AGREEMENT REGARDING AMENDMENT OF PINAL AMA ASSURED WATER
SUPPLY RULES TO DELAY REDUCTION IN EXTINGUISHMENT CREDIT
ALLOCATION FACTOR

I. Background

In 2007, the Arizona Department of Water Resources ("Department") amended the
Assured and Adequate Water Supply ("AWS") rules for the Pinal Active Management Area
("AMA") to provide for a gradual reduction in the amount of extinguishment credits allowed for
the extinguishment of grandfathered groundwater rights in the AMA. As a result of the 2007
amendment, the AWS rules currently provide that the Director shall calculate the extinguishment
credits for the extinguishment of a grandfathered right using an allocation factor of 100 for rights
extinguished in calendar years 2007 through 2009, an allocation factor of 90 for rights
extinguished in calendar year 2010, and then, for each calendar year thereafter until 2055, an
allocation factor that is 2 less than the allocation factor in the previous year (e.g., 88 in calendar
year 2011, 86 in calendar year 2012, etc.). A.A.C. R12-15-725(B)(3). Beginning in calendar
year 2055, the allocation factor is zero, which means that no extinguishment credits are given for
the extinguishment of grandfathered rights after calendar year 2054.

One of the major reasons for the 2007 rule amendment was that development in the Pinal
AMA was significantly increasing, and the rate of development was projected to continue for the
foreseeable future. Some of the new development was projected to occur on lands with
Irrigation Grandfathered Rights ("IGFR"), which would result in the extinguishment of the
IGFRs for AWS extinguishment credits. Because of the rapid rate in which development was
projected to occur, it was felt that the allocation factor for extinguishment credits should be
reduced beginning in calendar year 2010 to avoid an over-allocation of unreplenished
groundwater supplies in the AMA.

As a result of the downturn in the Arizona real estate market, development in the Pinal
AMA has slowed and lands with IGFRs are not being converted to housing subdivisions at the
rates projected in 2007. However, because the AWS rules provide for a reduction in the
allocation factor for extinguishment credits beginning in calendar year 2010, at least one large
landowner in the AMA has indicated that it will cease farming operations and extinguish the
IGFRs appurtenant to its lands before the end of calendar year 2009 to receive the full allocation
factor, even though the lands will not be developed in the immediate future. The irrigation
districts that are parties to this agreement ("Irrigation Districts") are concerned that such actions

Agreement Regarding Amendment of Pinal AMA AWS Rules to Delay Reduction in Extinguishment
Credit Allocation Factor 07-07-2009
will result in an economic hardship for the remaining IGFR holders within their districts because they will be required to pay a higher proportion of the fixed costs of the districts resulting from a loss in water sales, as those costs will be divided among fewer IGFR holders. The Irrigation Districts would also see an immediate increase to power costs for pumping groundwater as their electric providers would not be able to offset the loss in revenue from the lands with the extinguished IGFRs until those lands are developed sometime in the future.

The Irrigation Districts have asked the Department to amend the AWS rules for the Pinal AMA prior to December 31, 2009 to delay the effective date for the reduction in extinguishment credits until January 1, 2014, when they believe they can begin to more effectively absorb the economic impacts, and the rate of development in the Pinal AMA may begin to improve. The Department has agreed to conduct such a rulemaking proceeding provided that the Irrigation Districts agree to the terms set forth below.

II. Agreement

The Department and the Irrigation Districts agree to the following terms:

1. After this agreement is signed by the authorized representatives of the Department and the Irrigation Districts, the Department will file with the Secretary of State a Notice of Docket Opening and a Notice of Proposed Rulemaking for the amendment of A.A.C. R12-15-725(B)(3) to change the allocation factors used to calculate AWS extinguishment credits for the extinguishment of grandfathered rights, including IGFRs, in the Pinal AMA in calendar years 2010 through 2016 as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Allocation Factor</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>90 100</td>
</tr>
<tr>
<td>2011</td>
<td>88 100</td>
</tr>
<tr>
<td>2012</td>
<td>86 100</td>
</tr>
<tr>
<td>2013</td>
<td>84 100</td>
</tr>
<tr>
<td>2014</td>
<td>82 94</td>
</tr>
<tr>
<td>2015</td>
<td>80 88</td>
</tr>
<tr>
<td>2016</td>
<td>78 82</td>
</tr>
<tr>
<td>2017</td>
<td>76</td>
</tr>
</tbody>
</table>

The Notice of Proposed Rulemaking will not propose an amendment to the allocation factor for any other year.

2. After this Agreement is signed by the Irrigation Districts, the Department will submit the Notice of Proposed Rulemaking to the Secretary of State and it will be published in the Arizona Administrative Register. As required in A.R.S. § 41-1023, the Department will hold an oral proceeding on the proposed rule amendment and after considering public comments may adopt the rule amendment. The Department will submit a Notice of Final Rulemaking to the Governor’s Regulatory Review Committee within the time required by A.R.S. § 41-1024(A).
The Department agrees to conduct the rulemaking process in a timely manner such that a Notice of Final Rulemaking for the rule change can be filed with the Secretary of State prior to December 31, 2009. Should the Notice of Final Rulemaking not be filed with the Secretary of State prior to December 31, 2009 this agreement becomes null and void, unless all parties agree in writing in advance of December 31, 2009 to extend this deadline.

3. If A.A.C. R12-15-725(B)(3) is amended in the manner described in paragraph 1 above:

   a. The Irrigation Districts agree to develop measures to mitigate any future economic hardship to the Irrigation Districts if IGFR holders within their districts extinguish their IGFRs prior to the time when the rate of development within the AMA increases. The Department would not require specific actions within the Irrigation Districts, but the Irrigation Districts agree that they would take the necessary actions to lessen the same financial hardship that led to the current request for Rule modification.

   b. The Irrigation Districts will not seek any additional amendment to the allocation factors for extinguishment credits set forth in A.A.C. R12-15-725(B)(3), even if the rate of development in the Pinal AMA does not significantly increase by January 1, 2014, nor will they encourage any other persons to seek such an amendment or assist any other persons in seeking such an amendment.

By the signatures of their authorized representatives, the parties named below agree to the terms set forth in this letter.

ARIZONA DEPARTMENT OF WATER RESOURCES

By: _______________________
    Herbert R. Guenther, Director

Date: _______________________

CENTRAL ARIZONA IRRIGATION AND DRAINAGE DISTRICT

By: _______________________

Print Name: _______________________

Title: _______________________

Attest: _______________________

Date: _______________________

Agreement Regarding Amendment of Pinal AMA AWS Rules to Delay Reduction in Extinguishment Credit Allocation Factor 07-07-2009
HOHOKAM IRRIGATION & DRAINAGE DISTRICT

By: 

Print Name: 

Title: 

Attest: 

Date: 

MARICOPA-STANFIELD IRRIGATION & DRAINAGE DISTRICT

By: 

Print Name: 

Title: 

Attest: 

Date: 

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