

Exhibit 1E

Settlement Agreement Between Northern Cities, Northern Cities Landowners, and Other Parties

The original signature pages of this agreement were hand-delivered to the Court prior to the August 2002 hearing, at which the Court approved this agreement.

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7

8 SUPERIOR COURT OF THE STATE OF CALIFORNIA
9 FOR THE COUNTY OF SANTA CLARA

10
11 SANTA MARIA VALLEY WATER
CONSERVATION DISTRICT, a public
12 entity,
13 Plaintiff,
14 v.
15 CITY OF SANTA MARIA, et al.,
16 Defendants.

SANTA MARIA GROUNDWATER
LITIGATION, LEAD CASE No. CV 770214
(Consolidated with CV 784900, 784921,
784926, 785509, 785511, 785515, 785522,
785936, 786971, 787150, 787151, 787152,
990738, 990739)

SETTLEMENT AGREEMENT BETWEEN
NORTHERN CITIES, NORTHERN
LANDOWNERS, AND OTHER PARTIES

17
18 AND ALL RELATED ACTIONS.
19

20 PARTIES AND EFFECTIVE DATE

21 This Agreement is entered into among the Cities of Arroyo Grande, Pismo
22 Beach, Grover Beach and the Oceano Community Services District (collectively "Northern
23 Cities"), owners/lessors of land located in the Northern Cities Area ("Northern Landowners"),
24 and other parties who execute this Agreement. This Agreement is entered into as of April 30,
25 2002.

26 STIPULATIONS OF FACT

27 A. In 1997, the Santa Maria Valley Water Conservation District initiated this
28 action, Santa Clara Superior Court Case Number CV 770214, consolidated with Case

1 Numbers 784900, 784921, 784926, 785509, 785511, 785515, 785522, 785936, 786971,
2 787150, 787151, 787152, 990738, and 990739 (the "Action"), to adjudicate groundwater rights
3 in the Santa Maria Groundwater Basin;

4 B. Numerous parties have filed complaints and/or cross-complaints in the
5 Action with respect to rights to produce water in the Santa Maria Groundwater Basin;

6 C. By Order dated December 21, 2001, the Court determined the geographic
7 area constituting the Santa Maria Groundwater Basin ("Basin") and ruled that the Northern
8 Cities Area (identified on the map attached hereto as Exhibit A) is within the Basin;

9 D. Under current water supply and demand conditions, the groundwater
10 basin in the Northern Cities Area is in rough equilibrium, and groundwater pumping in the
11 Northern Cities Area does not negatively affect water supplies in the remainder of the Basin;

12 E. For more than 30 years, there have been separate funding, management
13 and usage of groundwater in the Northern Cities Area from groundwater in the Santa Maria
14 Valley. For example, the Northern Cities and Northern Landowners have paid and are paying
15 tens of millions of dollars for the construction and retrofit of the Lopez Reservoir, which
16 benefits the Northern Cities Area; whereas the Twitchell Reservoir has been paid for by parties
17 in the Santa Maria Valley who benefit from it.

18 F. The Northern Cities and Northern Landowners have agreed among
19 themselves and do hereby reaffirm their agreement to cooperatively share and manage
20 groundwater resources in the Northern Cities Area in accordance with a "Gentlemen's
21 Agreement" that was originally developed in 1983 and amended thereafter. Said Agreement
22 confers no rights on any third parties;

23 G. It is in the interest of all of the parties to this litigation that the parties settle
24 their claims and potential claims on the basis of the continued separate funding, management,
25 and usage of the waters conserved by the Lopez Reservoir in the Northern Cities Area and by
26 the Twitchell Reservoir in the remainder of the Basin, to preserve and protect water resources
27 in those separate management areas.

28 H. This Settlement Agreement is also intended to provide the parties with

1 advance notice of changes in the groundwater conditions in the Northern Cities Area and
2 Nipomo Mesa, as water supplies and demands may change with time. (The Nipomo Mesa is
3 southeast of the Zone 3 Line, and north of the Santa Maria River.); and

4 1. The parties to this Settlement Agreement have agreed to settle and
5 resolve their cross-claims and potential cross-claims on the conditions set forth below:

6 **NOW, THEREFORE, THE PARTIES AGREE AS FOLLOWS**

7 1. Separate Management Areas. Subject to the conditions set forth below,
8 water resources and water production facilities in the Northern Cities Area shall continue to be
9 independently managed by the Northern Cities, the San Luis Obispo County Flood Control and
10 Water Conservation District, and the Northern Landowners, with the intention of preserving the
11 long-term integrity of water supplies in the Northern Cities Area. For example, the Northern
12 Cities and Northern Landowners will not be responsible to pay for any of the costs of the
13 Twitchell Reservoir; and the parties outside of the Northern Cities Area (Zone 3) shall not be
14 responsible to pay any of the costs relating to the Lopez Reservoir.

15 2. Effects on Litigation. Except as provided below, the parties in the
16 Northern Cities Area, on the one hand, and the other parties hereto, on the other hand, agree
17 not to pursue or assert any claims against one another relating to water rights in the Santa
18 Maria Groundwater Basin. Each of the Northern Landowners who execute this Agreement will
19 be deemed to have been served by each of the water purveyor parties in this action who have
20 signed this Agreement with cross-complaints seeking declaratory and other relief in the form of
21 the cross-complaints previously filed by the City of Santa Maria; and each of the Northern
22 Landowners who execute this Agreement shall be deemed to have served and filed answers to
23 said cross-complaints denying all of their material allegations and asserting all available
24 affirmative defenses. The Northern Cities and Landowners shall continue to be subject to
25 reasonable discovery requests that are relevant to the remaining issues in the case.

26 3. Court Approval. This Settlement Agreement shall be submitted to the
27 Court for approval. If approved, this Settlement Agreement shall be included in and attached
28 as an exhibit to the final judgment in this Action, and the Northern Cities Area shall be treated

1 separately under the judgment in accordance with the provisions set forth herein. Paragraphs
2 4 and 7-20 of this Agreement shall take effect only upon Court approval of this Agreement.

3 4. Consent to Continuing Jurisdiction. Prior to this Agreement, there has
4 been no adjudication of the water rights of the Northern Cities, Northern Landowners, or any
5 other party, other than the determination of the boundaries of the Basin. Except ¶ 5 below,
6 nothing in this Agreement authorizes the Court to restrict or affect the right of any party to
7 pump, divert, use, or store groundwater or surface water without first according that party all of
8 its substantive, procedural, and due process rights under constitutional, statutory, and common
9 law requirements. Subject to the above and to the limitations of paragraphs 5-6 below, the
10 parties hereto agree that the Court reserves and retains full jurisdiction, power, and authority
11 over the Northern Cities Area, the Northern Cities, and the Northern Landowners, to enable the
12 Court, upon motion of any party, to make such further orders or directions (1) to interpret,
13 enforce, amend, or amplify any of the provisions of this Agreement; (2) to enforce, protect, or
14 preserve the rights of the respective parties, consistent with the rights herein decreed; or (3) to
15 issue such additional orders and/or injunctions to prevent injury to any party that might result
16 from any material adverse change in the availability or quality of the water supplies in the
17 Northern Cities Area, or the Nipomo Mesa Area, or any part of the Basin.

18 5. Reaffirmation of Gentlemen's Agreement. The Northern Cities and
19 Northern Landowners hereby reaffirm their Agreement to cooperatively share and manage
20 groundwater resources in the Northern Cities' Area in accordance with their AGREEMENT
21 REGARDING MANAGEMENT OF THE ARROYO GRANDE GROUNDWATER BASIN, aka
22 the "Gentlemen's Agreement." (A copy of the current version of this Agreement is attached
23 hereto as Exhibit B.) In particular, the Northern Cities and the Northern Landowners agree
24 with each other to continue to divide the safe yield of groundwater in the Northern Cities' Area,
25 including any increases or decreases of the safe yield, in accordance with ¶ 1 of Exhibit B
26 hereto. Said water-sharing Agreement and this paragraph 5 shall only be binding on and
27 enforceable by the Northern Cities and Northern Landowners.

28 6. No Effect on Water Rights. Except as provided in ¶ 5 above, nothing in

1 this Agreement shall be construed to create, eliminate, increase, or reduce any substantive
2 right of any party to pump, divert, use, or store groundwater or surface water; and nothing in
3 this Agreement shall be construed to prove or disprove, directly or indirectly, any element of
4 prescriptive rights to groundwater.

5 TECHNICAL OVERSIGHT COMMITTEE

6 7. Formation. A Technical Oversight Committee (TOC) shall be established
7 to carry out the ongoing monitoring and analysis program ("MAP," see below).

8 8. Composition. The TOC shall be comprised of two voting representatives
9 of the Northern Cities and two voting representatives of parties providing public water service
10 on the Nipomo Mesa ("Mesa Parties," which include the Nipomo Community Services District,
11 Rural Water Company and Southern California Water Company, and their successors or
12 assigns). At least one of the two representatives from the Northern Cities and the Mesa
13 Parties shall be technically qualified to carry out the MAP duties described below. The other
14 TOC representatives may be technical, policy, managerial, or legal in nature. The voting
15 representatives shall attempt to operate by consensus. However, if consensus cannot be
16 achieved, TOC decisions may be made by majority vote of the voting representatives.

17 9. Responsibility. The TOC shall implement and carry out the MAP.

18 10. Meetings. The TOC shall meet at least semi-annually for the first five (5)
19 years of implementing the MAP, and at least annually thereafter.

20 11. Procedures of the TOC. The TOC shall establish procedures for the
21 fulfillment of its responsibilities under this Agreement.

22 MONITORING AND ANALYSIS PROGRAM

23 12. Purpose and Legal Effect. A monitoring and analysis program (MAP) shall
24 be established to provide ongoing data collection and analysis of water supplies and demands
25 in the Northern Cities Area and the Nipomo Mesa. The purpose of the MAP is to regularly
26 assess the potential impact on the water supplies on either side of the Zone 3 boundary line
27 resulting from changing conditions regarding the water supplies and demands in the Northern
28 Cities Area and the Nipomo Mesa, and the resulting changes in the surface and groundwater

1 flow conditions adjacent to and across the Zone 3 boundary line.

2 13. The Water Management Plans and the Annual Reports (collectively
3 "Plans") prepared pursuant to this Agreement are for information purposes only. They shall
4 not independently create in the party(ies) preparing them any affirmative obligation to act, or
5 implement any part of the Plans, nor shall they independently provide any other party or the
6 Court any right to compel Action or enforce any obligation. However, any party may challenge
7 the sufficiency of any Plan produced pursuant to this Agreement by showing that it has not
8 been completed in substantial compliance with the requirements of this Agreement, except that
9 any challenge to a Water Management Plan created pursuant to Paragraph 15 below may only
10 be undertaken in a proceeding and under the standards set forth under Water Code sections
11 10650, *et seq.*

12 14. The Parties shall be excused from the preparation of the Plans required in
13 this Agreement when the Court enters a final judgment in this litigation.

14 15. Water Supply Planning and Reports. Within two years after Court
15 approval of this Settlement, each of the Northern Cities and the Mesa Parties shall evaluate
16 their current and future water supplies and prepare a Water Management Plan. The Water
17 Management Plan shall generally include the content and analysis described in Water Code
18 sections 10630 through 10635, and shall also include an analysis of the ongoing availability of
19 groundwater in the Northern Cities Area given the changing urban and agricultural water
20 demands in the Northern Cities Area. Each of the Northern Cities and the Mesa Parties shall
21 update and revise their previously prepared Water Management Plans prior to December 31,
22 2006, and every five years thereafter; provided however, that this requirement to prepare a
23 Water Management Plan is not intended to expand or impose upon any party rights or
24 obligations with respect to such Water Management Plans, other than those specifically stated
25 in this Section. Copies of the Water Management Plans shall be provided to the Northern
26 Cities, the Mesa Parties, the Santa Maria Valley Water Conservation District and the City of
27 Santa Maria.

28 16. Monitoring and Data Collection. The TOC shall implement a MAP that

1 shall include the data collection and analysis elements described below, and any other
2 monitoring and analysis, if the TOC deems them appropriate and cost-effective to fulfill the
3 purpose of this Agreement. The data collection and database development shall be created so
4 that the data can be shared and transferred between the TOC members for review and
5 evaluation in electronic format. The MAP shall include the following elements.

6 a. Design. Within six months after Court approval of this Agreement,
7 the TOC shall review existing data to select existing wells to include in the MAP. The TOC
8 shall define the list of wells to be monitored and specific information to be obtained from each
9 well, such as groundwater levels and groundwater quality constituents. The MAP shall also
10 include data collection to provide for early detection of seawater intrusion and collection of
11 other related data (e.g., deliveries of supplemental water, precipitation, discharge of treated
12 waste water, etc.) as are necessary for preparation of the analyses and reports required by this
13 Agreement. To the extent practical to adequately meet the purpose of this Agreement, the
14 TOC shall use existing facilities, rather than new facilities, in the design of the MAP.

15 b. Data Collection. As soon as the design of the MAP is complete, the
16 TOC shall commence collection of groundwater monitoring data, with data collection to occur
17 at intervals determined by the TOC.

18 c. Changing Groundwater Use Patterns. The TOC may also monitor
19 the groundwater pumping patterns in the Northern Cities Area and the Nipomo Mesa. The
20 monitoring shall be based on either observed changes (municipal pumping) or estimated
21 changes (private or agricultural pumping). The TOC may review the changes in pumping to
22 assess the potential impacts on groundwater flow conditions along the Zone 3 boundary line
23 and include its findings in the Annual Report, described below.

24 d. MAP Assessment. Within two years of Court approval of this
25 Agreement, and annually thereafter, the TOC shall evaluate data from the monitoring program,
26 assess data gaps, and make recommendations to revise the monitoring program, including the
27 use of other wells or installation of new monitoring wells, as appropriate. The TOC may
28 recommend to the Northern Cities and the Mesa Parties or to the Court any additional

1 monitoring of hydrologic characteristics that may be prudent and cost-effective to meet the
2 goals of this Agreement, to provide a higher level of confidence in the data and analyses than
3 that which is based on existing wells, stream gages, etc.

4 17. Annual Report. Based upon the MAP and other relevant information, the
5 TOC shall annually prepare a Report on Water Supply and Groundwater Conditions (Annual
6 Report) for the Northern Cities Area and Nipomo Mesa. The Annual Report shall be filed with
7 the Court, posted on the Court's website, and served on the Northern Cities, the Mesa Parties,
8 the Santa Maria Valley Water Conservation District, and the City of Santa Maria. The first
9 Annual Report shall be completed, filed and served, as described in the previous sentence, on
10 or before the second (2nd) anniversary of this Court's approval of this Agreement, and
11 annually thereafter. The Annual Report shall assess the adequacy of the water supplies in
12 each area in comparison to the corresponding demands, and shall include an analysis and
13 discussion of the estimates of the volume of groundwater in storage, an updated water budget
14 assessment, and anticipated water supply constraints, if any.

15 18. Cost Sharing. Unless otherwise agreed, each of the Northern Cities and
16 the Mesa Parties shall bear their own costs in participating in the TOC, gathering and
17 analyzing data, and producing any written documents as may be required by this Agreement.
18 To the extent the construction of new facilities may be required to implement this Agreement,
19 the Northern Cities and the Mesa Parties shall develop an equitable cost sharing agreement.
20 The parties will use their best efforts to minimize the costs of compliance in undertaking the
21 obligations of this Agreement.

22 19. Cooperation of all Parties. All parties to this litigation and this Agreement
23 shall provide any documents, information, access to wells, and well data, and take any other
24 actions reasonably requested to implement the MAP, subject to prior protective orders and
25 reasonable confidentiality restrictions.

26 **ADVANCE NOTICE OF INCREASED WATER PRODUCTION**

27 20. The Mesa Parties, the Northern Cities, and the Northern Landowners shall
28 provide prior written notice to each other of their intent to drill new wells, materially increase

1 the production capacity of existing wells or take over the use of an existing well, if the well is to
2 be used for water production (not monitoring). The notice must be served prior to or
3 concurrent with the initiation of environmental review under the California Environmental
4 Quality Act (CEQA), if required, or at least ninety (90) days prior to the construction of a new
5 well or the takeover or increase in capacity of an existing well. This ninety (90) day notice
6 requirement shall not apply in the event of emergencies, such as replacement of a collapsed
7 well, in which case notice will be provided as promptly as possible. The notice should provide
8 a description of the location, intended capacity and use of the well.

9 GENERAL PROVISIONS

10 21. No Third Party Beneficiary. Nothing in this Agreement, whether express
11 or implied, shall confer any rights or remedies under this Agreement on any persons other than
12 the Parties to it and their respective successors and assigns. Nothing in this Agreement shall
13 relieve or discharge the obligation or liability of any third parties to any Party to this Agreement.

14 22. Legal Capacity. The Parties warrant that all necessary approvals and
15 authorizations have been obtained to bind them to all terms of this Agreement, and further
16 warrant that the persons signing have authority to sign on behalf of their respective Parties.

17 23. Amendment. No amendment to this Agreement will be binding unless it
18 is either signed by an authorized representative of all of the Parties or approved by the Court.

19 24. Governing Law. This Agreement will be construed in accordance with,
20 and governed by, the laws of the State of California as applied to contracts that are executed
21 and performed entirely in California.

22 25. Severability. If any provision of this Agreement is held invalid or
23 unenforceable by any court, it is the intent of the Parties that all other provisions of this
24 Agreement be construed so as to remain fully valid, enforceable, and binding on the Parties.

25 26. Counterparts. This Agreement may be executed in one or more
26 counterparts, each of which will be considered an original, but all of which together will
27 constitute one and the same instrument. Any party that is currently a party to this Action and
28 any Northern Landowner may become a party to this Agreement by agreeing in writing to be

1 bound by its terms at any time prior to the entry of judgment in this Action. Future signatories
2 to this Agreement shall sign the signature pages attached hereto as Exhibits C (for Northern
3 Landowners) or D (for other parties to this litigation) to confirm their acceptance of its terms.

4 27. Merger Clause. This Agreement supersedes and replaces all prior
5 settlement negotiations and agreements, written or oral. It is the complete, final, and exclusive
6 statement of the parties' agreement. The parties hereto acknowledge that no party, agent or
7 attorney of any party has made any promise, representation or warranty whatsoever, express
8 or implied, not contained herein, to induce them to execute this Agreement. Each party has
9 executed this Agreement in reliance on the advice of his/her or its own attorney.

10 Dated: April __, 2002

CITY OF ARROYO GRANDE

11 By: _____
12 Title: _____
13

14 Dated: April __, 2002

CITY OF GROVER BEACH

15 By: _____
16 Title: _____
17

18 Dated: April __, 2002

CITY OF PISMO BEACH

19 By: *Rudy Natali*
20 Title: *MAYOR*

21 Dated: April __, 2002

OCEANO COMMUNITY SERVICES DISTRICT

22 By: _____
23 Title: _____
24
25
26
27
28

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6 statement of the parties' agreement. The parties hereto acknowledge that no party, agent or
7 attorney of any party has made any promise, representation or warranty whatsoever, express
8 or implied, not contained herein, to induce them to execute this Agreement. Each party has
9 executed this Agreement in reliance on the advice of his/her or its own attorney.

10 Dated: April __, 2002 CITY OF ARROYO GRANDE
11
12 By: _____
13 Title: _____

14 Dated: ~~April~~ ~~XXXXXX~~ 2002 CITY OF GROVER BEACH
15 May 24, 2002
16 Attest: Donna L. McMahon (Stephen C. Lieberman)
17 Donna L. McMahon By: [Signature]
18 City Clerk Title: MAYOR

19 Dated: April __, 2002 CITY OF PISMO BEACH
20
21 By: _____
22 Title: _____

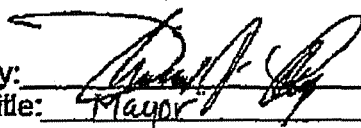
23 Dated: April __, 2002 OCEANO COMMUNITY SERVICES DISTRICT
24
25 By: _____
26 Title: _____
27
28

1 bound by its terms at any time prior to the entry of judgment in this Action. Future signatories
2 to this Agreement shall sign the signature pages attached hereto as Exhibits C (for Northern
3 Landowners) or D (for other parties to this litigation) to confirm their acceptance of its terms.

4 27. Merger Clause. This Agreement supersedes and replaces all prior
5 settlement negotiations and agreements, written or oral. It is the complete, final, and exclusive
6 statement of the parties' agreement. The parties hereto acknowledge that no party, agent or
7 attorney of any party has made any promise, representation or warranty whatsoever, express
8 or implied, not contained herein, to induce them to execute this Agreement. Each party has
9 executed this Agreement in reliance on the advice of his/her or its own attorney.

10 Dated: ~~April~~ ^{May} 28, 2002

CITY OF ARROYO GRANDE

11 By: 
12 Title: Mayor

14 Dated: April __, 2002

CITY OF GROVER BEACH

16 By: _____
17 Title: _____

18 Dated: April __, 2002

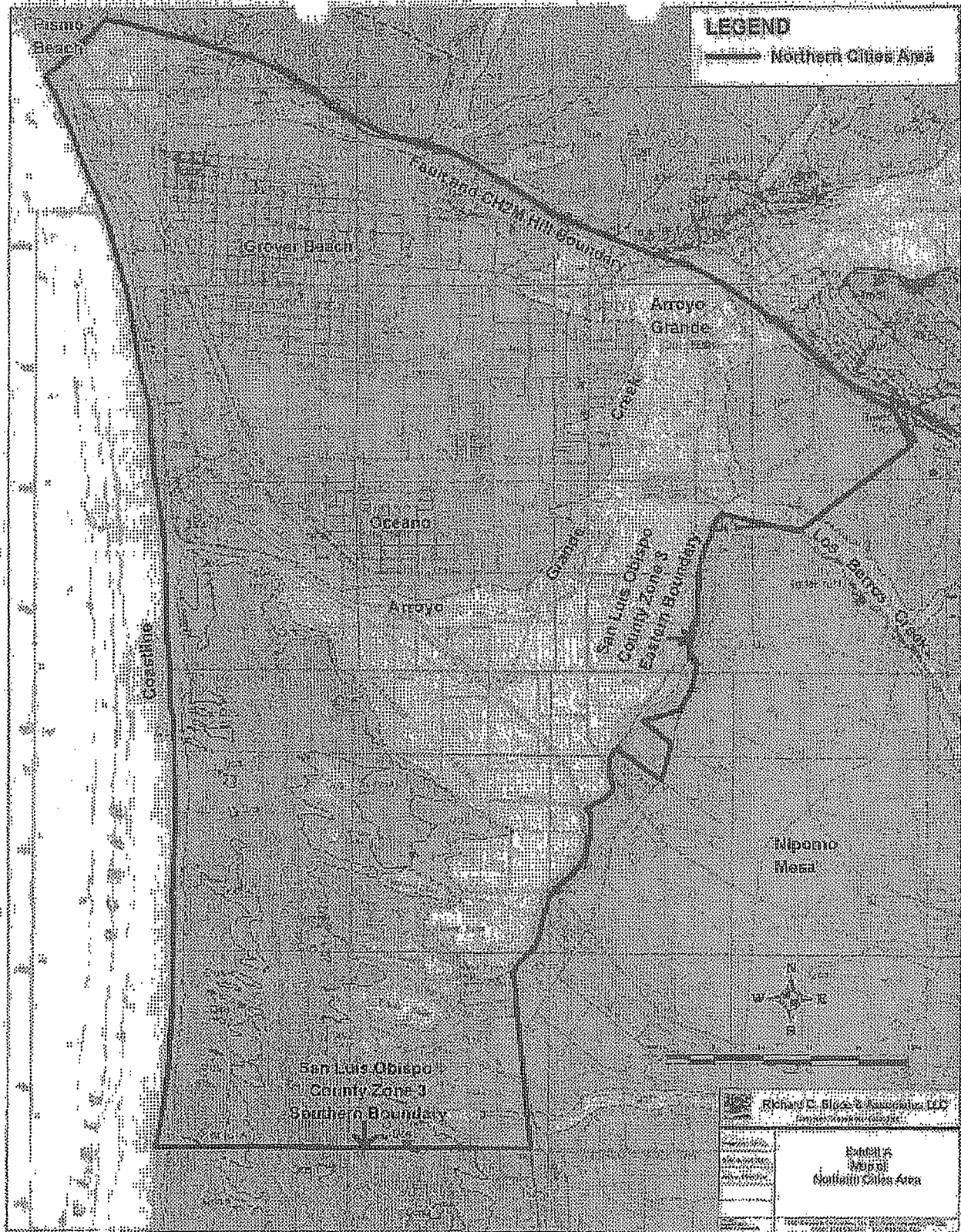
CITY OF PISMO BEACH

20 By: _____
21 Title: _____

21 Dated: April __, 2002

OCEANO COMMUNITY SERVICES DISTRICT

23 By: _____
24 Title: _____



**AGREEMENT REGARDING
MANAGEMENT OF THE
ARROYO GRANDE GROUNDWATER BASIN**

A. Parties

This Agreement is entered into among the Cities of Arroyo Grande, Pismo Beach, Grover Beach and the Oceano Community Services District (collectively referred to hereinafter as "Parties" or "Urban Parties").

B. Recitals

WHEREAS, in January 1983, a Technical Advisory Committee consisting of representatives of Arroyo Grande, Grover City, Pismo Beach, Oceano Community Services District, Port San Luis Harbor District, the Farm Bureau, Avila Beach County Water District and the County of San Luis Obispo ("Committee") determined in reliance on the 1979 Report of the Department of Water Resources entitled Ground Water in the Arroyo Grande Area that the safe yield of the Arroyo Grande Groundwater Basin ("Basin") is 9,500 acre feet per year;

WHEREAS, in or about February 1983, the Parties agreed to enter into a voluntary groundwater management plan to provide for effective management of groundwater resources in the Basin through which each party was given sufficient water to meet its needs as then projected; such needs being met in part by the City of Arroyo Grande foregoing 358 acre feet per year of its historical use and the City of Pismo Beach foregoing 20 acre feet per year of its historical use;

WHEREAS, this management plan provided a reasonable division of the safe yield of the Basin without court imposed groundwater basin adjudication;

WHEREAS, on February 9, 1983, the terms of the management plan were incorporated into Resolution No. 83-1 of the South San Luis Obispo County Water Association Approving the Recommendations of the Committee relating to the Basin (the "Resolution");

WHEREAS, each of the Parties have adopted individual resolutions endorsing the provisions of the Resolution;

WHEREAS, the Parties have generally complied with the terms and conditions of the Resolution; and

WHEREAS, general compliance with the Resolution has proven to be a fair and efficient means of managing and protecting groundwater resources in the Basin as confirmed by the revised final draft report prepared by the Department of Water Resources entitled, Water Resources of Arroyo Grande and Nipomo Mesa, January 2000.

NOW, THEREFORE, THE PARTIES AGREE AS FOLLOWS:

1. Division of Safe Yield.

a. The Parties agree to a division of the safe yield of the Basin as follows:

Applied Irrigation 5,300 acre feet

Subsurface flow to ocean 200 acre feet

Urban Use:

City of Arroyo Grande 1,202 acre feet

City of Grover Beach 1,198 acre feet

City of Pismo Beach 700 acre feet

Oceano Community Services District 900 acre feet

b. Any increase or decrease in the safe yield of the Basin attributable to changed operation of the Lopez Reservoir, or any other cause, shall first be divided between the Urban Parties and applied irrigation on a pro rata basis using the formula from the 1983 Gentlemen's Agreement, fifty-seven percent (57%) to applied irrigation and forty-three percent (43%) to the Urban Parties. Thereafter, the first 378 acre feet per year of any increase of safe yield allocated to the Urban Parties shall be divided between the City of Arroyo Grande and the City of Pismo Beach on a pro rata basis (95% to Arroyo Grande and 5% to Pismo Beach).

c. The entitlements of each respective Urban Party may be increased based upon the conversion of irrigated agricultural lands to urban use. An Urban Party to this Agreement may increase its entitlement for urban use by a factor of three (3) acre feet per acre per year minus the calculated urban usage per acre per year upon the conversion of irrigated agricultural land to urban usage. "Irrigated agricultural land" shall be that land within the corporate limits of the party that was identified as irrigated agricultural land in the 1979 Department of Water Resources Report entitled Ground Water in the Arroyo Grande Area. This agricultural conversion factor may be applied to all acreage converted to urban use from January 1, 1983, throughout the life of this Agreement. Such an agricultural conversion factor is in the best interests of the overall Basin in that it will not result in any decline in the groundwater service over time. The Parties agree that no water should be converted to urban use within the Basin without establishing that it was irrigated agricultural land as defined in the 1979 Department of Water Resources Report, Groundwater in the Arroyo Grande Area.

d. The Parties agree and understand that the safe yield figures utilized in this Agreement are a product of the 1979 Department of Water Resources Report regarding the Arroyo Grande Basin as adjusted by the 1983 ad hoc Technical Advisory Committee and that the division of the resources is based upon the historical use of each party and a practical accommodation of each Party's needs as they existed at the time of the adoption of the 1983

agreement. It is agreed that the Parties will meet and confer on issues related to safe yield and division of existing water resources upon the final adoption of the new Arroyo Grande Basin study performed by the Department of Water Resources, which is currently in draft.

2. Shared Information and Monitoring: The Urban Parties to this Agreement shall freely share information with each other regarding each of their respective uses of groundwater in the Basin, including all pumping data such as amounts of water extracted, well static water levels, and water quality. The Urban Parties to this Agreement shall meet on a quarterly basis to share this information and to discuss water usage and impacts upon the Basin. The Parties shall conduct a review of water usage and the impacts on Basin hydrology in 2010 and 2020.

3. Term:

a. This Agreement shall bind the Parties indefinitely absent a significant change of circumstances as to available water, water quality, or hydrogeology of the Arroyo Grande Basin. A significant change of circumstances shall allow any Party to opt out of this Agreement if the significant change of circumstances put that Party at risk of not being able to meet its potable water needs.

b. Significant changed circumstances shall include changes within the Basin or outside of the Basin, including but not restricted to, a change in the Lopez Reservoir safe yield or an increase in Lopez Reservoir discharges for conservation purposes that threatens the ability of the Urban Parties to obtain their contractual allotments under their Lopez agreements, or a significant change in groundwater yields or quality, or a reduction in foreign water imported by any Urban Party. The Parties recognize that rainfall within the watershed is the most significant factor affecting the yield of Lopez Reservoir and the Basin.

c. The Parties shall revisit the issue of the allocation of groundwater resources within the Arroyo Grande Basin in 2010 and 2020 in the context of the review provided for in section 2 of this Agreement. The Parties shall make new allocations of groundwater resources at that time if circumstances justify it and if no harm will result to other groundwater users. Priority shall be given to reallocation of historical use of groundwater to Arroyo Grande and Pismo Beach that those agencies chose not to pursue in the entering into of the original Gentlemen's Agreement in 1983 should such new allocations be made.

d. A Party may opt out of this Agreement if significant changed circumstances arise as defined in this section. Such a party shall give all other parties to the agreement not less than six months written notice of its intention to opt out. The written notice shall describe in detail the significant changed circumstances upon which the Party bases its election to opt out of the Agreement.

4. Mediation Agreement: The Parties agree to mediate any disputes that arise out of the Parties' performance under this Agreement, or the interpretation of the terms of this Agreement, prior to instituting any litigation against or between any other Party to this Agreement. Should a Party institute litigation without first offering in good faith to mediate any such dispute, any Party may move for an order compelling mediation and staying the proceedings in the litigation until

after mediation has been completed. The prevailing party on a motion to compel mediation shall be entitled to recover its attorney's fees against any resisting party or any party who filed litigation without first making a good faith attempt to mediate the dispute. This mediation requirement shall not apply where the health and safety of any of the Parties, or any of the Parties' residents, is threatened and they must seek, and have obtained, preliminary relief for the purposes of preserving health and safety.

5. No Third Party Beneficiaries: The Parties are entering into this Agreement in order to reasonably allocate existing groundwater resources between themselves and not to benefit any third parties. This agreement shall only be enforceable between the Parties themselves. This Agreement does not create any right enforceable by any person or entity that is not a party to this Agreement.

6. General Provisions:

a. The Parties warrant that all necessary approvals and authorizations have been obtained to bind them to all terms of this Agreement, and further warrant that the persons signing have authority to sign on behalf of their respective Parties.

b. Written notice under this Agreement shall be given by placing such notice in the first class mail, postage prepaid, or by hand delivery to the current address of the office of any Party to this Agreement.

c. No amendment to this Agreement will be binding on any of the Parties unless it is in writing and signed by an authorized representative of all of the Parties.

d. This Agreement will be construed in accordance with, and governed by, the laws of the State of California as applied to contracts that are executed and performed entirely in California.

e. If any provision of this Agreement is held invalid or unenforceable by any final judgment, it is the intent of the Parties that all other provisions of this Agreement be construed to remain fully valid, enforceable, and binding on the Parties.


f. This Agreement may be executed simultaneously in one or more counterparts, each of which will be considered an original, but all of which together will constitute one and the same instrument.

g. The Parties represent that prior to the execution of this Agreement, they consulted independent legal counsel of their own selection regarding the substance of this Agreement.

WHEREFORE, the Parties publicly consent to the terms and conditions of this Agreement by executing the same as set forth below.

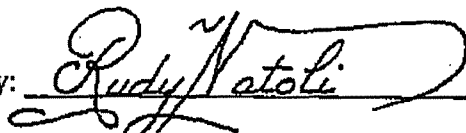
Dated: MAY 30, 2002.

City of Arroyo Grande

By: 
Print Name and Title: MICHAELA LADY, MAYOR


Dated: June 10, 2002.


City of Pismo Beach

By: 
Print Name and Title: MAYOR RUDY NATOLI

Dated: May 21, 2002.

City of Grover Beach

Attest: 
Donna L. McMahon
City Clerk


By: 
Print Name and Title: MAYOR

Dated: April 24, 2002.

Oceano Community Services District

Attest:


Francis M. Cooney, Board Secretary

By: 
Print Name and Title: Board President

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**EXHIBIT C – NORTHERN LANDOWNER SIGNATURE PAGE FOR
SETTLEMENT AGREEMENT**

1. I am the owner and/or lessor (*circle one or both*) of at least ten acres of agricultural land in the Northern Cities Area (the area so designated on Exhibit A to this Settlement Agreement).

2. Describe the parcel(s) of agricultural land that you own or lease:

- (a) Address(es): _____
- (b) Assessor's Parcel Number(s): _____
- (c) Number of acres of agricultural land that you own or lease: _____
- (d) Approximate number of acre-feet of water pumped annually: _____

3. I have read this Settlement Agreement. I have obtained such legal advice or other counsel regarding its terms as I deem appropriate. I understand and agree to its terms.

Dated: _____, 2002

Print Name of Owner/Lessor: _____

Title of Signer: _____

Signature: _____ *Signature Page Filed with Court*

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**EXHIBIT D – SIGNATURE PAGE FOR OTHER PARTIES – WATER PURVEYORS
AND LANDOWNERS OUTSIDE NORTHERN CITIES AREA**

1. I am a party to the Santa Maria Groundwater Litigation, or the legal representative of such a party.

2. I have read this Settlement Agreement. I have obtained such legal advice or other counsel regarding its terms as I deem appropriate. I understand and agree to its terms.

Dated: _____, 2002

Print Name of Party(ies): _____

Title of Signer: _____

Signature: Signature Page Filed with Court