SWP water at Silverwood Lake, a water storage reservoir on the East Branch of the SWP which is owned and operated by DWR. CLAWA then treats that water at CLAWA's water treatment plant located near the southerly shore of Silverwood Lake and pumps the treated water uphill for delivery and distribution to CLAWA's wholesale and retail customers located within CLAWA's service area.

D. San Bernardino Valley Municipal Water District ("SBVMWD") is also a State Water Contractor which receives imported water from the SWP. SBVMWD takes delivery of its SWP water in the San Bernardino Valley, after it flows out of Silverwood Lake and through the Devil Canyon hydropower plant, which is another facility on the East Branch of the SWP owned and operated by DWR. SBVMWD is billed by DWR for the water it receives, as set forth in SBVMWD's contract with DWR, but receives credit for the value of the power generated by the water which flows through the Devil Canyon hydropower plant for delivery to SBVMWD.

E. CLAWA has negotiated an agreement with SBVMWD (the "SBVMWD Agreement") for the purchase of 8,000 acre-feet of imported SWP water from SBVMWD's 2005 allocation from DWR, for the benefit of LACSD. A copy of the SBVMWD Agreement is attached hereto as Exhibit "A." Upon execution of this Agreement and the SBVMWD Agreement, and pursuant to the terms of the SBVMWD Agreement, CLAWA will purchase the water from SBVMWD in 2005 and allow the purchased water to be delivered to SBVMWD in exchange for the right to subsequently take a total of 7,600 acre-feet of water ("Exchange Water") from DWR's annual allocation of SWP water to SBVMWD over a period of ten or more years. The Exchange Water taken by CLAWA will be treated for domestic consumption and delivered to LACSD as an alternative source of supply to address consumptive demands within LACSD's service area. CLAWA's treatment and delivery of this Exchange Water to LACSD will allow LACSD to reduce the quantity of water taken from Lake Arrowhead during the term of this Agreement to satisfy the consumptive demands of LACSD's customers.

F. The purpose of this Agreement is to provide for CLAWA's treatment, delivery and sale of Exchange Water to LACSD according to the terms hereinafter set forth. Nothing herein shall affect LACSD's right to continue receiving water service from CLAWA for property located within the boundaries of both LACSD and CLAWA (the "Overlap Area"), in accordance with the Agency's rules and regulations applicable to water service within the Agency's boundaries.

TERMS AND CONDITIONS

1. Term. This Agreement shall be effective upon execution of this Agreement by all of the parties hereto, and upon execution of the SBVMWD Agreement by all of the parties thereto. This Agreement shall remain in effect until expiration of the SBVMWD Agreement, and until all other obligations set forth in this Agreement (including payment and adjustment obligations) have been satisfied. All such obligations are expected to be satisfied by December 31, 2020, or by the extension of such date as necessary or appropriate to deliver to LACSD all of the water contemplated in this Agreement, following any necessary environmental review of such term extension.

2. Definitions. The following terms shall have the following meanings as used herein:

- (a) "Exchange Water" means water which CLAWA takes from the annual allocation of SWP Water to SBVMWD pursuant to the SBVMWD Agreement for the benefit of LACSD.
- (b) "Replacement Water" means water which CLAWA takes from its own allocation of SWP Water for treatment, storage and delivery to LACSD to replace Exchange Water which CLAWA previously took from SBVMWD pursuant to the SBVMWD Agreement and used within CLAWA's own service area.
- (c) "Water Delivery Facilities" means the LACSD-ROW Turnout hereinafter described in Paragraph No. 3, the backflow prevention assembly to be installed immediately downstream therefrom, appurtenant piping and fittings, and approximately 5,375 lineal feet of 12-inch diameter pipeline from the turnout to LACSD's existing retail water system, as needed for CLAWA to deliver Exchange Water and/or Replacement Water to LACSD. The Water Delivery Facilities do not include the one million gallon reservoir which

LACSD also intends to construct on an unpaved 0.25 acre site, which is located north east of Crest Fern Drive.

3. Construction of LACSD-ROW Turnout. Within sixty (60) days after the effective date of this Agreement or within sixty (60) days after conclusion of legal proceedings challenging this Agreement, if filed, LACSD will deposit with CLAWA the sum of \$140,000 to pay for CLAWA's cost of designing and constructing a 1,500 gallon-per-minute wholesale water service turnout including meter, valve, and piping within an underground vault on a CLAWA-approved site in the Burnt Mill area, to be acquired by LACSD and conveyed to CLAWA at no charge to CLAWA (the "LACSD-ROW Turnout"). The deposit will be applied to CLAWA's actual expenses incurred in designing and constructing the turnout, including 15% of those actual costs to cover CLAWA's overhead and expense in administering the construction contract. If the amount of the deposit is insufficient to cover such costs, CLAWA will invoice LACSD for the difference, and LACSD agrees to pay the invoice within 45 days after receipt. If the amount of the deposit exceeds such costs, CLAWA will refund the difference to LACSD within 45 days after completion of construction. The LACSD-ROW Turnout will be owned, operated and maintained by CLAWA. All facilities constructed by LACSD on the outlet side of the turnout to accept the delivery of water through the turnout will be designed, constructed, owned, operated and maintained by LACSD, including an approved backflow prevention assembly on the site.

4. Construction of Water Delivery Facilities. Upon the effective date of this Agreement or upon the conclusion of legal proceedings challenging this Agreement, if filed, LACSD will provide for the design and construction of the Water Delivery Facilities, except for the LACSD-ROW Turnout which shall be designed and constructed by CLAWA. All such facilities on the discharge side of the LACSD-ROW Turnout shall be designed, constructed, owned, operated and maintained by LACSD as part of its retail water system. The piping from the LACSD-ROW Turnout to LACSD's retail system shall have sufficient capacity to accommodate a flow of at least 1,500 gallons per minute through the turnout. Construction of the Water Delivery Facilities shall be scheduled for completion within 12 months after the

effective date of this Agreement or within 12 months after the conclusion of legal proceedings challenging this Agreement, if filed; provided, however, that this 12 month period for completion is conditioned upon construction activities being performed in accordance with the requirements of the County of San Bernardino, including, but not limited to, the requirement that improvements located in the County of San Bernardino's roadway right-of-ways can generally only be completed during the period of April 15 through October 15 of each year.

5. Minimum Purchase Requirement. LACSD agrees to purchase from CLAWA at least 640 acre-feet of Exchange Water or Replacement Water, or a combination thereof, in each of the first two calendar years following completion of the Water Delivery Facilities, and at least 560 acre-feet of such water in each subsequent year, up to an aggregate total of 7,600 acre-feet of such water, provided however that

- (a) LACSD shall not be required to purchase from CLAWA in any year a quantity of such water which exceeds the quantity that CLAWA makes available to LACSD for purchase in that year;
- (b) LACSD shall have the option of declining delivery of any portion of its minimum purchase quantity in any year, in which event the dollar amount paid by LACSD to CLAWA for the water purchased by LACSD but not taken by LACSD in that year shall be retained by CLAWA as a credit to be applied by CLAWA to LACSD's next subsequent purchase of such water in excess of the minimum purchase requirement in any subsequent year;
- (c) for water purchased by LACSD in any year in excess of its minimum purchase requirement in that year, the excess quantity purchased shall be applied

to its minimum purchase requirement in the immediately succeeding year or years;

- (d) should the adjustments to the price charged to LACSD per acre-foot of water, as set forth in Paragraph No. 6 of this Agreement, result in a purchase price for any year which exceeds \$2,700 per acre-foot, CLAWA and LACSD agree to adjust the minimum purchase quantity downward as necessary to limit LACSD's total payment obligation in that year to the product of (1) the minimum purchase requirement for that year, and (2) \$2,700. The quantity not purchased as a result of that reduction instead shall be added to the balance of the water to be subsequently purchased by LACSD pursuant to this Agreement.

6. Purchase Price. For each acre-foot of Exchange Water and/or Replacement Water which LACSD purchases from CLAWA pursuant to this Agreement, LACSD will pay to CLAWA a purchase price equal to the sum of the following:

- (a) \$2,000 for the treatment, storage, transportation and delivery of the water, including the use of capacity in CLAWA's facilities; provided that beginning on January 1, 2006, and on January 1 of each subsequent year, this component of the charge will be adjusted as follows:
\$363 of this component of the price, which reflects CLAWA's average cost of pumping energy per acre-foot during fiscal year 2003-2004, will be

adjusted upward or downward to reflect the cost of pumping energy per acre foot calculated as the total pumping energy cost incurred by CLAWA for the previous fiscal year divided by the total number of acre feet drawn by CLAWA from Lake Silverwood for the same time period.

- (b) \$100 to compensate CLAWA for the use of CLAWA's money to purchase water from SBVMWD for ultimate exchange and delivery to LACSD.
- (c) \$527.19, which is the price per acre-foot which CLAWA must pay to SBVMWD for the right to receive a total of 7,600 acre-feet of Exchange Water back from SBVMWD during the term of the SBVMWD Agreement; provided, however, that as an adjustment is made in the price per acre-foot which SBVMWD charges to CLAWA for such water pursuant to Paragraph No. 5 of the SBVMWD Agreement, resulting in an additional charge or a credit to CLAWA, the same adjustment in the price per acre-foot will be made in the price per acre-foot which LACSD must pay to CLAWA for the purchase of Exchange Water or Replacement Water from CLAWA. If such adjustment in the purchase price results in a refund to CLAWA, CLAWA will make a corresponding refund to LACSD within 30 days after receipt from

SBVMWD. Conversely, if such adjustment results in an invoice from SBVMWD for payment of an additional charge, CLAWA will send a corresponding invoice to LACSD for payment of the additional charge, and LACSD agrees to pay the invoiced amount to CLAWA within 30 days after the date of the invoice. If LACSD purchases Replacement Water from CLAWA, in lieu of Exchange Water, the adjustment to the purchase price charged to LACSD shall be identical to the adjustment to the purchase price which CLAWA paid to SBVMWD for the Exchange Water being replaced.

7. Billing and Payment. By October 1 of each year, LACSD will provide CLAWA with a preliminary estimate of the quantity of Exchange Water which LACSD would like to receive during the subsequent calendar year. LACSD may thereafter revise its request for such water, in writing to CLAWA, until the following March 1. By January 30 of each year in which LACSD is required to purchase Exchange Water and/or Replacement Water pursuant to this Agreement, LACSD will deposit with CLAWA an amount of money equal to one-half of the purchase price per acre-foot of water as described in Paragraph No. 6 of this Agreement (not including the adjustment thereafter made in the purchase price as set forth in Subparagraph No. 6(c)) times the minimum purchase quantity of water for that year as set forth in Paragraph No. 5; and by June 30 of that year LACSD will deposit with CLAWA the remainder of the total estimated purchase price for that year. The deposit shall be applied to the purchase price of water thereafter delivered to LACSD through the LACSD-ROW Turnout, until fully depleted. Once each month, near the end of the month, CLAWA will examine (or "read") the meter installed in the LACSD-ROW Turnout to determine the quantity of Exchange Water and/or

Replacement Water delivered through the LACSD-ROW Turnout since the date of the previous meter reading, and will provide LACSD with a statement setting forth the quantity of water delivered since the date of the previous meter reading, the corresponding charge for the water delivered, and the remaining credit balance (if any) on deposit with CLAWA. If the statement reveals an additional payment to be made by LACSD for water delivered, after the credit balance has been fully depleted, LACSD agrees to pay the amount due within 30 days after receipt of the statement. LACSD shall have the right at any time to request an independent test of the meter, to determine its accuracy, by posting a deposit with CLAWA in the amount estimated by CLAWA to be necessary to remove the meter and conduct the test. LACSD agrees to pay actual costs incurred, with an increase in the deposit or a refund as appropriate to reflect such costs. If the test reveals that the meter is accurate within a tolerance of 2%, plus or minus, the meter will be returned to service and no adjustment will be made in previous invoices. If the test reveals an inaccuracy of more than 2%, the meter will be replaced at CLAWA's expense and an adjustment will be made in previous invoices to fairly estimate the appropriate charge for Exchange Water and/or Replacement Water actually delivered to LACSD, as set forth in CLAWA's rules and regulations for water service.

8. Use by CLAWA. CLAWA shall have the right, in any year, to utilize Exchange Water to satisfy consumptive needs within CLAWA's own service area, and in a subsequent year to replace the Exchange Water used in CLAWA's service area with an equal quantity of water to be supplied to LACSD from CLAWA's allocation of water from the SWP ("Replacement Water"). In the event that CLAWA's use of Exchange Water within its own service area in any year reduces the quantity of Exchange Water available for purchase by LACSD in that year to a quantity less than LACSD's minimum purchase requirement for the year, LACSD's minimum purchase requirement for the year shall be reduced to the quantity actually made available by CLAWA in that year for purchase by LACSD. Conversely, in a subsequent year if CLAWA offers to provide LACSD with Replacement Water, in lieu of Exchange Water, such Replacement Water shall be treated the same as Exchange Water for

purposes of calculating LACSD's minimum purchase requirement as set forth herein. In lieu of CLAWA providing Replacement Water to LACSD, LACSD and CLAWA may agree to reduce LACSD's repayment obligations under this Agreement in an amount commensurate with the payments that would otherwise be due and payable for the Exchange Water that CLAWA utilizes to satisfy consumptive needs within CLAWA's own service area.

9. Operating Committee. CLAWA and LACSD acknowledge the need for coordination and mutual cooperation in scheduling the timing, flow rate and quantities of water to be delivered through the LACSD-ROW Turnout. Therefore, CLAWA and LACSD each agree to form an Operating Committee consisting of at least one designee, in each case appointed by that party's General Manager, to develop and keep current an operating plan designed to accomplish the purposes set forth herein, consistent with other system demands. The operating plan shall be consistent with CLAWA's operational procedures and criteria for the use of purveyor turnouts as they may be revised from time to time. CLAWA and LACSD further agree that their respective General Managers and/or consultants will meet as necessary to discuss mutual accommodations that may be necessary in order to deal with operational constraints. Each party shall bear its own costs for participating in, and performing any functions as part of, this Operating Committee, and in performing all other aspects of administering this Agreement. No later than January 31 of each year, the Operating Committee will prepare a written report setting forth the annual quantity of water delivered pursuant to this Agreement, the total payments made therefor, and the remaining quantity of water to be delivered.

10. Water Quality. CLAWA represents that the water made available to LACSD through the LACSD-ROW Turnout will be treated for domestic consumption and will be of the same quality as that supplied to other CLAWA customers for domestic consumption. No other representations are made with regard to the water quality. LACSD will be exclusively responsible for obtaining approval from the State Department of Health Services for the introduction of CLAWA water into LACSD's domestic water system, and from the Lahontan

Regional Water Quality Control Board for the discharge of sewage effluent derived from CLAWA water.

11. Mutual Indemnification. CLAWA and LACSD each agree to indemnify, defend and hold the other party harmless from any claim of loss or liability for damage to person or property arising out of or resulting from the indemnifying party's acts or omissions in the performance of this Agreement. In the event of a third party loss caused by the negligence, wrongful act or omission of the parties to this Agreement, each party shall bear financial responsibility in proportion to its percentage of fault as judicially determined or as otherwise agreed between them.

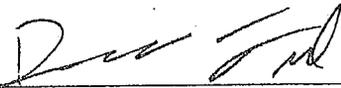
12. Condition Precedent. This Agreement shall not take effect unless and until the SBVMWD Agreement is executed by all the parties thereto.

13. Amendment. This Agreement may be amended upon approval by the governing boards of CLAWA and LACSD, by separate instrument executed in writing.

14. Legal Proceedings. In the event of any legal proceedings to construe or enforce the provisions of this Agreement, the prevailing party shall be entitled to reimbursement of costs and reasonable attorneys fees.

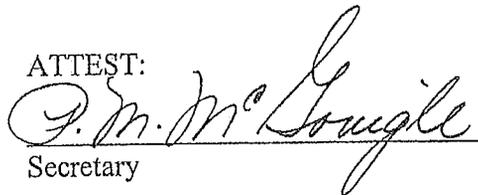
IN WITNESS WHEREOF, the parties have executed this Agreement effective as of the date first above written.

LAKE ARROWHEAD COMMUNITY SERVICES DISTRICT

By: 
President, Board of Directors

Date: 8-15-05

ATTEST:


Secretary

CRESTLINE - LAKE ARROWHEAD WATER AGENCY

By: 
President, Board of Directors

Date: 8/25/05

ATTEST:


Secretary

SEP 15 2009

FIRST AMENDMENT TO AGREEMENT FOR THE SALE, TREATMENT
AND DELIVERY OF WATER

WHEREAS, Crestline-Lake Arrowhead Water Agency and Lake Arrowhead Community Services District (“Parties”) have entered into an agreement entitled “Agreement for the Sale, Treatment and Delivery of Water” (“Agreement”) dated July 7, 2005; and

WHEREAS, the Parties have determined that a change in circumstances warrants revisions to Paragraphs Nos. 5 and 6 of the Agreement;

NOW, THEREFORE, the Parties do hereby revise Paragraph Nos. 5 and 6 of the Agreement to provide as follows:

5. Minimum Purchase Requirement. LACSD agrees to purchase from CLAWA at least 640 acre-feet of Exchange Water or Replacement Water, or a combination thereof, in each of the first two calendar years following completion of the Water Delivery Facilities (2007 and 2008), at least 560 acre-feet of such water in the third year following completion of the Water Delivery Facilities (2009), and in each year thereafter (beginning in 2010) at least 550 acre-feet of such water, with payment for the treatment, storage, transportation and delivery of the water, including the use of capacity in CLAWA’s facilities, due only for water actually delivered, in the year of delivery as provided in Paragraph No. 6 below, up to an aggregate total of 7,600 acre-feet of such water, provided however that

- (a) LACSD shall not be required to purchase from CLAWA in any year a quantity of such water which

exceeds the quantity that CLAWA makes available to LACSD for purchase in that year;

(b) LACSD shall have the option of declining delivery of any portion of its minimum purchase quantity in any year, in which event the dollar amount paid by LACSD to CLAWA for the water purchased by LACSD but not taken by LACSD in that year shall be retained by CLAWA as a credit to be applied by CLAWA to LACSD's next subsequent purchase of such water in excess of the minimum purchase requirement in any subsequent year;

(c) for water purchased by LACSD in any year in excess of its minimum purchase requirement in that year, the excess quantity purchased shall be applied to its minimum purchase requirement in the immediately succeeding year or years;

(d) should the adjustments to the price charged to LACSD per acre-foot of water, as set forth in Paragraph No. 6 of this Agreement, result in a purchase price for any year which exceeds \$2,700 per acre-foot, CLAWA and LACSD agree to adjust the minimum purchase quantity downward as

necessary to limit LACSD's total payment obligation in that year to the product of (1) the minimum purchase requirement for that year, and (2) \$2,700. The quantity not purchased as a result of that reduction instead shall be added to the balance of the water to be subsequently purchased by LACSD pursuant to this Agreement.

6. Purchase Price. For each acre-foot of Exchange Water and/or Replacement Water which LACSD purchases from CLAWA pursuant to this Agreement during the first three years following completion of the Water Delivery Facilities (2007 through 2009), LACSD will pay to CLAWA a purchase price equal to the sum of the following:

- (a) \$2,000 for the treatment, storage, transportation and delivery of the water, including the use of capacity in CLAWA's facilities; provided that beginning on January 1, 2006, and on January 1 of each subsequent year, this component of the charge will be adjusted as follows:

\$363 of this component of the price, which reflects CLAWA's average cost of pumping energy per acre-foot during fiscal year 2003-2004, will be adjusted upward or downward to reflect the cost of pumping energy per acre foot calculated as the total

pumping energy cost incurred by CLAWA for the previous fiscal year divided by the total number of acre feet drawn by CLAWA from Lake Silverwood for the same time period.

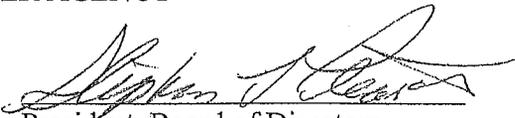
- (b) \$100 to compensate CLAWA for the use of CLAWA's money to purchase water from SBVMWD for ultimate exchange and delivery to LACSD.
- (c) \$527.19, which is the price per acre-foot which CLAWA must pay to SBVMWD for the right to receive a total of 7,600 acre-feet of Exchange Water back from SBVMWD during the term of the SBVMWD Agreement; provided, however, that as an adjustment is made in the price per acre-foot which SBVMWD charges to CLAWA for such water pursuant to Paragraph No. 5 of the SBVMWD Agreement, resulting in an additional charge or a credit to CLAWA, the same adjustment in the price per acre-foot will be made in the price per acre-foot which LACSD must pay to CLAWA for the purchase of Exchange Water or Replacement Water from CLAWA. If such adjustment in the purchase price results in a refund to CLAWA,

CLAWA will make a corresponding refund to LACSD within 30 days after receipt from SBVMWD. Conversely, if such adjustment results in an invoice from SBVMWD for payment of an additional charge, CLAWA will send a corresponding invoice to LACSD for payment of the additional charge, and LACSD agrees to pay the invoiced amount to CLAWA within 30 days after the date of the invoice. If LACSD purchases Replacement Water from CLAWA, in lieu of Exchange Water, the adjustment to the purchase price charged to LACSD shall be identical to the adjustment to the purchase price which CLAWA paid to SBVMWD for the Exchange Water being replaced.

Beginning in the fourth year following completion of the Water Delivery Facilities (2010 and following) LACSD shall pay to CLAWA the amount set forth in subparagraph 6(c) in the year in which LACSD purchases the water, and the amount set forth in subparagraph 6(a) in the year in which CLAWA delivers the water to LACSD. Furthermore, beginning in 2010, and annually thereafter, in lieu of paying a charge of \$100 per acre-foot for each acre-foot of water purchased, as set forth in subparagraph 6(b), LACSD will pay to CLAWA an annual interest payment on the amount of money which CLAWA paid to SBVMWD for the purchase of water which LACSD has not purchased from CLAWA as

Exchange Water or Replacement Water through January 30 of the year in which the payment is made. That amount shall be determined by subtracting the total amount of Exchange Water and Replacement Water purchased by LACSD through January 30 of that year from the total quantity of 7,600 acre-feet of water which CLAWA purchased from SBVMWD, and then multiplying the difference times \$527.19. The product of that calculation shall be called the "Unpaid Balance." On January 30 of each year, beginning in 2010, LACSD shall make an annual interest payment to CLAWA on the Unpaid Balance. The interest rate shall be the average rate of return which CLAWA received on its funds invested with the State of California's Local Agency Investment Fund during the previous calendar year, plus one percent (1%).

CRESTLINE-LAKE ARROWHEAD
WATER AGENCY

By: 
President, Board of Directors

Date: Sept 3, 2009

LAKE ARROWHEAD COMMUNITY
SERVICES DISTRICT

By: 
President, Board of Directors

Date: 9-8-09

DEPARTMENT OF WATER RESOURCES

1416 NINTH STREET, P.O. BOX 942836
SACRAMENTO, CA 94236-0001
5) 653-5791RECEIVED
APR 23 2010

APR 17 2008

LAFCO
San Bernardino County

Ms. Roxanne M. Holmes
General Manager
Crestline – Lake Arrowhead Water Agency
24116 Crest Forest Drive
Crestline, California 92325-3880

Mr. Randy Van Gelder
General Manager
San Bernardino Valley Municipal Water District
1350 South E Street
Post Office Box 5906
San Bernardino, California 92412-5906

Dear Ms. Holmes and Mr. Van Gelder:

Enclosed for your record is an executed original of the "Point of Delivery Agreement among the Department of Water Resources of the State of California, Crestline-Lake Arrowhead Water Agency, and San Bernardino Valley Municipal Water District for an Emergency Water Supply Transfer for Lake Arrowhead Community Services District." The Agreement sets forth the terms to allow Crestline-Lake Arrowhead Water Agency to take delivery of up to 7,600 acre-feet of San Bernardino Valley Municipal Water District's 2005 Table A State Water Project water supplies for Lake Arrowhead Community Services District.

If you have any questions or need additional information, please call me at (916) 653-4313 and refer to SWPAO #07025.

Sincerely,

Handwritten signature of Robert B. Cooke in cursive.

Robert B. Cooke, Chief
State Water Project Analysis Office

Enclosures

cc: Mr. Terry Erlewine
General Manager
State Water Contractors
1121 'L' Street, Suite 1050
Sacramento, California 95814

RECEIVED
APR 23 2010

LAFCO
San Bernardino County

AGREEMENT FOR THE SALE, TREATMENT AND DELIVERY OF WATER

This Agreement is made this 7th day of July, 2005, by and between the Lake Arrowhead Community Services District ("LACSD") and the Crestline-Lake Arrowhead Water Agency ("CLAWA").

RECITALS

A. LACSD is an independent special district of the State of California located in the San Bernardino Mountains. LACSD provides retail water service to customers located within its boundaries.

B. Lake Arrowhead is located within the boundaries of LACSD and serves as a primary source of the water which LACSD supplies to its customers. During the recent drought and also during previous periods of drought, the surface level of Lake Arrowhead dropped significantly, which has prompted the LACSD to investigate alternative water supplies and thus reduce its reliance on Lake Arrowhead to satisfy consumptive demands within its service area.

C. CLAWA is one of twenty-nine (29) water purveyors in the State of California ("State Water Contractors") which have entered into contracts with California's Department of Water Resources ("DWR") to obtain imported water from the State Water Project ("SWP"). The quantity of SWP water allocated to CLAWA each year is calculated by DWR in accordance with the terms of CLAWA's contract with DWR. CLAWA takes delivery of its SWP water at Silverwood Lake, a water storage reservoir on the East Branch of the SWP which is owned and operated by DWR. CLAWA then treats that water at CLAWA's water treatment plant located near the southerly shore of Silverwood Lake and pumps the treated water uphill for delivery and distribution to CLAWA's wholesale and retail customers located within CLAWA's service area.

D. San Bernardino Valley Municipal Water District ("SBVMWD") is also a State Water Contractor which receives imported water from the SWP. SBVMWD takes delivery of its SWP water in the San Bernardino Valley, after it flows out of Silverwood Lake and through the Devil Canyon hydropower plant, which is another facility on the East Branch of the SWP owned and operated by DWR. SBVMWD is billed by DWR for the water it receives, as set forth in SBVMWD's contract with DWR, but receives credit for the value of the power generated by the water which flows through the Devil Canyon hydropower plant for delivery to SBVMWD.

E. CLAWA has negotiated an agreement with SBVMWD (the "SBVMWD Agreement") for the purchase of 8,000 acre-feet of imported SWP water from SBVMWD's 2005 allocation from DWR, for the benefit of LACSD. A copy of the SBVMWD Agreement is attached hereto as Exhibit "A." Upon execution of this Agreement and the SBVMWD Agreement, and pursuant to the terms of the SBVMWD Agreement, CLAWA will purchase the water from SBVMWD in 2005 and allow the purchased water to be delivered to SBVMWD in exchange for the right to subsequently take a total of 7,600 acre-feet of water ("Exchange Water") from DWR's annual allocation of SWP water to SBVMWD over a period of ten or more years. The Exchange Water taken by CLAWA will be treated for domestic consumption and delivered to LACSD as an alternative source of supply to address consumptive demands within LACSD's service area. CLAWA's treatment and delivery of this Exchange Water to LACSD will allow LACSD to reduce the quantity of water taken from Lake Arrowhead during the term of this Agreement to satisfy the consumptive demands of LACSD's customers.

F. The purpose of this Agreement is to provide for CLAWA's treatment, delivery and sale of Exchange Water to LACSD according to the terms hereinafter set forth. Nothing herein shall affect LACSD's right to continue receiving water service from CLAWA for property located within the boundaries of both LACSD and CLAWA (the "Overlap Area"), in accordance with the Agency's rules and regulations applicable to water service within the Agency's boundaries.

TERMS AND CONDITIONS

1. Term. This Agreement shall be effective upon execution of this Agreement by all of the parties hereto, and upon execution of the SBVMWD Agreement by all of the parties thereto. This Agreement shall remain in effect until expiration of the SBVMWD Agreement, and until all other obligations set forth in this Agreement (including payment and adjustment obligations) have been satisfied. All such obligations are expected to be satisfied by December 31, 2020, or by the extension of such date as necessary or appropriate to deliver to LACSD all of the water contemplated in this Agreement, following any necessary environmental review of such term extension.

2. Definitions. The following terms shall have the following meanings as used herein:

- (a) "Exchange Water" means water which CLAWA takes from the annual allocation of SWP Water to SBVMWD pursuant to the SBVMWD Agreement for the benefit of LACSD.
- (b) "Replacement Water" means water which CLAWA takes from its own allocation of SWP Water for treatment, storage and delivery to LACSD to replace Exchange Water which CLAWA previously took from SBVMWD pursuant to the SBVMWD Agreement and used within CLAWA's own service area.
- (c) "Water Delivery Facilities" means the LACSD-ROW Turnout hereinafter described in Paragraph No. 3, the backflow prevention assembly to be installed immediately downstream therefrom, appurtenant piping and fittings, and approximately 5,375 lineal feet of 12-inch diameter pipeline from the turnout to LACSD's existing retail water system, as needed for CLAWA to deliver Exchange Water and/or Replacement Water to LACSD. The Water Delivery Facilities do not include the one million gallon reservoir which

LACSD also intends to construct on an unpaved 0.25 acre site, which is located north east of Crest Fern Drive.

3. Construction of LACSD-ROW Turnout. Within sixty (60) days after the effective date of this Agreement or within sixty (60) days after conclusion of legal proceedings challenging this Agreement, if filed, LACSD will deposit with CLAWA the sum of \$140,000 to pay for CLAWA's cost of designing and constructing a 1,500 gallon-per-minute wholesale water service turnout including meter, valve, and piping within an underground vault on a CLAWA-approved site in the Burnt Mill area, to be acquired by LACSD and conveyed to CLAWA at no charge to CLAWA (the "LACSD-ROW Turnout"). The deposit will be applied to CLAWA's actual expenses incurred in designing and constructing the turnout, including 15% of those actual costs to cover CLAWA's overhead and expense in administering the construction contract. If the amount of the deposit is insufficient to cover such costs, CLAWA will invoice LACSD for the difference, and LACSD agrees to pay the invoice within 45 days after receipt. If the amount of the deposit exceeds such costs, CLAWA will refund the difference to LACSD within 45 days after completion of construction. The LACSD-ROW Turnout will be owned, operated and maintained by CLAWA. All facilities constructed by LACSD on the outlet side of the turnout to accept the delivery of water through the turnout will be designed, constructed, owned, operated and maintained by LACSD, including an approved backflow prevention assembly on the site.

4. Construction of Water Delivery Facilities. Upon the effective date of this Agreement or upon the conclusion of legal proceedings challenging this Agreement, if filed, LACSD will provide for the design and construction of the Water Delivery Facilities, except for the LACSD-ROW Turnout which shall be designed and constructed by CLAWA. All such facilities on the discharge side of the LACSD-ROW Turnout shall be designed, constructed, owned, operated and maintained by LACSD as part of its retail water system. The piping from the LACSD-ROW Turnout to LACSD's retail system shall have sufficient capacity to accommodate a flow of at least 1,500 gallons per minute through the turnout. Construction of the Water Delivery Facilities shall be scheduled for completion within 12 months after the

effective date of this Agreement or within 12 months after the conclusion of legal proceedings challenging this Agreement, if filed; provided, however, that this 12 month period for completion is conditioned upon construction activities being performed in accordance with the requirements of the County of San Bernardino, including, but not limited to, the requirement that improvements located in the County of San Bernardino's roadway right-of-ways can generally only be completed during the period of April 15 through October 15 of each year.

5. Minimum Purchase Requirement. LACSD agrees to purchase from CLAWA at least 640 acre-feet of Exchange Water or Replacement Water, or a combination thereof, in each of the first two calendar years following completion of the Water Delivery Facilities, and at least 560 acre-feet of such water in each subsequent year, up to an aggregate total of 7,600 acre-feet of such water, provided however that

- (a) LACSD shall not be required to purchase from CLAWA in any year a quantity of such water which exceeds the quantity that CLAWA makes available to LACSD for purchase in that year;
- (b) LACSD shall have the option of declining delivery of any portion of its minimum purchase quantity in any year, in which event the dollar amount paid by LACSD to CLAWA for the water purchased by LACSD but not taken by LACSD in that year shall be retained by CLAWA as a credit to be applied by CLAWA to LACSD's next subsequent purchase of such water in excess of the minimum purchase requirement in any subsequent year;
- (c) for water purchased by LACSD in any year in excess of its minimum purchase requirement in that year, the excess quantity purchased shall be applied

to its minimum purchase requirement in the immediately succeeding year or years;

- (d) should the adjustments to the price charged to LACSD per acre-foot of water, as set forth in Paragraph No. 6 of this Agreement, result in a purchase price for any year which exceeds \$2,700 per acre-foot, CLAWA and LACSD agree to adjust the minimum purchase quantity downward as necessary to limit LACSD's total payment obligation in that year to the product of (1) the minimum purchase requirement for that year, and (2) \$2,700. The quantity not purchased as a result of that reduction instead shall be added to the balance of the water to be subsequently purchased by LACSD pursuant to this Agreement.

6. Purchase Price. For each acre-foot of Exchange Water and/or Replacement Water which LACSD purchases from CLAWA pursuant to this Agreement, LACSD will pay to CLAWA a purchase price equal to the sum of the following:

- (a) \$2,000 for the treatment, storage, transportation and delivery of the water, including the use of capacity in CLAWA's facilities; provided that beginning on January 1, 2006, and on January 1 of each subsequent year, this component of the charge will be adjusted as follows:

\$363 of this component of the price, which reflects CLAWA's average cost of pumping energy per acre-foot during fiscal year 2003-2004, will be

adjusted upward or downward to reflect the cost of pumping energy per acre foot calculated as the total pumping energy cost incurred by CLAWA for the previous fiscal year divided by the total number of acre feet drawn by CLAWA from Lake Silverwood for the same time period.

- (b) \$100 to compensate CLAWA for the use of CLAWA's money to purchase water from SBVMWD for ultimate exchange and delivery to LACSD.
- (c) \$527.19, which is the price per acre-foot which CLAWA must pay to SBVMWD for the right to receive a total of 7,600 acre-feet of Exchange Water back from SBVMWD during the term of the SBVMWD Agreement; provided, however, that as an adjustment is made in the price per acre-foot which SBVMWD charges to CLAWA for such water pursuant to Paragraph No. 5 of the SBVMWD Agreement, resulting in an additional charge or a credit to CLAWA, the same adjustment in the price per acre-foot will be made in the price per acre-foot which LACSD must pay to CLAWA for the purchase of Exchange Water or Replacement Water from CLAWA. If such adjustment in the purchase price results in a refund to CLAWA, CLAWA will make a corresponding refund to LACSD within 30 days after receipt from

SBVMWD. Conversely, if such adjustment results in an invoice from SBVMWD for payment of an additional charge, CLAWA will send a corresponding invoice to LACSD for payment of the additional charge, and LACSD agrees to pay the invoiced amount to CLAWA within 30 days after the date of the invoice. If LACSD purchases Replacement Water from CLAWA, in lieu of Exchange Water, the adjustment to the purchase price charged to LACSD shall be identical to the adjustment to the purchase price which CLAWA paid to SBVMWD for the Exchange Water being replaced.

7. Billing and Payment. By October 1 of each year, LACSD will provide CLAWA with a preliminary estimate of the quantity of Exchange Water which LACSD would like to receive during the subsequent calendar year. LACSD may thereafter revise its request for such water, in writing to CLAWA, until the following March 1. By January 30 of each year in which LACSD is required to purchase Exchange Water and/or Replacement Water pursuant to this Agreement, LACSD will deposit with CLAWA an amount of money equal to one-half of the purchase price per acre-foot of water as described in Paragraph No. 6 of this Agreement (not including the adjustment thereafter made in the purchase price as set forth in Subparagraph No. 6(c)) times the minimum purchase quantity of water for that year as set forth in Paragraph No. 5; and by June 30 of that year LACSD will deposit with CLAWA the remainder of the total estimated purchase price for that year. The deposit shall be applied to the purchase price of water thereafter delivered to LACSD through the LACSD-ROW Turnout, until fully depleted. Once each month, near the end of the month, CLAWA will examine (or "read") the meter installed in the LACSD-ROW Turnout to determine the quantity of Exchange Water and/or

Replacement Water delivered through the LACSD-ROW Turnout since the date of the previous meter reading, and will provide LACSD with a statement setting forth the quantity of water delivered since the date of the previous meter reading, the corresponding charge for the water delivered, and the remaining credit balance (if any) on deposit with CLAWA. If the statement reveals an additional payment to be made by LACSD for water delivered, after the credit balance has been fully depleted, LACSD agrees to pay the amount due within 30 days after receipt of the statement. LACSD shall have the right at any time to request an independent test of the meter, to determine its accuracy, by posting a deposit with CLAWA in the amount estimated by CLAWA to be necessary to remove the meter and conduct the test. LACSD agrees to pay actual costs incurred, with an increase in the deposit or a refund as appropriate to reflect such costs. If the test reveals that the meter is accurate within a tolerance of 2%, plus or minus, the meter will be returned to service and no adjustment will be made in previous invoices. If the test reveals an inaccuracy of more than 2%, the meter will be replaced at CLAWA's expense and an adjustment will be made in previous invoices to fairly estimate the appropriate charge for Exchange Water and/or Replacement Water actually delivered to LACSD, as set forth in CLAWA's rules and regulations for water service.

8. Use by CLAWA. CLAWA shall have the right, in any year, to utilize Exchange Water to satisfy consumptive needs within CLAWA's own service area, and in a subsequent year to replace the Exchange Water used in CLAWA's service area with an equal quantity of water to be supplied to LACSD from CLAWA's allocation of water from the SWP ("Replacement Water"). In the event that CLAWA's use of Exchange Water within its own service area in any year reduces the quantity of Exchange Water available for purchase by LACSD in that year to a quantity less than LACSD's minimum purchase requirement for the year, LACSD's minimum purchase requirement for the year shall be reduced to the quantity actually made available by CLAWA in that year for purchase by LACSD. Conversely, in a subsequent year if CLAWA offers to provide LACSD with Replacement Water, in lieu of Exchange Water, such Replacement Water shall be treated the same as Exchange Water for

purposes of calculating LACSD's minimum purchase requirement as set forth herein. In lieu of CLAWA providing Replacement Water to LACSD, LACSD and CLAWA may agree to reduce LACSD's repayment obligations under this Agreement in an amount commensurate with the payments that would otherwise be due and payable for the Exchange Water that CLAWA utilizes to satisfy consumptive needs within CLAWA's own service area.

9. Operating Committee. CLAWA and LACSD acknowledge the need for coordination and mutual cooperation in scheduling the timing, flow rate and quantities of water to be delivered through the LACSD-ROW Turnout. Therefore, CLAWA and LACSD each agree to form an Operating Committee consisting of at least one designee, in each case appointed by that party's General Manager, to develop and keep current an operating plan designed to accomplish the purposes set forth herein, consistent with other system demands. The operating plan shall be consistent with CLAWA's operational procedures and criteria for the use of purveyor turnouts as they may be revised from time to time. CLAWA and LACSD further agree that their respective General Managers and/or consultants will meet as necessary to discuss mutual accommodations that may be necessary in order to deal with operational constraints. Each party shall bear its own costs for participating in, and performing any functions as part of, this Operating Committee, and in performing all other aspects of administering this Agreement. No later than January 31 of each year, the Operating Committee will prepare a written report setting forth the annual quantity of water delivered pursuant to this Agreement, the total payments made therefor, and the remaining quantity of water to be delivered.

10. Water Quality. CLAWA represents that the water made available to LACSD through the LACSD-ROW Turnout will be treated for domestic consumption and will be of the same quality as that supplied to other CLAWA customers for domestic consumption. No other representations are made with regard to the water quality. LACSD will be exclusively responsible for obtaining approval from the State Department of Health Services for the introduction of CLAWA water into LACSD's domestic water system, and from the Lahontan

Regional Water Quality Control Board for the discharge of sewage effluent derived from CLAWA water.

11. Mutual Indemnification. CLAWA and LACSD each agree to indemnify, defend and hold the other party harmless from any claim of loss or liability for damage to person or property arising out of or resulting from the indemnifying party's acts or omissions in the performance of this Agreement. In the event of a third party loss caused by the negligence, wrongful act or omission of the parties to this Agreement, each party shall bear financial responsibility in proportion to its percentage of fault as judicially determined or as otherwise agreed between them.

12. Condition Precedent. This Agreement shall not take effect unless and until the SBVMWD Agreement is executed by all the parties thereto.

13. Amendment. This Agreement may be amended upon approval by the governing boards of CLAWA and LACSD, by separate instrument executed in writing.

14. Legal Proceedings. In the event of any legal proceedings to construe or enforce the provisions of this Agreement, the prevailing party shall be entitled to reimbursement of costs and reasonable attorneys fees.

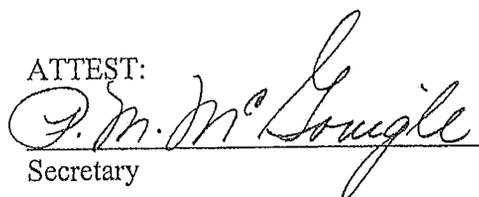
IN WITNESS WHEREOF, the parties have executed this Agreement effective as of the date first above written.

LAKE ARROWHEAD COMMUNITY SERVICES DISTRICT

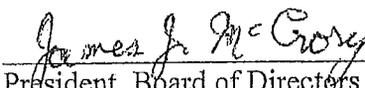
By: 
President, Board of Directors

Date: 8-15-05

ATTEST:

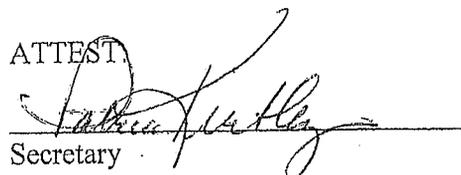

Secretary

CRESTLINE - LAKE ARROWHEAD WATER AGENCY

By: 
President, Board of Directors

Date: 8/25/05

ATTEST:


Secretary

SEP 15 2009

FIRST AMENDMENT TO AGREEMENT FOR THE SALE, TREATMENT
AND DELIVERY OF WATER

WHEREAS, Crestline-Lake Arrowhead Water Agency and Lake Arrowhead Community Services District ("Parties") have entered into an agreement entitled "Agreement for the Sale, Treatment and Delivery of Water" ("Agreement") dated July 7, 2005; and

WHEREAS, the Parties have determined that a change in circumstances warrants revisions to Paragraphs Nos. 5 and 6 of the Agreement;

NOW, THEREFORE, the Parties do hereby revise Paragraph Nos. 5 and 6 of the Agreement to provide as follows:

5. Minimum Purchase Requirement. LACSD agrees to purchase from CLAWA at least 640 acre-feet of Exchange Water or Replacement Water, or a combination thereof, in each of the first two calendar years following completion of the Water Delivery Facilities (2007 and 2008), at least 560 acre-feet of such water in the third year following completion of the Water Delivery Facilities (2009), and in each year thereafter (beginning in 2010) at least 550 acre-feet of such water, with payment for the treatment, storage, transportation and delivery of the water, including the use of capacity in CLAWA's facilities, due only for water actually delivered, in the year of delivery as provided in Paragraph No. 6 below, up to an aggregate total of 7,600 acre-feet of such water, provided however that

- (a) LACSD shall not be required to purchase from CLAWA in any year a quantity of such water which

exceeds the quantity that CLAWA makes available to LACSD for purchase in that year;

- (b) LACSD shall have the option of declining delivery of any portion of its minimum purchase quantity in any year, in which event the dollar amount paid by LACSD to CLAWA for the water purchased by LACSD but not taken by LACSD in that year shall be retained by CLAWA as a credit to be applied by CLAWA to LACSD's next subsequent purchase of such water in excess of the minimum purchase requirement in any subsequent year;
- (c) for water purchased by LACSD in any year in excess of its minimum purchase requirement in that year, the excess quantity purchased shall be applied to its minimum purchase requirement in the immediately succeeding year or years;
- (d) should the adjustments to the price charged to LACSD per acre-foot of water, as set forth in Paragraph No. 6 of this Agreement, result in a purchase price for any year which exceeds \$2,700 per acre-foot, CLAWA and LACSD agree to adjust the minimum purchase quantity downward as

necessary to limit LACSD's total payment obligation in that year to the product of (1) the minimum purchase requirement for that year, and (2) \$2,700. The quantity not purchased as a result of that reduction instead shall be added to the balance of the water to be subsequently purchased by LACSD pursuant to this Agreement.

6. Purchase Price. For each acre-foot of Exchange Water and/or Replacement Water which LACSD purchases from CLAWA pursuant to this Agreement during the first three years following completion of the Water Delivery Facilities (2007 through 2009), LACSD will pay to CLAWA a purchase price equal to the sum of the following:

- (a) \$2,000 for the treatment, storage, transportation and delivery of the water, including the use of capacity in CLAWA's facilities; provided that beginning on January 1, 2006, and on January 1 of each subsequent year, this component of the charge will be adjusted as follows:

\$363 of this component of the price, which reflects CLAWA's average cost of pumping energy per acre-foot during fiscal year 2003-2004, will be adjusted upward or downward to reflect the cost of pumping energy per acre foot calculated as the total

pumping energy cost incurred by CLAWA for the previous fiscal year divided by the total number of acre feet drawn by CLAWA from Lake Silverwood for the same time period.

- (b) \$100 to compensate CLAWA for the use of CLAWA's money to purchase water from SBVMWD for ultimate exchange and delivery to LACSD.

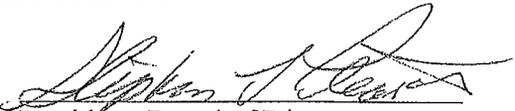
- (c) \$527.19, which is the price per acre-foot which CLAWA must pay to SBVMWD for the right to receive a total of 7,600 acre-feet of Exchange Water back from SBVMWD during the term of the SBVMWD Agreement; provided, however, that as an adjustment is made in the price per acre-foot which SBVMWD charges to CLAWA for such water pursuant to Paragraph No. 5 of the SBVMWD Agreement, resulting in an additional charge or a credit to CLAWA, the same adjustment in the price per acre-foot will be made in the price per acre-foot which LACSD must pay to CLAWA for the purchase of Exchange Water or Replacement Water from CLAWA. If such adjustment in the purchase price results in a refund to CLAWA,

CLAWA will make a corresponding refund to LACSD within 30 days after receipt from SBVMWD. Conversely, if such adjustment results in an invoice from SBVMWD for payment of an additional charge, CLAWA will send a corresponding invoice to LACSD for payment of the additional charge, and LACSD agrees to pay the invoiced amount to CLAWA within 30 days after the date of the invoice. If LACSD purchases Replacement Water from CLAWA, in lieu of Exchange Water, the adjustment to the purchase price charged to LACSD shall be identical to the adjustment to the purchase price which CLAWA paid to SBVMWD for the Exchange Water being replaced.

Beginning in the fourth year following completion of the Water Delivery Facilities (2010 and following) LACSD shall pay to CLAWA the amount set forth in subparagraph 6(c) in the year in which LACSD purchases the water, and the amount set forth in subparagraph 6(a) in the year in which CLAWA delivers the water to LACSD. Furthermore, beginning in 2010, and annually thereafter, in lieu of paying a charge of \$100 per acre-foot for each acre-foot of water purchased, as set forth in subparagraph 6(b), LACSD will pay to CLAWA an annual interest payment on the amount of money which CLAWA paid to SBVMWD for the purchase of water which LACSD has not purchased from CLAWA as

Exchange Water or Replacement Water through January 30 of the year in which the payment is made. That amount shall be determined by subtracting the total amount of Exchange Water and Replacement Water purchased by LACSD through January 30 of that year from the total quantity of 7,600 acre-feet of water which CLAWA purchased from SBVMWD, and then multiplying the difference times \$527.19. The product of that calculation shall be called the "Unpaid Balance." On January 30 of each year, beginning in 2010, LACSD shall make an annual interest payment to CLAWA on the Unpaid Balance. The interest rate shall be the average rate of return which CLAWA received on its funds invested with the State of California's Local Agency Investment Fund during the previous calendar year, plus one percent (1%).

CRESTLINE-LAKE ARROWHEAD
WATER AGENCY

By: 
President, Board of Directors

Date: Sept 3, 2009

LAKE ARROWHEAD COMMUNITY
SERVICES DISTRICT

By: 
President, Board of Directors

Date: 9-8-09

DEPARTMENT OF WATER RESOURCES1416 NINTH STREET, P.O. BOX 942836
SACRAMENTO, CA 94236-0001
) 653-5791RECEIVED
APR 28 2010

APR 17 2008

LAFCO
San Bernardino County

Ms. Roxanne M. Holmes
General Manager
Crestline - Lake Arrowhead Water Agency
24116 Crest Forest Drive
Crestline, California 92325-3880

Mr. Randy Van Gelder
General Manager
San Bernardino Valley Municipal Water District
1350 South E Street
Post Office Box 5906
San Bernardino, California 92412-5906

Dear Ms. Holmes and Mr. Van Gelder:

Enclosed for your record is an executed original of the "Point of Delivery Agreement among the Department of Water Resources of the State of California, Crestline-Lake Arrowhead Water Agency, and San Bernardino Valley Municipal Water District for an Emergency Water Supply Transfer for Lake Arrowhead Community Services District." The Agreement sets forth the terms to allow Crestline-Lake Arrowhead Water Agency to take delivery of up to 7,600 acre-feet of San Bernardino Valley Municipal Water District's 2005 Table A State Water Project water supplies for Lake Arrowhead Community Services District.

If you have any questions or need additional information, please call me at (916) 653-4313 and refer to SWPAO #07025.

Sincerely,

Handwritten signature of Robert B. Cooke in cursive.

Robert B. Cooke, Chief
State Water Project Analysis Office

Enclosures

cc: Mr. Terry Erlewine
General Manager
State Water Contractors
1121 'L' Street, Suite 1050
Sacramento, California 95814

State of California
The Resources Agency
DEPARTMENT OF WATER RESOURCES

POINT OF DELIVERY AGREEMENT AMONG
THE DEPARTMENT OF WATER RESOURCES
OF THE STATE OF CALIFORNIA,
CRESTLINE-LAKE ARROWHEAD WATER AGENCY,
AND
SAN BERNARDINO VALLEY MUNICIPAL WATER DISTRICT,
FOR AN EMERGENCY
WATER SUPPLY TRANSFER
FOR LAKE ARROWHEAD COMMUNITY SERVICES DISTRICT

SWPAO #07025

State of California
The Resources Agency
DEPARTMENT OF WATER RESOURCES

POINT OF DELIVERY AGREEMENT AMONG
THE DEPARTMENT OF WATER RESOURCES
OF THE STATE OF CALIFORNIA,
CRESTLINE-LAKE ARROWHEAD WATER AGENCY,
AND
SAN BERNARDINO VALLEY MUNICIPAL WATER DISTRICT,
FOR AN EMERGENCY
WATER SUPPLY TRANSFER
FOR LAKE ARROWHEAD COMMUNITY SERVICES DISTRICT

THIS AGREEMENT is made this 17th day of April, 2008, pursuant to the provisions of the California Water Resources Development Bond Act, and other applicable laws of the State of California, among the Department of Water Resources, herein referred to as "DWR," Crestline-Lake Arrowhead Water Agency, herein referred to as "CLAWA," and San Bernardino Valley Municipal Water District, herein referred to as "SBVMWD." DWR, CLAWA, and SBVMWD may be referred to individually by name as "Party" or collectively as "Parties."

RECITALS

- A. DWR and CLAWA have entered into a water supply contract, dated June 22, 1963, providing that DWR shall supply certain quantities of water to CLAWA, and providing that CLAWA shall make certain payments to DWR, and setting forth the terms and conditions of such payment (hereafter the "CLAWA Water Supply Contract").
- B. DWR and SBVMWD have entered into a water supply contract, executed December 30, 1960, providing that DWR shall supply certain quantities of water to SBVMWD, and providing that SBVMWD shall make certain payments to DWR, and setting forth the terms and conditions of such payment (hereafter the "SBVMWD Water Supply Contract").
- C. Lake Arrowhead Community Services District (LACSD) is in need of an emergency water supply to serve the Lake Arrowhead area. In order to obtain an additional water supply, LACSD, CLAWA, and SBVMWD entered into several agreements to facilitate this transfer of water. CLAWA and SBVMWD have entered into a "Water Purchase and Exchange Agreement," on July 7, 2005, to provide for the purchase by CLAWA of 8,000 acre-feet of SBVMWD's 2005 SWP Table A water stored in SBVMWD's service area. In exchange for the water purchased, and allowing for losses, CLAWA will take delivery of a total of 7,600 acre-feet from SBVMWD's Table A allocation at CLAWA's turnout in Lake Silverwood. LACSD and CLAWA have entered into "Agreement for the Sale, Treatment, and the Delivery of Water," on July 7, 2005 to provide for the further transfer of the 7,600 acre-feet of water to LACSD through CLAWA's turnout in Lake Silverwood and through CLAWA's facilities to Lake Arrowhead.

- D. In compliance with the California Environmental Quality Act (CEQA), CLAWA, as lead agency, filed a Negative Declaration, dated July 21, 2005, to adopt and implement the provisions of the "Crestline-Lake Arrowhead Water Agency and Lake Arrowhead Community Services District State Water Project Water Transfer and Infrastructure Improvements Project" (SCH# 2004121049).
- E. DWR, as a responsible agency, has considered the above environmental documents prior to entering into this Agreement.

AGREEMENT

Pursuant to Article 15(a) DWR is approving the delivery of a portion of SBVMWD's 2007 and future Table A water via a transfer to CLAWA under the following terms and conditions:

1. TERM

This Agreement shall become effective as of execution by all parties, and shall provide for the delivery of SBVMWD's 2007 and future Table A water to CLAWA as of January 1, 2007. This Agreement shall terminate with the delivery of 7,600 acre-feet to CLAWA or by December 31, 2020, whichever comes first.

2. WATER TRANSFER FROM SBVMWD TO CLAWA

- a. Pursuant to this Agreement, DWR will deliver a portion of SBVMWD's Table A water normally scheduled for delivery to SBVMWD's turnouts at Reaches 26, 28, and various reaches in the East Branch Extension, to CLAWA's Lake Silverwood turnout at Reach 24 of the California Aqueduct. The water delivered to CLAWA under this Agreement will be classified as SBVMWD's Table A water.
- b. The delivery of the portion of SBVMWD's Table A water to CLAWA under this Agreement shall be in accordance with a schedule approved by DWR. DWR's approval is dependent upon the times and amounts of the delivery and the overall delivery capability of the SWP. DWR shall not be obligated to deliver the water at times when such delivery would adversely impact SWP operations, facilities, and other SWP contractors' water costs.

3. DELIVERY SCHEDULES

- a. All water delivery schedules and revisions shall be in accordance with Article 12 of CLAWA's and SBVMWD's Water Supply Contracts.
- b. CLAWA and SBVMWD shall submit to the State Water Project Analysis Office for approval (Attention: Chief, Water Deliveries Section, FAX (916) 653-9628) revised monthly water delivery schedules indicating timing and location of water delivered pursuant to this Agreement, and should reference this Agreement (SWPAO #07025).
- c. CLAWA and SBVMWD shall submit weekly schedules for the delivery of water pursuant to this Agreement, to the Southern Field Division Operations Branch (Attn: Chief, Water Operations Section, FAX (661) 294-3651). The schedules shall be submitted by 10:00 a.m. Wednesday for the following week (Monday through Sunday) and shall be concurrently faxed to the following:
State Water Project Operations Control Office
Chief, Pre-Scheduling Section, FAX (916) 574-2782
Chief, Operations Scheduling Section, FAX (916) 574-2785

4. EFFECT ON APPROVED TABLE A

Water delivered to CLAWA under this Agreement shall not be considered by DWR in the determination of approved annual Table A water under Article 18 of CLAWA's Water Supply Contract or in the allocation of other SWP water supplies to CLAWA.

5. WATER DELIVERY RECORDS

DWR will maintain records accounting for the deliveries of SBVMWD's Table A water to CLAWA, up to a total of 7,600 acre-feet. SBVMWD and CLAWA shall certify to DWR's State Water Project Analysis Office by January 31, the previous year's monthly quantities of SBVMWD's water delivered CLAWA's turnout.

6. CHARGES

- a. SBVMWD shall pay to DWR the charges associated with the delivery of SBVMWD's Table A water from the Delta to the point of delivery at CLAWA's turnout in Lake Silverwood. SBVMWD shall pay the variable operation, maintenance, power, and replacement components of the Transportation Charge and the Off-Aqueduct Power Facilities Charge in effect for the year in which the water is delivered to CLAWA.
- b. In addition to the charges identified above, SBVMWD agrees to pay to DWR any identified demonstrable increase in costs that would otherwise be borne by the SWP contractors not signatory to this Letter Agreement or by DWR, as a result of activities pursuant to this Letter Agreement.

7. APPROVALS

The delivery of water under this Agreement shall be contingent on and subject to any necessary approvals and shall be governed by the terms and conditions of such approvals and any other applicable regulations in effect at the time of delivery or return. CLAWA and SBVMWD shall be responsible for complying with all applicable laws and regulations and for securing any required consent, permit, or order.

8. LIABILITY

- a. DWR shall provide water delivery service through the State Water Project only, and assumes no liability for water delivered to CLAWA under this Agreement beyond the designated point of delivery.
- b. CLAWA shall be responsible for any adverse impacts that may result from deliveries under this Agreement as determined by DWR. In itself, an increase or change in timing of deliveries to CLAWA as a result of this Agreement shall not be considered an adverse impact.
- c. In the event of a claim of liability against DWR or their officers or their employees, jointly or severally, that arises as a result of this Agreement, or other related agreements, CLAWA and SBVMWD shall defend, indemnify, and hold DWR and any of their officers or employees harmless from any such claim, except to the extent that such claim arises from the sole negligence or willful misconduct by DWR.

9. NO MODIFICATION OF CONTRACTS

This Agreement shall not be interpreted to modify the terms or conditions of CLAWA's or SBVMWD's Water Supply Contract, as amended. Unless expressly provided herein, the terms and conditions of CLAWA's and SBVMWD's Water Supply Contract, including, but not limited to Article 18(f) and future amendments to those contracts, apply to this Agreement.

10. CLAIMS DISPUTE

In the event of dispute regarding interpretation or implementation of this Agreement, the Director of DWR, the general manager of CLAWA, and the general manager of SBVMWD shall endeavor to resolve the dispute by meeting within 30 days after the request of a Party. If the dispute is unresolved, the Parties shall use the service of a mutually acceptable consultant in an effort to resolve the dispute. The Parties involved in the dispute shall share the fees and expenses of the consultant equally. If a consultant cannot be agreed upon, or if the consultant's recommendations are not acceptable to the Parties, and unless the Parties otherwise agree, the matter may be resolved by litigation and any Party may at its option pursue any available legal remedy including, but not limited to, injunctive and other equitable relief.

11. ASSIGNMENT OF AGREEMENT

Without the prior written consent of DWR, CLAWA, and SBVMWD, this Agreement is not assignable by CLAWA or by SBVMWD in whole or in part.

12. PARAGRAPH HEADINGS

The paragraph headings of this Agreement are for the convenience of the Parties and shall not be considered to limit, expand, or define the contents of the respective paragraphs.

13. TERMS TO BE REASONABLE

Where the terms of this Agreement provide for actions to be based upon the opinion, judgment, approval, review, or determination of any party, such terms are to be construed as providing that such opinion, judgment, approval, review, or determination be reasonable.

14. MODIFICATION OF AGREEMENT

No modification of the terms of this Agreement shall be valid unless made in writing and signed by the Parties to this Agreement.

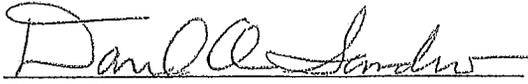
15. SIGNATURE CLAUSE

The signatories represent that they have been appropriately authorized to enter into this Agreement on behalf of the party for whom they sign.

IN WITNESS WHEREOF, the Parties hereto have entered into this Agreement.

Approved as to legal form
and Sufficiency

STATE OF CALIFORNIA
DEPARTMENT OF WATER RESOURCES





Chief Counsel
Department of Water Resources

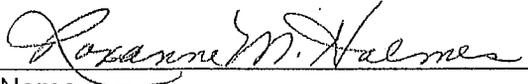
Chief, State Water Project Analysis Office

Date 4/17/08

Date 4/17/08

CRESTLINE-LAKE ARROWHEAD
WATER AGENCY

SAN BERNARDINO VALLEY MUNICIPAL
WATER DISTRICT





Name

Name

General Manager

General Manager

Title

Title

February 25, 2008

February 28, 2008

Date

Date