

**REVISED FOURTH AMENDMENT TO AGREEMENT BETWEEN IMPERIAL
IRRIGATION DISTRICT AND SAN DIEGO COUNTY WATER AUTHORITY
FOR TRANSFER OF CONSERVED WATER**

THIS REVISED FOURTH AMENDMENT TO THE AGREEMENT BETWEEN IMPERIAL IRRIGATION DISTRICT AND SAN DIEGO COUNTY WATER AUTHORITY (the "Amendment") dated as of October 10, 2003, by and between IMPERIAL IRRIGATION DISTRICT ("IID"), a California irrigation district and SAN DIEGO COUNTY WATER AUTHORITY ("Authority"), a California county water authority, amends that certain Agreement For Transfer of Conserved Water by and between Imperial Irrigation District and San Diego County Water Authority dated April 29, 1998 (the "Agreement"), and all previous amendments.

BACKGROUND

A. IID is a party to that certain Quantification Settlement Agreement ("QSA") among IID, Metropolitan Water District ("MWD") and Coachella Valley Water District ("CVWD"). The QSA and a number of other agreements defined in the QSA as Related Agreements (the "Related Agreements") will be executed by the parties to each of those Related Agreements, including, as applicable, the United States of America and the California Department of Water Resources ("DWR") upon completion of environmental review and satisfaction of a number of conditions. The QSA and the Related Agreements consensually establish the terms for the priority, use and distribution of Colorado River Water among IID, Authority, MWD and CVWD. The Related Agreements include, inter alia, the Agreement, the Agreement for Acquisition of Conserved Water By and Between Imperial Irrigation District and Coachella Valley Water District ("IID/CVWD Acquisition Agreement"), the Agreement for Acquisition of Conserved Water By and Between Imperial Irrigation District and The Metropolitan Water District of Southern California ("IID/MWD Acquisition Agreement"), the Amended and Restated Agreement Between The Metropolitan Water District of Southern California and the San Diego County Water Authority for the Exchange of Water, dated October 10, 2003 ("Exchange Agreement") and the Environmental Cost Sharing, Funding and Habitat Conservation Plan Development Agreement among CVWD, IID, and the Authority ("ECSA"), the Quantification Settlement Agreement Joint Powers Authority Creation and Funding Agreement ("QSA-JPA"), the Agreement for Transfer of Conserved Water By and Between Imperial Irrigation District and California Department of Water Resources ("IID/DWR Agreement"), the Agreement for Acquisition of Conserved Water By and Between the California Department of Water Resources and The Metropolitan Water District of Southern California ("DWR/MWD Acquisition Agreement"), and the Allocation Agreement Among the United States, IID, CVWD, MWD and the Authority ("Allocation Agreement").

B. This Amendment is to modify certain aspects of the Agreement to be consistent with the terms and conditions of the QSA and Related Agreements and to modify other aspects to temporarily lessen the environmental impacts of the transfer of Conserved Water from the IID to the Authority. This Amendment is expressly conditioned upon the satisfaction or waiver of all terms and conditions of the QSA and the occurrence of the QSA Effective Date as defined in the QSA.

C. All capitalized terms used and not otherwise defined herein shall have their respective meaning provided in the Agreement.

D. The Recitals to this Amendment and the Exhibits attached to this Amendment are a part of the terms of this Amendment.

CONDITIONS

1. Conditions to this Amendment. This Amendment is subject to the satisfaction of the following conditions on or before the dates specified below.

A. QSA. The QSA Effective Date, as defined in the QSA, has occurred by October 12, 2003.

B. Wheeling. The Authority and MWD have executed the Exchange Agreement on or before the QSA Closing Date as defined in the QSA.

C. SWRCB. The order of the State Water Resources Control Board conditionally approving the transfer of Conserved Water is modified as necessary to authorize the transfer consistent with this Amendment on or before October 31, 2003.

2. The parties agree that upon execution of this Amendment, and without regard to any conditions, each will act in good faith and exercise reasonable efforts to implement the Agreement as amended hereby. Upon satisfaction of all conditions precedent to this Amendment, the operative terms of this Amendment shall be effective and shall be governed by and construed in accordance with the laws of the State of California, without giving effect to the conflicts of laws principles thereof. This Amendment may be executed in any number of counterparts with the same effect as if the signatures thereto were upon one instrument. This Amendment constitutes an amendment and modification of the Agreement in accordance with § 18.9 of the Agreement and shall be read and construed with the Agreement as one instrument. Except as expressly amended hereby, the Agreement shall remain in full force and effect, and the parties hereby ratify, confirm and adopt the Agreement, as amended hereby.

TERMS

In consideration of the mutual covenants and agreements contained herein and for other good and valuable consideration and intending to be legally bound hereby, the IID and the Authority agree:

Article 1

Section 1.1(a) is modified by substituting the following definition:

"1.1(a) Actual Wheeling Rate – The rate per AF to be paid by the Authority to MWD as determined by agreement or arbitration, litigation or other dispute-resolution mechanism between the Authority and MWD for wheeling water from Lake Havasu to the Conveyance Path Terminus, calculated by dividing

the Agreement Year annual total of all required payments (exclusive of any fixed costs, and net of any benefit credits) by the difference between the total Agreement Year annual volume of Conserved Water transferred by the IID to the Authority less any Conveyance Losses from Lake Havasu to the Conveyance Path Terminus."

Section 1.1(c) is deleted.

Section 1.1(i) is modified by substituting the following definition:

"1.1(i) Agreement Year 1 – Calendar Year 2003."

Section 1.1(n) is deleted.

Section 1.1(bk) is modified by replacing it in its entirety by the following:

"(bk) IID Environmental Cost Ceiling. A cost that is not of a magnitude in Effective-Date Dollars that will exceed thirty million dollars (\$30,000,000.00)."

Section 1.1(cu) is modified to substitute *"in accordance with the ramp-up schedule set forth in modified § 3.1"* for the existing reference to *"by twenty thousand (20,000) AFY."*

Section 1.1(dc) is deleted.

Section 1.1(dv) is deleted.

Section 1.1(dw) is deleted.

Section 1.1 (ea) is modified to substitute *"(af)"* for *"(ag)."*

Section 1.1 (ec) is modified to substitute *"(ag)"* for *"(ah)."*

Section 1.1 (ed) is modified to substitute *"(ah)"* for *"(ai)."*

Section 1.1 (ee) is modified to substitute *"(ai)"* for *"(aj)."*

Section 1.1(eg) is deleted.

Section 1.1(eh) is deleted.

Article 2

No changes.

Article 3

Section 3.1 is in its entirety is replaced by substituting the following ramp up schedule and provision regarding the Stabilized Primary Quantity.

"Primary Transfer. Subject to satisfaction or waiver of the Contracting Landowner conditions of § 9.4, the quantity of Conserved Water transferred in Agreement Years 1 through 19 shall be as follows:

<i>Agreement Year</i>	<i>Quantity (AFY)</i>
<i>1</i>	<i>10,000</i>
<i>2</i>	<i>20,000</i>
<i>3</i>	<i>30,000</i>
<i>4</i>	<i>40,000</i>
<i>5</i>	<i>50,000</i>
<i>6</i>	<i>50,000</i>
<i>7</i>	<i>60,000</i>
<i>8</i>	<i>70,000</i>
<i>9</i>	<i>80,000</i>
<i>10</i>	<i>90,000</i>
<i>11</i>	<i>100,000</i>
<i>12</i>	<i>100,000</i>
<i>13</i>	<i>100,000</i>
<i>14</i>	<i>100,000</i>
<i>15</i>	<i>100,000</i>
<i>16</i>	<i>130,000</i>
<i>17</i>	<i>160,000</i>
<i>18</i>	<i>190,000</i>
<i>19</i>	<i>200,000</i>

Subject to satisfaction of the Contracting Landowner conditions of § 9.4, the Stabilized Primary Quantity will be two hundred thousand (200,000) AFY. The IID may not change the quantity of the Stabilized Primary Quantity once the amount has been established."

Section 3.2 is modified by replacing it in its entirety with the following:

"3.2 Discretionary Additional Transfers. Subject to the provisions of this section, if IID in its complete discretion wishes to transfer "Additional Available Water" between Agreement Year 1

through Agreement Year 18, it must offer that Conserved Water first to the Authority.

(a) Additional Available Water. "Additional Available Water" means that quantity of Conserved Water, if any, up to a maximum volume in any Agreement Year calculated by subtracting the ramp-up volume identified in modified § 3.1 for any Agreement Year from two hundred thousand (200,000) AFY. Additional Available Water does not include:

(i) Water that the IID transfers to MWD or CVWD under the QSA; or

(ii) Water conserved from the All-American Canal or Coachella Canal.

(iii) Water that IID transfers under the IID/DWR Agreement.

(b) Price. The price for Additional Available Water will be the same price as for the Primary Transfer Water transferred under § 3.1 concurrently.

(c) Procedure. The transfer of Additional Available Water shall proceed as follows:

(i) Notice to Acquirer. On or after January 1 of Agreement Year 2, on each occasion that it wishes to transfer Additional Available Water, the IID shall give a notice of its desire to transfer Additional Available Water ("Notice to Transfer"). The Notice to Transfer must contain the terms of the desired quantity, transfer start date, period over which the transfer would increase from the minimum to the maximum and any environmental, transportation, SWRCB approval, BOR approval or Landowner participation conditions.

(ii) Response to Notice; Meet and Confer. The Authority must either decline the offer of Additional Available Water, accept the terms and conditions contained in such Notice, respond with alternative acceptable terms and conditions, or meet and confer with the IID to determine whether mutually acceptable terms and conditions can be negotiated. The Parties have six (6) months from the giving of the Notice to Transfer to reach an agreement on the terms and conditions for the transfer of Additional Available Water or the Notice will be deemed rejected.

(iii) Condition Removal. Should the Parties agree that the transfer of Additional Available Water may be

conditioned on the satisfaction of environmental, transportation, SWRCB approval, BOR approval or Landowner participation conditions, the period for satisfaction of such conditions may not be longer than twenty-four (24) months from the date that the Parties reach agreement on the terms for transfer of the Additional Available Water. The Parties agree to proceed with reasonable diligence and use reasonable best efforts to satisfy any conditions for which a Party has accepted responsibility.

(iv) Start Date. The first day that Additional Available Water may be transferred to the Authority is the later of:

(A) January 1 of Agreement Year 3, or

(B) Six (6) months after the satisfaction of the last remaining condition referenced in § 3.2(c)(iii) above.

(v) Term. The term of transfer of Additional Available Water must end no later than the end of Agreement Year 18.

(vi) Waiver of Right to Acquire or Transfer. The failure of the Parties to negotiate acceptable terms and conditions for the transfer of Additional Available Water shall entitle the IID to give a "Notice of Waiver" which results in the Authority relinquishing any further rights as to a transfer of water under the Notice of Transfer which is the subject of the Notice of Waiver. If all of the agreed upon conditions for the transfer of Additional Available Water are not satisfied or waived, the IID shall be entitled to give a Notice of Waiver as to that Notice of Transfer.

New Section 3.5 is added in its entirety as follows:

"3.5 Early Transfer Water. In addition to any Conserved Water that IID may transfer to the Authority under §§ 3.1, 3.2, 3.3 or 3.4 herein, IID will transfer ten thousand (10,000) AF of Conserved Water in the manner set forth elsewhere in this Article 3 ("Early Transfer Water"). The Early Transfer Water shall be made available to the Authority at Imperial Dam in Calendar Years 2020, 2021 and 2022 as follows:

Calendar Year 2020: 2,500 AF

Calendar Year 2021: 5,000 AF

Calendar Year 2022: 2,500 AF

(a) Transfer Complete at Imperial Dam. IID effects a transfer of Early Transfer Water to the Authority under this Agreement by reducing its annual diversion (less return flows) from the Colorado River at Imperial Dam by an amount equal to the quantity of Early Transfer Water to be transferred to the Authority set forth in § 3.5. When the IID effects a transfer in that manner, the IID has satisfied its obligation to transfer such Early Transfer Water. The Authority accepts responsibility for the Early Transfer Water at Imperial Dam. The Authority assumes responsibility for all arrangements to divert and transport the Early Transfer Water to the Conveyance Path Terminus, including disruption or cost resulting from MWD conduct contrary to the provisions of the 1998 IID/SDCWA Transfer Agreement, the QSA or the Related Agreements.

(b) Authority's Scheduling Discretion. The Authority accepts the transfer of the Early Transfer Water beginning on January 1 of 2020, 2021 and 2022. The Authority has complete discretion within each Calendar Year for the requisite annual quantity on the scheduling of its diversions from the point of diversion to the Conveyance Path Terminus.

(c) Calendar-Year Limitation. The Authority's right to Early Transfer Water under this Amendment is not cumulative, and the Authority has no right to any quantity of Early Transfer Water that it does not divert within the Calendar Year that it is to be transferred. Thus, if the Authority fails to divert the Early Transfer Water to which it is entitled under this Amendment in any one Calendar Year, the amount to which the Authority is entitled (and the amount that IID is obligated to transfer under this Amendment) in any other Calendar Year is unaffected.

(d) Method of Conservation. IID may generate the Early Transfer Water in accordance with any method permissible under the 1998 IID/SDCWA Transfer Agreement or the QSA.

(i) Method of conservation. IID reserves complete discretion in determining how to create the Early Transfer Water in accordance with the 1998 IID/SDCWA Transfer Agreement or the QSA.

(ii) No landowner subscriptions required. Nothing herein shall be construed as requiring IID to solicit and secure landowner subscriptions to generate Early Transfer Water.

(e) Re-Transfer Prohibited. The Authority shall not re-transfer the Early Transfer Water for use outside the boundaries of the Authority."

New Section 3.6 is added in its entirety as follows:

"3.6 Transfer of Salton Sea Mitigation Water. IID shall transfer "Salton Sea Mitigation Water" to the Authority, at no cost or expense to the Authority, and the Authority shall deliver the Salton Sea Mitigation Water to the Salton Sea, at no cost or expense to the Authority, pursuant to the terms of this Section 3.6.

(a) Schedule. IID shall deliver Salton Sea Mitigation Water to the Authority as follows:

<i>Agreement Year</i>	<i>Calendar Year</i>	<i>Quantity (AF)</i>
<i>1</i>	<i>2003</i>	<i>5,000</i>
<i>2</i>	<i>2004</i>	<i>10,000</i>
<i>3</i>	<i>2005</i>	<i>15,000</i>
<i>4</i>	<i>2006</i>	<i>20,000</i>
<i>5</i>	<i>2007</i>	<i>25,000</i>
<i>6</i>	<i>2008</i>	<i>25,000</i>
<i>7</i>	<i>2009</i>	<i>30,000</i>
<i>8</i>	<i>2010</i>	<i>35,000</i>
<i>9</i>	<i>2011</i>	<i>40,000</i>
<i>10</i>	<i>2012</i>	<i>45,000</i>
<i>11</i>	<i>2013</i>	<i>70,000</i>
<i>12</i>	<i>2014</i>	<i>90,000</i>
<i>13</i>	<i>2015</i>	<i>110,000</i>
<i>14</i>	<i>2016</i>	<i>130,000</i>
<i>15</i>	<i>2017</i>	<i>150,000</i>

(b) Term. IID shall transfer the Salton Sea Mitigation Water to the Authority at no charge to the Authority and the Authority shall deliver the Salton Sea Mitigation Water to the Salton Sea for the lesser of (i) fifteen (15) Years or (ii) until

such time as IID transfers the Salton Sea Mitigation Water to the DWR pursuant to the IID/DWR Agreement.

(c) Purpose. IID shall transfer the Salton Sea Mitigation Water to the Authority and the Authority shall deliver the Salton Sea Mitigation Water to the Salton Sea for the sole purpose of providing mitigation water to the Salton Sea, consistent with the refined Salton Sea Habitat Conservation Strategy, as defined in the Amended and Restated Addendum to the Final Impact Report for the IID Water Conservation and Transfer Project (September 2003).

(d) Price. IID will be paid an amount that has a present value as of the Effective Date of fifty million dollars (\$50,000,000) solely from the funds collected pursuant to the QSA-JPA on the schedule attached to the QSA-JPA.

*(e) Exchange. The Authority shall deliver the Salton Sea Mitigation Water to the Salton Sea by either:
(i) causing the Salton Sea Mitigation Water to be physically delivered to the Salton Sea; or (ii) if necessary, exchanging a portion of such water with CVWD or water from other sources to be delivered to the Salton Sea or cause such water to be delivered to the Salton Sea through forbearance arrangements with IID.*

(f) IID Duty to Cooperate. IID shall reasonably cooperate with and assist the Authority in the delivery of Salton Sea Mitigation Water to the Salton Sea at no charge to the Authority.

Article 4

New Article 4.1(c) is added in its entirety as follows:

"4.1(c) Early Termination. The Authority may elect to terminate at the end of Year 35 if conditions identified in (ii) below are satisfied:

(i) Completion of Dispute Resolution – Within fifteen (15) years of the Effective Date, the Authority has reached agreement with MWD on the Actual Wheeling Rate or completed binding arbitration, litigation or other dispute-resolution mechanism with MWD to determine the Actual Wheeling Rate for Agreement Years 31 through 45.

(ii) Actual Wheeling Rate Trigger and Notice – If the Actual Wheeling Rate as determined

under (i) above exceeds one hundred twenty-five percent (125%) of the Base Wheeling Rate or the Authority has been unable to reach agreement with MWD or complete binding arbitration, litigation or other dispute-resolution mechanism, then the Authority has the right to terminate this Agreement for Transfer of Conserved Water as of the end of Agreement Year 35, but only if the Authority gives notice of such early termination no later than the end of Agreement Year 15. In any arbitration, litigation or other dispute-resolution mechanism to resolve the amount of the Actual Wheeling Rate, the Authority will cooperate, support and include IID's full participation as a real party-in-interest. Failure to give such notice before the end of Agreement Year 15 renders any right to early termination null and void and the Agreement shall continue through Agreement Year 45 regardless of the Actual Wheeling Rate. If the Authority exercises the right to terminate this Agreement as of the end of Agreement Year 35, this Agreement shall terminate at the end of Agreement Year 35 and IID shall have no further obligation to offer water to the Authority before offering water in any subsequent transfer to any other party.

Section 4.2 is deleted and replaced with the following:

"4.2 IID or the Authority may request the other to renew this Agreement on identical terms and conditions and for a Renewal Term of 30 years. Such request (the "Renewal Request") must be made no later than the end of Year 38. The Party not making the Renewal Request shall accept or reject the renewal in the exercise of its complete discretion, no later than the end of Year 40, and if no timely response is delivered, the Renewal Request is deemed rejected."

Section 4.3 is deleted and replaced in its entirety with the following.

"4.3 Right of First Refusal In the Event of Non-Renewal.

(a) If the Agreement is not renewed, then for a period of fifteen (15) years following the end of the Initial Term:

(i) *The Party making a renewal request pursuant to Section 4.2 above is granted a right of first refusal;*

(ii) *If neither Party makes a renewal request pursuant to Section 4.2 above, neither Party shall have a right of first refusal;*

(iii) *If no Renewal Term occurs, despite a mutual agreement to renew, because of the failure to satisfy the conditions to renewal, then both Parties are granted a right of first refusal. Conditions to renewal include the same conditions precedent as for the Initial Term.*

(b) *A Party with a right of first refusal must first receive from the other party a proposal to transfer Conserved Water or a proposal to acquire water on terms consistent with this Agreement before a transfer proposal is extended to any other person or entity.*

(c) *The Party receiving the proposal shall have ninety (90) days to accept the proposal or propose other terms for transfer or acquisition and reach agreement.*

(d) *If no agreement is reached, the Party making the proposal may then solicit others to contract to transfer Conserved Water or acquire water on terms identical to or less valuable to the Party than the terms of the proposal not accepted when extended to the other Party, and the terms of any counterproposal exchanged pursuant to subsection (c).*

(e) *In determining whether a proposal is less valuable, the methodology described in Section 4.4(v) shall be utilized."*

Article 5

Section 5.1(d) is modified by substituting the formula for the Base Contract Price as follows:

"5.1(d) Base Contract Price – The Base Contract Price shall be determined by the following formula:

[MWD Full Water Rate - Base Wheeling Rate] x [1 - Applicable Discount Rate] + 50% x [Base Wheeling Rate - the lesser of the Actual Wheeling Rate or 115% of the Base Wheeling Rate]

"The formula is expressed as the 'Base Contract Price equals [the MWD Full Water Rate minus the Base Wheeling Rate] multiplied by the difference between [one (1) minus the Applicable Discount Rate] plus fifty percent (50%) of the difference between [the Base Wheeling Rate minus the lesser of the Actual Wheeling Rate or one hundred fifteen percent (115% of the Base Wheeling Rate)].' Whether the Base Wheeling Rate is more than the Actual Wheeling Rate or the Actual Wheeling Rate is more than the Base Wheeling Rate will determine whether the difference is a positive or negative number and thus whether the Base Contract Price will increase or decrease."

Section 5.1(f)(x) is modified by replacing it in its entirety as follows:

"(x) Excluded Transactions: Any Transaction involving a transfer under an Adjunct Contract with MWD or CVWD, any transfer under the IID/MWD 1988 Agreement, any transfer of water conserved from the All-American Canal or the Coachella Canal, any transfer under this Agreement, or any transfer under the IID/DWR Agreement or the DWR/MWD Acquisition Agreement."

Section 5.1(w)(vii) is modified by replacing it in its entirety as follows:

"(vii) Excluded Transactions. Any transfers under this Agreement, any transfer under the IID/MWD 1988 Agreement, any transfer of water conserved from the All-American Canal or the Coachella Canal; any Transaction which became a binding contract between the parties to the Transaction before the Execution Date, or any transfer under the IID/DWR Agreement or the DWR/MWD Acquisition Agreement."

Section 5.2(a) is amended by deletion of the Shortage Premium from the formula for calculation of the price during the Initial Pricing Phase, for the period from Year 1 to Year 15 only, by adding the following provision as the last sentence:

"However, the Shortage Premium shall not be included in the formula until Agreement Year 16."

Section 5.2(a) is further modified by the addition of new Section 5.2(e) to substitute the price per AF as set forth below for Year 1 through Year 5; and to further substitute the price per AF as set forth below after Year 5 and up through Year 15, unless either IID or the Authority provides notice (the "Price Formula Notice") to the other by April 1 of any year that either has

elected to revert to the pricing formula set forth in Section 5.2(a); provided however that the Price Formula Notice cannot be given before April 1 in Year 5.

"5.2(e) Notwithstanding the provisions of § 5.2(a), the price per AF for Agreement Year 1 through Agreement Year 5, shall be as follows:

<i>Agreement Year</i>	<i>Price per AF</i>
<i>1</i>	<i>\$258</i>
<i>2</i>	<i>\$267</i>
<i>3</i>	<i>\$276</i>
<i>4</i>	<i>\$286</i>
<i>5</i>	<i>\$296</i>

Unless the IID or the Authority provides a notice by April 1 of any Year commencing with Agreement Year 5 (the "Price Formula Notice") that either has elected to revert to the pricing formula of § 5.2(a), then the price per AF for each of Agreement Years 6 through 15 that do not occur subsequent to the Price Formula Notice shall be as follows:

<i>Agreement Year</i>	<i>Price Per AF</i>
<i>6</i>	<i>\$306</i>
<i>7</i>	<i>\$316</i>
<i>8</i>	<i>\$327</i>
<i>9</i>	<i>\$338</i>
<i>10</i>	<i>\$349</i>
<i>11</i>	<i>\$363</i>
<i>12</i>	<i>\$376</i>
<i>13</i>	<i>\$390</i>
<i>14</i>	<i>\$405</i>
<i>15</i>	<i>\$420</i>

If the Price Formula Notice is given, then commencing on January 1 of the subsequent Year, the price formula of § 5.2(a), subject to the provisions of § 5.2(b) and (c), shall govern."

New Section 5.5 is added in its entirety as follows:

"5.5 Pricing for Early Transfer Water.

(a) Price. The price for the Early Transfer Water shall be one hundred and twenty-five dollars (\$125.00) per acre foot in 1999 Dollars.

(b) Wheeling. The cost of wheeling the Early Transfer Water to the Authority's Conveyance Path Terminus shall be the sole financial responsibility of the Authority and shall not affect the Price specified in § 5.5(a) above.

(c) Environmental Costs. The Authority shall be solely responsible for any and all Environmental Review Costs, Environmental Mitigation Costs and Environmental Litigation Costs, all as defined in the ECSA attributable to the Early Transfer Water, including a proportionate share of the Environmental Review Costs and Environmental Litigation Costs incurred as part of the Joint EIR/EIS process applicable to the Agreement. Environmental costs attributable to the Early Transfer water shall be paid by the Authority in addition to the Price specified in § 5.5(a) above.

New Section 5.6 is added in its entirety as follows:

"5.6 Prepayment for Water. At the end of Agreement Year 5, the Authority shall prepay IID Ten Million Dollars (\$10,000,000) for future deliveries of water. Interest on the prepayment shall begin to accrue at the end of Agreement Year 16 using the Authority's weighted average cost of funds for its short-term and long-term debt outstanding as shown in the Authority's annual financial report for each fiscal year ending June 30th. If not repaid sooner, beginning at the end of Agreement Year 16 through the end of Agreement Year 30, IID shall credit the Authority's monthly invoice in 180 equal monthly installments of \$55,555.56 plus accrued interest pursuant to Section 6.1(a) herein.

Article 6

New Section 6.7 is added in its entirety as follows:

"6.7 Payments for Early Transfer Water. The Authority shall make its payments to IID in three annual installments on June 30 of each Calendar Year for the volume identified in § 3.5 above. The annual price per acre foot in 1999 Dollars as set forth in Section 5.5(a) above shall be adjusted for inflation as set forth in § 1.1(a)(x), except that instead of the Effective Date of April 29, 1998, the date of January 1, 1999, shall be used. The payments by the Authority to IID are for the transfer of the Early Transfer

Water, whether or not the Authority actually diverts any or all of the Early Transfer Water. The provisions of § 6.2 and 6.3 of the Agreement are applicable to all payments for Early Transfer Water."

Article 7

Section 7.1(b)(i)(C) is deleted.

Section 7.1(b)(ii) is modified by substitution of the following:

"Responsibility for Mitigation Measures. The Authority shall be responsible for implementing, at its cost, all environmental mitigation measures adopted as part of the environmental review process in order to mitigate the impacts of the "project" (A) on resources within San Diego County, and (B) caused by the transportation of Conserved Water to the Authority, and the costs and expenses for impacts on the Colorado River between Lake Havasu and Imperial Dam shall be reimbursed to the Authority pursuant to the QSA-JPA."

Section 7.1(b)(iii) is deleted.

Section 7.1(c)(ii) is deleted.

Section 7.1(d)(i) through the end of (C) is modified by substitution of the following:

"SWRCB. By October 31, 2003, the SWRCB has entered a Final Order that approves the IID's transfer of Conserved Water to the Authority under this Agreement on terms consistent with the QSA and the Related Agreements and acceptable to the Parties."

Section 7.1(e) is deleted.

Section 7.3 is modified by adding the following sentence to the end of § 7.3:

"Notice by the Authority that costs exceed the applicable specified caps shall be provided to the IID within fifteen (15) days of such determination being made by the Authority, and the IID shall provide notice within forty-five (45) days of receiving such notice from the Authority that the IID will contribute the additional costs as allowed, if the IID should chose to do so."

Article 8

Section 8.1(b)(ii) is modified by substitution of the following:

"(b)(ii) Responsibility for Mitigation Measures. The IID shall be responsible for implementing, subject to all costs and expenses being reimbursed pursuant to the QSA-JPA, all environmental-mitigation measures adopted as part of the environmental review process in order to mitigate the impacts of the 'project' on (A) resources within Imperial County, exclusive of the Colorado River between Imperial Dam and the northern county border, and (B) on the Salton Sea, exclusive of impacts in Riverside County."

Section 8.1(b)(iii) is modified by substitution of the following:

"(b)(iii) After the Effective Date. If, after the Effective Date, initial mitigation costs or unanticipated environmental consequences result in additional mitigation above the IID Environmental Cost Ceiling, those costs shall not be the responsibility of IID and shall be paid pursuant to the terms of the ECSA and QSA-JPA."

Section 8.1(c)(ii) is deleted.

Section 8.1(d)(i) through the end of (G) is modified by substitution of the following:

"SWRCB. By December 31, 2002, the SWRCB has entered a Final Order that approves the IID's transfer of Conserved Water to the Authority under this Agreement and which contains the findings on terms consistent with the QSA and the Related Agreements and acceptable to the Parties."

Section 8.1(e) is deleted.

Section 8.3 is modified by adding the following sentence to the end of § 8.3:

"Notice by the IID that costs exceed the applicable specified caps shall be provided to the Authority within fifteen (15) days of such determination being made by the IID, and the Authority shall provide notice within forty-five (45) days of receiving such notice from the IID that the Authority will contribute the additional costs as allowed, if the Authority should chose to do so. This condition may also be satisfied by funding commitments made by the Authority, CVWD and the State of California pursuant to the terms of the ECSA and the QSA-JPA."

Article 9

New Section 9.3 is added in its entirety as follows:

"9.3 State Contributions and State Loan Guarantee Condition Precedent. By October 31, 2003, the State Contributions and State Loan Guarantee, as defined in the ECSA, must have been committed for the benefit of the IID and others as set forth in the ECSA."

New Section 9.4 is added in its entirety as follows:

"9.4 Contracting Landowner Condition Precedent. By October 31, 2003, the IID shall enter into contracts with the Landowners conditioned on the QSA, Related Agreements and the Secretarial Implementation Agreement, all being in the form approved by the IID, the effectiveness of the Fourth Amendment, and Section 9.3 having been satisfied, and that call for, and are expected to yield when the Water Conservation efforts have been fully implemented, at least one hundred thirty thousand (130,000) AFY of Conserved Water. IID shall commence a solicitation process for Landowner contracts as soon as reasonably practical following successful negotiation and documentation of the QSA, Related Agreements and the Secretarial Implementation Agreement, and which solicitation process shall attempt in good faith to be successfully concluded within five (5) months of commencement.

Articles 10 to 13

No change.

Article 14

Section 14.2 is amended by the temporary deletion of the last sentence of Section 14.2 until January 1, of Agreement Year 16 as follows:

"Notwithstanding the foregoing, following will be a permitted Water Conservation effort under IID contracts with its Contracting Landowners through Agreement Year 15. When IID is relieved of its obligation to transfer Conserved Water to the Authority by means of fallowing, IID and the Authority shall promptly meet and negotiate in good faith a reasonable schedule for IID to shift the creation of Conserved Water from fallowing to efficiency-based conservation. IID is "relieved of its obligation" when, without cost or expense to the IID, an environmental assessment of the impacts of the conversion from fallowing to efficiency under CEQA and NEPA is completed, along with all

necessary governmental permits and approvals (including, to the extent required, the approval of CDFG, USFWS and SWRCB), and no additional environmental mitigation attributable to the impacts of the conversion is required, or if additional environmental mitigation is required, the costs of such additional environmental mitigation shall be the sole responsibility of the Authority for any amounts that such environmental mitigation costs are in excess of the Environmental Mitigation Cost Limitation, as defined in the QSA-JPA."

New Section 14.3 is added in its entirety as follows:

"14.3 Protection of IID Water Supply. During the Term of this Agreement, the Authority shall not, in any way pursue any legislative, administrative or judicial proceeding, or take any other action that could or would reduce IID's Senior Water Rights or IID's right to divert and use Colorado River water thereunder.

New Section 14.4 is added in its entirety as follows:

"14.4 Fallowing Protection for IID. During the term of this Agreement and for six (6) years thereafter, the Authority covenants that in any legislative, administrative, or judicial proceeding involving an evaluation or assessment of IID's use of water, the Authority shall conclusively presume that any water conserved through fallowing for either (a) transfer to the Authority or (b) used by IID to lessen environmental impacts caused by or related to the transfer of Conserved Water to the Authority, has been conserved by IID in the same volume as if conserved by efficiency improvements, such as by reducing canal seepage and spills or by reducing surface or subsurface runoff from irrigated fields. The Authority further covenants that it hereby supports IID in seeking to cause any legislative, administrative or judicial body evaluating or assessing IID's use of water during the Term of this Agreement and for six (6) years thereafter to make the same conclusive presumption. In addition, the Authority also covenants that during the Term of this Agreement and for six (6) years thereafter, the Authority shall not in any way seek or support, including any activity before any legislative, administrative or judicial body, (a) the creation of Conserved Water for transfer by IID after December 31, 2017 through the use of temporary or permanent fallowing or crop rotation or (b) the use by IID of its Senior Water Rights or IID created Conserved Water to lessen the environmental impacts on the Salton Sea or related to a decline in the elevation of the Salton Sea resulting from the transfer of Conserved Water by the IID to the Authority. The Authority acknowledges and hereby supports the right of the IID to create all

Conserved Water after Agreement Year 15 by efficiency improvements as reflected on the Compromise IID/SDCWA and QSA Delivery Schedule attached hereto as Exhibit 1 without creating or providing any water to lessen environmental impacts on the Salton Sea or related to a decline in the elevation of the Salton Sea. "

New Section 14.5 is added in its entirety as follows:

"14.5 Mitigation of Socio-Economic Impacts Caused by Land Fallowing. IID shall exercise best efforts to minimize socioeconomic impacts from the land fallowing necessary to transfer Conserved Water to the Authority and to lessen environmental impacts related to the transfer of Conserved Water to the Authority. In designing and implementing the fallowing program, IID shall further seek to facilitate the voluntary, broad-based participation by farmers to meet the IID's long-term water delivery requirements to the Authority. The Authority and IID agree that this Section 14.5 shall apply only to socioeconomic impacts attributable to the land fallowing conducted for transfer of Conserved Water to the Authority pursuant to this Agreement, and to lessen environmental impacts related to such transfers.

(a) Resolution of Disagreement Among the Parties Concerning the Socioeconomic Impacts Caused by Land Fallowing. IID and the Authority have a fundamental disagreement concerning the likely socioeconomic impacts caused by land fallowing to transfer Conserved Water to the Authority or to lessen environmental impacts related to the transfer of Conserved Water to the Authority. In order to avoid this disagreement from preventing the use of land fallowing, IID and the Authority have agreed that IID shall cause to be established no later than October 12, 2003, a Local Entity that will administer the receipt and disbursement of socioeconomic impact payments made by the Authority and IID.

(i) Establishment of Local Entity. IID shall cause the Local Entity to be established after consultation with the County of Imperial and other Imperial Valley local interests. The Local Entity's governance powers, reporting obligations and other relevant matters shall require the Local Entity to use the financial resources made available by the Authority and IID to

mitigate the socioeconomic impact of land fallowing with transparency and at reasonable administrative costs.

(ii) *Entity Operations.* *The Local Entity shall be operated with maximum efficiency to avoid incurring significant administrative costs. It shall not own real property or employ a full time staff. Staff (other than ministerial staff) will be provided as needed for free by the IID and the County of Imperial.*

(b) *Funding of Local Entity.* *The Authority and IID shall make the following socioeconomic impact payments to the Local Entity to mitigate both the socioeconomic impacts of land fallowing used to create Conserved Water to transfer to the Authority and to lessen environmental impacts related to the transfer of Conserved Water to the Authority, as identified pursuant to § 14.5(d) below and to cover reasonable administrative costs of the Local Entity.*

(i) *Local Entity's Funding Requirements.* *The Local Entity shall receive socioeconomic impact payments from the Authority and the IID sufficient to pay the estimated and measured annual and cumulative socioeconomic impacts of land fallowing and reasonable costs of administration. The cost of administration shall include the cost of the studies and measurements undertaken by the Economists Panel as specified below in § 14.5(c).*

(ii) *Authority's Initial Socioeconomic Impact Payment.* *The Authority shall pay the Local Entity an Initial Socioeconomic Impact Payment equal to the sum of ten million dollars (\$10,000,000) in nominal Dollars to the Local Entity in four installment payments. The first installment payment shall be paid to the Local Entity on or before thirty (30) days from the Effective Date in the amount of one hundred thousand (\$100,000) in nominal Dollars. The first installment is anticipated to cover the initial administrative expenses. The second*

installment payment shall be paid by the Local Entity by December 31, 2004, in the amount of two million dollars (\$2,000,000) in nominal Dollars, plus interest from the Effective Date at an annual rate based on the one-year Treasury Note Rate on the Effective Date. The third installment payment shall be paid to the Local Entity by December 31, 2005, in the amount of three million dollars (\$3,000,000) in nominal Dollars, plus interest from the Effective Date at an annual rate based on the two-year Treasury Note Rate on the Effective Date. The fourth installment payment shall be paid to the Local Entity by December 31, 2006, in the amount of four million dollars and nine hundred thousand dollars (\$4,900,000) in nominal Dollars, plus interest from the Effective Date at an annual rate based on the three-year Treasury Note Rate on the Effective Date. Notwithstanding the above schedule of installment payments, the Authority shall accelerate any of the payments of the Initial Socioeconomic Impact Payment amount as necessary to assure that the funds available to the Local Entity are sufficient for the disbursements reasonably necessary to address the estimated and measured annual and cumulative socioeconomic impacts and reasonable administrative costs.

- (iii) *IID Funding of the Local Entity. Starting in Agreement Year 8, IID shall pay the Local Entity by July 31 of each Year socioeconomic impact payments equal to five percent (5%) of the annual contract payments made by the Authority to the IID until IID's cumulative socioeconomic impact payments to the Local Entity equal ten million dollars (\$10,000,000) in nominal Dollars.*
- (iv) *Authority's Subsequent Socioeconomic Impact Payments. The Authority shall pay all further socioeconomic impact payments due to the Local Entity in excess of the*

Authority's Initial Socioeconomic Impact Payment and the monies available from IID's Funding of the Local Entity specified in § 14.5(b)(iii). The Authority shall make Subsequent Socioeconomic Impact Payments by June 30 of each Year to assure that the funds available to the Local Entity are sufficient for the disbursements reasonably necessary to address the estimated and measured annual and cumulative socioeconomic impacts and reasonable administrative costs.

- (v) *IID's Reimbursement of the Authority's Initial Socioeconomic Impact Payment.* *Starting in Agreement Year 16 and continuing through Agreement Year 45, IID shall credit against the payment otherwise due from the Authority in an amount equal to ten millions dollars (\$10,000,000) in nominal Dollars divided by the cumulative amount of water scheduled for delivery to the Authority between Agreement Year 16 and Agreement Year 45 as of Agreement Year 16. If the 1998 Agreement between IID and the Authority terminates before Agreement Year 45, the Authority has no right to receive any further reimbursement upon or after the termination for any unreimbursed portion of the Authority's Initial Socioeconomic Impact Payment.*
- (vi) *Refund of Any Excess Authority Socioeconomic Impact Payments.* *After Agreement Year 15, or within 24 months after following pursuant to this Section 14.5 has ceased, whichever is earlier, the Local Entity shall determine the amount, if any, the Authority's Cumulative Socioeconomic Impact Payments exceeds the difference between the Local Entity's cumulative funding requirements and IID's cumulative funding of the Local Entity. The Local Entity shall reimburse the Authority for the amount of any excess by the end of Agreement Year 16, or within 36 months*

after following pursuant to this Section 14.5 has ceased, whichever is earlier..

(vii) *Annual Reporting to the Authority.* *Within ninety (90) days after the end of an Agreement Year, the Local Entity shall prepare and publish an annual report of the Local Entity's receipts and disbursements and prepare a budget for the administrative costs of the Local Entity for the following Agreement Year.*

(c) *Estimation and Measurement of the Socioeconomic Impacts of Land Fallowing.* *The annual and cumulative socioeconomic impacts shall be estimated and measured by a Socioeconomic Methodology based on a Regional Economic Model, a longitudinal study and consideration of economic data of the IID and Imperial County in accordance with the following procedure:*

(i) *Economists Panel.* *As soon as reasonable after the Effective Date, a three-person panel of professional economists shall be formed with the responsibility to establish a Socioeconomic Methodology to estimate and measure the annual and cumulative socioeconomic impacts of land fallowing based on procedures to be developed for combining evidence from the different approaches specified in § 14.5(c)(iii-vi) below.*

(ii) *Appointment of Panel Members.* *One professional economist representative shall be appointed by the Local Entity, one by the Authority, and the third by the mutual consent of the Local Entity's and the Authority's representatives. The Local Entity's and the Authority's representatives shall serve at the pleasure of the appointing entity. The third representative shall serve a term of one-year. The third representative may be re-appointed by the mutual consent of the Local Entity's representative and the Authority's representative.*

- (iii) Responsibility of Economist Panel. *The panel shall be responsible for developing and implementing a Socioeconomic Methodology based on a Regional Economic Model and corroborating studies as described below.*
- (iv) Development of Regional Economic Model. *The panel shall develop the Regional Economic Model, including the key parameters, the necessary inputs to the model and the method of determining proper measurements based upon credible available information. The panel shall also develop the method of measuring and estimating socioeconomic impacts and the method of corroborating estimated socioeconomic impacts with credible evidence from countywide economic data and longitudinal studies, in a manner consistent with the Guidelines for Estimation and Measurement and in accordance with the Timeline for the Implementation of Defined Tasks as set forth in Exhibit 2 attached hereto.*
- (v) Periodic Adjustments to Regional Economic Model. *The panel shall make periodic adjustments to the Regional Economic Model based upon credible available information and methods developed by the panel in accordance with the Guidelines for Estimation and Measurement. Periodic adjustments may be made, including but not limited to changes in the amount of acreage fallowed, cropping patterns, crop prices, crop yields, spending patterns, and other economic factors.*
- (vi) Corroborating Studies. *The panel shall direct the corroborating studies. Before IID initiates land fallowing to make Conserved Water available for transfer to the Authority, the panel shall initiate a longitudinal analysis of socioeconomic impacts. Within two years from the date fallowing is initiated by IID, the panel will*

assess whether the longitudinal study provides credible evidence that adjustments should be made to the socioeconomic impacts estimated by the Regional Economic Model. If adjustments are warranted, the panel shall adjust the socioeconomic impacts in accordance with methods consistent with the Guidelines for Estimation and Measurement.

- (vii) Panel Meetings. The panel shall meet as frequently as necessary to carry out its responsibilities. A meeting shall be convened at the request of any representative.*
- (viii) Deadline for Initial Findings. The panel shall present its initial assessment of the estimated annual and cumulative socioeconomic impacts of land fallowing to the Local Entity and the Authority no later than June 1, 2004.*
- (ix) Annual Reporting. The panel shall report annually by June 1 of each Year to the Local Entity and the Authority on updated estimated and measured annual and cumulative socioeconomic impacts of land fallowing.*

(d) Disbursements. The Local Entity shall use the Socioeconomic Impact Payments paid by the Authority and the IID to pay the costs of mitigating the estimated and measured annual and cumulative socioeconomic impacts of land fallowing and reasonable administrative costs of the Local Entity. Except for the expenditure of the one hundred thousand dollars (\$100,000) made available through the first installment payment of the Authority's Initial Socioeconomic Impact Payment and the funds necessary for reasonable administrative expenses, the Local Entity shall make future disbursements in accordance with an approved budget and economic mitigation plan. The economic mitigation plan shall be developed in consultation with the State of California Resources Agency, Department of Food and Agriculture, Department of Commerce, and Department of Finance.

- (e) Dispute Resolution. *If a dispute arises concerning the funding, disbursement or measurements of the socioeconomic impacts of land fallowing, the Local Entity and the Authority shall settle the matter by binding arbitration utilizing a process parallel to that set out in § 17.4, 17.5 and 17.7, except as set forth below:*
- (i) Meet and Confer Obligation. *Before submitting a dispute to arbitration, the Local Entity and the Authority shall meet and confer in an attempt to resolve the dispute. No Administrative Committee shall be created or involved.*
 - (ii) Appointments to Arbitration Panel. *The Local Entity shall be entitled to appoint one arbitrator. The Authority shall be entitled to appoint one arbitrator. The two arbitrators appointed by the entities shall appoint a third arbitrator by mutual agreement.*
 - (iii) Decision of Arbitration Panel. *The arbitration panel shall use to the maximum extent practicable the principles and methods contained in the Measurement Guidelines to rule on the dispute submitted for arbitration. The decision issued by the arbitration panel shall be final.*
- (f) Coordination with SB 277 (2003 Stats. ch. 611). *The Local Entity and the Authority shall coordinate the efforts of the panel regarding the initial assessment of the estimated annual and cumulative socioeconomic impacts from land fallowing with the process required by section 9 of Chapter 617 of the 2002 Statutes as amended. The panel shall coordinate its efforts with the State of California Resource Agency, Department of Food and Agriculture, Department of Commerce, and Department of Finance in order to avoid duplication of effort and inconsistent results. To the extent practicable, the panel shall obtain relevant data from these departments and agency.*
- (g) Socioeconomic Litigation. *To the extent litigation is commenced against the IID, the Authority, the Local Entity or the panel, the Authority and Local Entity shall*

cooperate and coordinate the defense of such litigation, and all costs of defense and any judgment resulting shall be treated as, and paid for, the same as a reasonable administrative cost of the Local Entity.

New Section 14.6 is added in its entirety as follows:

"14.6 Settlement and Efficiency Conservation Opportunity Payment. In consideration of (i) the settlements reached with CVWD and MWD through the QSA, and (ii) the opportunity to increase the conservation ramp-up schedule and utilize conservation methods of IID's choice, including efficiency conservation, as set forth in the IID/DWR Agreement, IID shall pay to the QSA-JPA twenty-four million dollars (\$24,000,000) in Effective-Date Dollars, on the schedule attached as an exhibit to the QSA-JPA."

Article 15

Section 15.2(a) is amended to read in its entirety as follows:

"(a) Transfer. The IID fails to transfer Conserved Water or Early Transfer Water in the quantities and on the schedule specified in this Agreement or this Amendment."

Article 18

Section 18.1 is amended to add the following sentence:

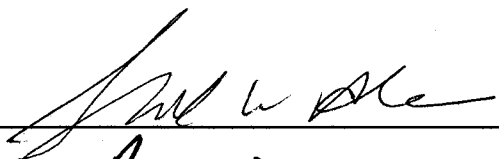
"Notwithstanding anything to the contrary, the Local Entity referenced in § 14.5 shall be a third-party beneficiary of the Agreement for purposes of the provisions of § 14.5, and if the Local Entity is unable to exercise any rights as a third-party beneficiary, the County of Imperial is authorized to act in its stead."


Exhibits

Exhibit K to the 1998 IID/SDCWA Transfer Agreement is hereby replaced with the Colorado River Water Delivery Agreement as identified in the QSA.


IN WITNESS WHEREOF, IID and Authority have executed this Fourth Amendment as of the day and year first written above.

IMPERIAL IRRIGATION DISTRICT

By 
Its PRESIDENT

By 
Its Chief Counsel

SAN DIEGO COUNTY WATER
AUTHORITY

By 
Its GENERAL MANAGER

**EXHIBIT 1
COMPROMISE IID/SDCWA AND QSA DELIVERY SCHEDULE**

Agmt Yr	Cal Yr	IID/SD (KAF)	IID/CVWD (KAF) ¹	IID/MWD (KAF)	Total Delivery (KAF)	Total Efficiency (KAF)	Fallowing for Delivery (KAF)	Mitigation Fallowing (KAF)	Total Fallowing (KAF)
1	2003	10	0	0	10	0	10	5	15
2	2004	20	0	0	20	0	20	10	30
3	2005	30	0	0	30	0	30	15	45
4	2006	40	0	0	40	0	40	20	60
5	2007	50	0	0	50	0	50	25	75
6	2008	50	4	0	54	4	50	25	75
7	2009	60	8	0	68	8	60	30	90
8	2010	70	12	0	82	12	70	35	105
9	2011	80	16	0	96	16	80	40	120
10	2012	90	21	0	111	21	90	45	135
11	2013	100	26	0	126	46	80	70	150
12	2014	100	31	0	131	71	60	90	150
13	2015	100	36	0	136	96	40	110	150
14	2016	100	41	0	141	121	20	130	150
15	2017	100	45	0	145	145	0	150	150
16	2018	130	63	0	193	193	0	0	0
17	2019	160	68	0	228	228	0	0	0
18	2020	192.5	73	2.5	268	268	0	0	0
19	2021	205	78	5.0	288	288	0	0	0
20	2022	202.5	83	2.5	288	288	0	0	0
21	2023	200	88	0	288	288	0	0	0
22	2024	200	93	0	293	293	0	0	0
23	2025	200	98	0	298	298	0	0	0
24	2026	200	103	0	303	303	0	0	0
25	2027	200	103	0	303	303	0	0	0
26	2028	200	103	0	303	303	0	0	0
27-45	2029-2047	200	103	0	303	303	0	0	0
46-75	2048-2077	200	50	0	250	250	0	0	0

¹ or MWD if CVWD declines to acquire.

Exhibit 2

Guidelines for Estimation and Measurement of Socioeconomic Impacts and Timeline For Implementation of Defined Tasks

IID and the Authority have a fundamental disagreement concerning the likely socioeconomic impacts caused by land fallowing to transfer Conserved Water to the Authority or to lessen environmental impacts related to the transfer of Conserved Water to the Authority. The major source of this disagreement relates to different expectations regarding the crops likely to be fallowed. Other sources of potential disagreement involve the proper estimation and measurement of the economic impact of the crops actually fallowed on the economy of Imperial Valley.

The purpose of this Exhibit 2 is to provide guidelines for the estimation and measurement of socioeconomic impacts from land fallowing and to establish the timeline for implementation of defined tasks assigned to the Economists Panel ("Panel") established pursuant to Section 14.5(c). The Panel shall conduct its studies in accordance with the guidelines and timelines presented below.

Estimation and Measurement of Socioeconomic Impacts

The Panel shall develop and implement a Socioeconomic Methodology to estimate and measure the annual and cumulative socioeconomic impacts of land fallowing through the development and use of a Regional Economic Model, as corroborated by evidence from available data on countywide economic conditions and supplemental economic studies of the income and employment of third parties, and evaluated for reliability by standard sensitivity analysis techniques.

1. *Regional Economic Model.* Regional Economic Model shall be based on any necessary adjustments of the standard IMPLAN Model for the specific economic circumstances of Imperial County and shall include the following considerations in the construction of the Social Accounting Matrix (SAM):
 - (a) The Panel shall identify the major industries in Imperial County and eliminate any sectors not relevant to the Imperial County economy from the national version of IMPLAN.
 - (b) The Panel shall review and adjust, where necessary, the pattern of industry purchases of capital, labor and intermediate goods to reflect any differences between the structure of the economy of Imperial Valley and the structure of the SAM of the national version of IMPLAN. In considering adjustments to the coefficients of the agricultural sector, the Panel shall consider relevant data available from California and Arizona cooperative extension reports, direct survey evidence, and other credible sources.

- (c) The Panel shall consider adjustments to the national expenditure coefficients from the national version of IMPLAN based on credible information pertaining to the expenditure patterns of recipients of capital and labor income in Imperial County.
 - (d) The Panel shall consider adjustments to the local and state government coefficients in the national version of IMPLAN based on credible information available from Imperial County governmental agencies and the California Franchise Tax Board.
 - (e) The Panel shall balance any adjustments made to the SAM by a commonly accepted method.
2. *Estimation of Socioeconomic Impacts.* The Panel shall use the Regional Economic Model to estimate the annual and cumulative third party socioeconomic impacts of land fallowing for the specific circumstances of Imperial County including the following considerations:
- (a) Third-party impacts are defined as (i) changes in the after-tax income of individuals or entities residing in Imperial County not participating in the IID land fallowing program; and (ii) changes in the tax receipts of local governments within Imperial County.
 - (b) The Panel's determination of the crop acreage fallowed under the IID fallowing program shall be based on a negotiated method of utilizing information from cropping history of land fallowed, cropping patterns after land re-enters production, and other relevant information related to the economic conditions of crop markets and other relevant factors influencing cropping patterns.
 - (c) The Panel's determination of crop yields for land fallowed shall be based on a negotiated method using average crop yields in Imperial Valley as adjusted by credible evidence indicating that the crop yields of fallowed lands are expected to differ from average countywide crop yields.
 - (d) The Panel's determination of crop revenues from fallowed land shall be based on the average price for the crop fallowed (unless credible evidence can be generated regarding crop prices on fallowed lands) and the adjusted crop yield of fallowed land determined pursuant to 2(c).
 - (e) Determination of socioeconomic impact of land fallowing shall also consider the economic stimulus within Imperial County from contract payments received for land fallowing. The Panel's determination shall consider the implications of the mix of resident/nonresident landowners participating in the land fallowing program and the landowner/tenant split of IID land fallowing payments. The estimate of the economic stimulus shall also consider pro forma income tax liabilities of recipients of IID land fallowing payments. The Panel shall develop a

method for annualizing any up front payments receipts by participants in an IID land fallowing program. The Panel shall also consider how the recipient of any up front payments may affect savings and current consumption and the pattern of expenditures. If there is credible evidence that recipients of IID land fallowing payments would invest in farming capital, then the Panel shall consider the impact of such investment on the economy of Imperial Valley.

- (f) Estimates of the impacts of land fallowing shall also include the stimulus effect of other components of IID land fallowing program, including dust/weed mitigation, IID program administration and environmental mitigation. Impact measurement shall also consider the stimulus effect of government grants for public works and business investment programs to facilitate economic development, but only if made available primarily to offset the socioeconomic impacts of land fallowing.
 - (g) Estimates of the impact of IID land fallowing on local tax revenues shall consider the impact of the IID land fallowing program on local tax bases.
 - (h) Determination of socioeconomic impact of land fallowing shall also consider credible evidence concerning the impact of the land fallowing program on land productivity.
 - (i) Calculation of socioeconomic impacts shall also include a sensitivity analysis of model outputs using a method to be negotiated. Sensitivity analysis is intended to assess the credibility of model outputs resulting from uncertainties about the value of key parameters in the regional economic model. Analysis may also consider qualitative factors such as specification of production functions, role of technological change and other capital investments, and other factors.
3. *Comparison of Estimated Impacts with County Economic Statistics.* Estimates of the socioeconomic impacts of land fallowing shall be corroborated with a negotiated method of examining evidence from countywide economic data on income, employment, and other relevant economic data. The negotiated method shall consider the statistical validity of testing the estimated magnitude of the socioeconomic impacts of land fallowing with countywide data. If the examination of county economic statistics provides statistically reliable information that the estimates from the Regional Economic Model are materially inaccurate, then the Panel shall make any necessary adjustments to the Regional Economic Model.
4. *Longitudinal Analysis.* The longitudinal study undertaken pursuant to Section 14.5(c)(vi) shall consider individuals providing labor and material

inputs to farmers in the Imperial Valley. The study shall examine the incidence and duration of unemployment resulting from fallowing, any adjustments made by businesses providing agricultural services, and other factors. Any credible evidence from longitudinal studies shall be considered in determining whether there should be an adjustment in the funding requirements of the Local Entity.

Timeline for Implementation of Defined Tasks

The Panel shall conduct their studies within the timelines presented below.

1. *Development of Regional Economic Model.* The Panel shall complete the development of the Regional Economic Model based on any adjustments made pursuant to 1(a)-(e) above within 45 Calendar Days of the commencement of work.
2. *Development of Necessary Methods to Estimate Socioeconomic Impacts.* Within 60 Calendar Days of the commencement of work, the Panel shall submit to the Local Entity and the Authority a written report summarizing the design and identification of necessary information for the methods required above for the estimation of socioeconomic impacts of land fallowing, including:
 - a. the method and information to be used in determining crop acreage fallowed in accordance with Section 2(b)(above);
 - b. the method and information to be used to adjust crop yields for specific lands fallowed relative to the countywide average of crop yields in accordance with 2(c) above;
 - c. any evidence to be relied up to estimate that crop prices for fallowed lands differ from countywide average crop prices in accordance with 2(d) above,
 - d. the methods and information to be used to estimate the economic stimulus within Imperial County from contract payments made for land fallowing in accordance with 2(e) above;
 - e. the methods and information to be used to estimate the economic stimulus from other components of IID fallowing in accordance with 2(f) above;
 - f. the methods and information to be used to estimate the impact of IID land fallowing on local tax revenues in accordance with 2(g) above;
 - g. the methods and information to be used to consider the impact of land fallowing on land productivity in accordance with 2(h) above;
 - h. the specification of the procedures to be relied upon to conduct the sensitivity analyses in accordance with 2(i) above; and
 - i. identification of the specific economic statistics and methods to be used to corroborate the estimated socioeconomic impacts of land fallowing in accordance with 3 above.

3. *Initiation of Longitudinal Study.* Within 75 Calendar Days of the commencement of work, the Panel shall submit to the Local Entity and the Authority a written report describing the study design, anticipated budget, and timing of the longitudinal study to be undertaken pursuant to Section 14.5(c)(vi). The Local Entity and the Authority must approve the proposed study before the Panel can proceed with its study plans.
4. *Initial Estimates of the Annual and Cumulative Socioeconomic Impact of Land Fallowing.* Within 120 Calendar Days of the commencement of work, the Panel shall provide the Local Entity with a draft report of the estimated Annual and Cumulative Impact of Land Fallowing through Agreement Year 15. The report shall discuss how information expected to become available in subsequent years may require adjustments to the Panel's initial estimates.
5. *Annual Reporting.* The Panel shall submit an annual report on updated estimated and measured socioeconomic impacts of land fallowing as provided in Section 14.5(c)(ix). The annual report shall include a written work plan and proposed budget for the Panel's activities in the following fiscal year.