SETTLEMENT AGREEMENT

BETWEEN

NEWHALL COUNTY WATER DISTRICT

AND

CASTAIC LAKE WATER AGENCY

Dated: December 13, 2016

Contents

Settlement Agreement

This Settlement Agreement, dated December 13, 2016, is between Newhall County Water District ("Newhall") and Castaic Lake Water Agency ("Castaic"), collectively referred to as the "Parties".

Recitals

A. The Parties wish to take a leadership role in creating a long-term, sustainable and integrated water resource strategy for the Santa Clarita Valley. The purpose of this Agreement is to settle litigation by agreeing to seek legislation to create a single new successor entity under the terms and conditions of this Agreement.

B. Castaic is a public water agency, created and governed under the Castaic Lake Water Agency Law (Wat. Code App. §103-1 et seq.). Castaic sells imported water at wholesale to four retail purveyors in the Santa Clarita Valley: (1) Newhall; (2) Valencia Water Company ("Valencia"); (3) Santa Clarita Water Division, which is a division of Castaic ("Santa Clarita"); and (4) Los Angeles County Waterworks District 36 ("District 36"). Castaic also sells water at retail through Santa Clarita.

C. Newhall is a county water district, which sells water to its customers at retail. This water includes local groundwater and imported water, including State Water Project water, purchased from Castaic.

D. The Parties have historically cooperated in water management, including jointly preparing urban water management plans and groundwater management plans. The Parties are currently working together on recycled water planning. The Parties also coordinate regional water conservation programs and community outreach promoting efficient water use.

E. On December 18, 2012, Castaic acquired all of the outstanding stock of Valencia in a condemnation proceeding. After the acquisition, Newhall sued Castaic in Los Angeles County Superior Court, case no. BS148143 ('the Litigation"). Newhall alleged Castaic was serving water at retail through Valencia, in violation of its enabling act. The Parties have agreed to stay the Litigation pending settlement negotiations.

F. The Parties have conducted an inclusive, open and transparent public process to analyze whether to combine the Parties into one entity. Ratepayer value and multi-stakeholder benefits have been the central priority. Based on this process, the Parties anticipate there will be multiple benefits to the ratepayers resulting from the new entity, including economies of scale from combining expenses, which will be less than the total expenses of the individual Parties.

G. The Parties have also concluded that, given trends toward watershed-based water resource management and local regional planning, a single entity would build on and lead to greater success in water conservation, groundwater management (including conjunctive management of groundwater and surface water supplies), and future recycled water expansion across the Santa Clarita Valley.

Agreements

1 Legislation to Create a New Water District.

1.1 Content of Legislation. The Parties will seek legislation to form a new water district ("District"), which will combine Newhall and Castaic. The District will be a special act agency, governed by the legislation. The legislation must contain the following provisions:

(A) ***Successor.*** The District will be the successor to Newhall and Castaic, and succeed to all their assets, liabilities, contracts, and employees.

(B) ***Board of Directors.*** The initial board of directors of the District will consist of the following 15 members who are in office on the Formation Date: the five elected directors of Newhall, the nine elected directors of Castaic, and the one appointed director of Castaic representing District 36. As directors' respective terms expire, their successors will be elected by division. There will be four directors elected from each of three divisions, so that after all the initial terms expire, there will be 12 elected directors and one appointed director, for a total of 13. After the 13-member board is seated, the District will have the power to reduce the number of elected directors to three from each division, for a total of nine. The appointed director position will be eliminated in the future if District 36 is incorporated into the District, or upon a majority vote of the Los Angeles County Board of Supervisors to eliminate the appointed position.

(C) ***Functions.*** The functions of the District will include retail, wholesale, recycled water, storm water capture, water management, and all the functions currently exercised by Newhall and Castaic.

(D) ***Powers.*** The powers of the District will be those of a county water district, and any other powers specified in the legislation.

(E) ***Legacy Indebtedness.*** Newhall and Santa Clarita will bear their own legacy indebtedness as provided in § 3.1.

(F) ***Independent Ratepayer Advocate.*** The District's retail rate-setting process will include an independent ratepayer advocate as provided in § 3.2(B).

(G) ***Supermajority***. A four-fifths majority vote of the board will be required for actions specified in § 3.3.

1.2 Legislative Process. The Parties will prepare and submit a legislative bill proposal consistent with §1.1 for introduction into the California legislature in the 2017 legislative session. Each Party will cooperate in the drafting of the proposed legislation and any amendments, lobbying efforts, committee hearings, and any other legislative process involved in passage of the bill necessary to establish the District pursuant to this Agreement.

1.3 Amendments. The Parties will oppose any legislative amendments not agreed to by authorized representatives of both Parties. If any such amendments are made despite the Parties' opposition, then the Parties will oppose the legislation as a whole.

1.4 Conflict. If any of the terms of this Agreement conflict with the ultimate enabling act of the District, the laws set forth in the enabling act control.

2 Conditions and Formation Date

2.1 Conditioned on Legislation. If legislation containing all the required provisions in § 1.1 is not chaptered in 2017, this Agreement will automatically terminate.

2.2 Formation Date. "Formation Date" means the effective date of the legislation.

3 Operations of the District

3.1 Retail Divisions. The existing operations of Newhall and Santa Clarita will, for accounting purposes, become retail divisions of the District. The District may share staff, equipment and facilities between the divisions to achieve efficiency and economies of scale. The District will use enterprise accounting: separate accounting records will be kept for Newhall, Santa Clarita, and the existing wholesale functions of Castaic. In other words, each division will maintain an accounting system of its own revenues and expenditures, which, at the Formation Date, accounts for the assets and liabilities of each entity that existed before the Formation Date. The District will also maintain consolidated financial records.

(A) *Responsibility for Existing Indebtedness.* All indebtedness of Newhall or Santa Clarita existing on the Formation Date—including acquisition costs, tax obligations, and debt financing of capital improvement programs—will be borne by the corresponding retail division after the Formation Date, and paid from its own revenues. Each Party represents and warrants that the schedule attached hereto as Exhibit A contains all the existing indebtedness of Newhall and Santa Clarita as is known to each Party as of the date of this Agreement. This indebtedness (including any debt refunded or refinanced after the Formation Date) shall be known as the "legacy indebtedness." Legacy indebtedness also includes the indebtedness of any other retail water supplier that may be incorporated into the District in the future. The District may not take any action supporting or furthering any legislation that would change the requirements of this paragraph (A).

(B) *Budgets, Rates and Charges.* The retail divisions will maintain their own budgets, rates and charges. These budgets, rates and charges will account for each retail division's legacy indebtedness. Shared expenses will be reasonably allocated to the retail divisions utilizing an appropriate nexus between benefits and costs. Appropriate allocation methods include: service connections, water production volume, facility capacity, direct labor, or other apportionment bearing a direct relationship to costs and benefits derived.

(C) *Future Incorporation of Other Retail Entities.* If any other retail water supplier is incorporated into the District in the future, it will be responsible for its own legacy indebtedness as of the date of its incorporation into the District.

(D) *Changes to Enterprise Accounting.*

(1) The District may dispense with enterprise accounting and treat the retail divisions as a single unit for purposes of operations and expenses, but as long as any legacy indebtedness remains outstanding, it must continue to be allocated to its respective retail division and paid from that retail division's rates and charges.

(2) When all the legacy indebtedness has been retired, the District may dispense with the retail divisions for all purposes.

3.2 Budget and Rate-Setting Processes.

(A) ***Budget Process.*** The budget process will include the following:

(1) An initial board workshop (at least for the first year);
(2) A draft version of revenue requirements including detailed assumptions, relying on input from staff;
(3) A draft of rate design, if necessary, including detailed assumptions, relying on input from staff;
(4) A preliminary draft budget reviewed by a committee of the board;
(5) The board will consider using the Newhall budget as a template, but is not required to do so.

(B) ***Independent Ratepayer Advocate.*** The District will develop a rate-setting process within one year of the Formation Date. This process will include an independent ratepayer advocate to advise the board and provide information to the public prior to the adoption of new rates. The ratepayer advocate shall be selected by the board, and shall serve in an advisory capacity only. The board shall develop and adopt any necessary rules and procedures to define the role of the ratepayer advocate.

(C) ***Retail Rate-Setting Process.*** All retail rate-setting must comply with Article XIIID of the California Constitution (Proposition 218). The board will implement just and reasonable retail water rates based upon revenue requirements. The revenue requirements will be allocated to each retail division, and legacy indebtedness under § 3.1(A) will be added. The board will consider volumetric (non-tiered) rates.

3.3 Supermajority Requirement. A four-fifths majority vote of the board of directors is required to approve the following:

(A) Any action supporting or furthering amendments to the provisions of the District enabling act implementing § 1.1, except the provisions on legacy indebtedness.

(B) Reduction in number of directors under § 1.1(B);

(C) Incurring new debt exceeding $10 million for any single debt issue as it relates to any retail functions of the District. This does not include the refinancing of existing debt. The $10 million threshold will be adjusted annually in proportion to the assessed value of real property within the District.

(D) Changes to the Newhall division volumetric (non-tiered) rate structure existing on the Formation Date.

(E) Modification or elimination of the independent ratepayer advocate role under § 3.2(B).

3.4 **Elimination of Supermajority Requirement.** For seven years after the Formation Date, the board may dispense with any of the supermajority requirements in § 3.3 by a four-fifths majority vote. After the seven-year period, the board may dispense with any of the supermajority requirements by a simple majority vote.

4 Settlement of Litigation

4.1 **Dismissal.** Promptly after the execution of this Agreement, Newhall will dismiss the Litigation without prejudice.

4.2 **Releases.** Effective on the date the legislation is chaptered, each Party releases the other, and its current and former agents, employees, subsidiaries, directors, representatives, successors, assigns, heirs, insurers, guarantors, sureties and attorneys from any and all claims, known or unknown, relating to the Litigation. Each Party represents and warrants that no portion of any such claim has been assigned or transferred to any person or entity not a party to this Agreement. Each Party further represents and warrants that it relies wholly upon its own judgment in executing this Agreement and is not relying on representations of the other Party except as set forth herein. The Parties waive all rights under Section 1542 of the Civil Code of California, which provides, "A general release does not extend to claims which the creditor does not know or suspect to exist in his favor at the time of executing the release, which if known by him must have materially affected his settlement with the debtor." The Parties acknowledge that this Agreement is to compromise and settle disputed claims, and that this Agreement does not constitute an admission of liability by either Party, nor does the Agreement establish either Party as a "prevailing party" in the Litigation. No Party shall claim costs or attorneys' fees from any other Party related to the Litigation, and each Party specifically waives any other right that Party may have to seek costs or attorneys' fees related to the Litigation.

5 Dispute Resolution.

If a dispute arises out of or relates to this Agreement, any three board members of the District, acting together, may by written notice to the District cause the dispute to be mediated. The District will fund the mediation. If the dispute is not resolved through mediation, it must be submitted to non-binding arbitration under California Code of Civil Procedure §§ 1280–1294.2. The District will pay all expenses of arbitration, including the cost of the arbitrator and reasonable attorney fees for each side. The arbitrator will issue a written decision, which will be brought back to the board for consideration. Seven years after the Formation Date, this section will remain in effect only as to disputes concerning legacy indebtedness, and otherwise will have no further effect.

6 General Provisions

6.1 Entire Agreement. This Agreement constitutes the sole agreement of the Parties with respect to its subject matter. It supersedes any prior written or oral agreements or communications between the Parties. It may not be modified except in a writing signed by the Parties.

6.2 No Assignment. Neither Party may assign this Agreement without the other Party's prior written consent, which will not be unreasonably withheld.

6.3 Waiver. If either Party fails to require the other to perform any term of this Agreement, that failure does not prevent the Party from later enforcing that term. If either Party waives the other's breach of a term, that waiver is not treated as waiving a later breach of the term.

6.4 Successors. This Agreement binds and inures to the benefit of the Parties and their respective successors and (where permitted) assignees.

6.5 Notices. All notices and other communications required or permitted under this Agreement must be in writing and must be sent to the Party at that Party's address set forth below or at whatever other address the Party specifies in writing.

6.6 Severability. If any part of this Agreement is for any reason held to be unenforceable, the rest of it remains fully enforceable.

6.7 "Including." Unless the context requires otherwise, the term "include" or "including" means "including but not limited to."

6.8 Headings. Headings are for convenience only and do not affect the interpretation of this Agreement.

6.9 Applicable Law. California law applies to this Agreement without regard for any choice-of-law rules that might direct the application of the laws of any other jurisdiction.

6.10 Counterparts. This Agreement may be signed in counterparts, each one of which is considered an original, but all of which constitute one and the same instrument.

6.11 Third Party Beneficiaries. This Agreement does not create any rights enforceable by any person not a party to the Agreement.

Newhall County Water District

By: ______________________

Maria Gutzeit, President

Attn: General Manager
23780 North Pine St
Newhall, CA 91321

Castaic Lake Water Agency

By: ______________________

Thomas Campbell, President

Attn: General Manager
27234 Bouquet Canyon Road
Santa Clarita, California 91350

Exhibit A

Existing Indebtedness
13-Dec-16

		Debt[1]			
		Matures	Issuance Amount	Principal	FY 2017 Annual Payments (w/interest)
SCWD	2010B COP	2041	14,475,000	13,185,000	961,288
SCWD	2011A USCVJPA Bond	2028	52,290,000	45,525,000	4,413,113
NCWD	Municipal Leasing 2007 (2012)	2024	5,500,000	3,382,614	453,809
NCWD	Municipal Leasing 2009 (2016)	2021	696,477	696,477	154,685
NCWD	Municipal Leasing 2012	2018	6,986,579	2,468,847	1,281,059

1 - Based on most recent fiscal year audit - June 30, 2016