



State of Idaho

DEPARTMENT OF WATER RESOURCES

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GARY SPACKMAN
Director

C.L. "BUTCH" OTTER
Governor

July 10, 2014

Wayne Shepherd, P.E.
Director of Public Works
City of Mountain Home
P.O. Box 10
Mountain Home, ID 83647

Jay B. Brown
595 E 13th N
Mountain Home, ID 83647

RE: Transfer No. 78273 and Implications for the Water Supply Bank Lease of Water Right
Nos. 61-2188 and 61-7151

Dear Water Right Holders:

The Idaho Department of Water Resources (IDWR), Western Region, is working towards the finalization of Transfer No. 78273 (transfer).

The last step is to coordinate with the Water Supply Bank (Bank) since water rights 61-2188 and 61-7151 are partially leased into the Bank. To be precise 127.2 acres have been leased into the Bank since 2006 under those two water rights.

Because those water rights are rented to a third party through 2016 there are some considerations that you must address before the transfer is approved.

Typically, we would not finalize a transfer while a rental is placing an encumbrance on the water rights involved in the transfer. However, we realize that the transfer has already been a long process and we would like to reach a final resolution as soon as possible not wait until the end of 2016.

In order to facilitate the final approval of the transfer the Bank must obtain a signed understanding that clearly sets forth the intentions and restrictions of the lease.

I have enclosed an example of an agreement for your review. IDWR must confirm that once the transfer is approved, the city will limit the use of the transferred water rights in accordance with the lease. The attached agreement describes the restrictions that the

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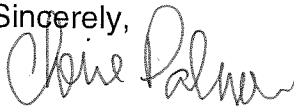
lease imposes on the water rights. The city must agree that they will adhere to the attached usage schedule.

Other items that must be clarified include who will receive payment for the water right rental and what will become of the lease once the rental of those water rights conclude.

If you agree to the attached agreement, please sign the attached agreement and return it to me at your earliest convenience. I strongly encourage you two to coordinate as IDWR cannot move forward on the transfer until an agreement is signed and received by you both.

If we do not receive a response from you within 30 days, Transfer No. 78273 may become in danger of being held until 2016 or may become voided. You may contact me at (208) 287-4944 if you have any questions regarding this matter.

Sincerely,



Cherie Palmer, Water Rights Supervisor
Water Allocation Bureau

C: Chuck G. Brockway, P.E. w/ enclosures
Brockway Engineering PLLC
2016 Washington St. North, Suite 4
Twin Falls, ID 83301

IDWR Western Region w/ enclosures

Enclosure: Acknowledgement and Agreement Form

ACKNOWLEDGEMENT AND AGREEMENT

To: Idaho Department of Water Resources (Department)

Subject: The use in connection with Water Right Nos. 61-2188 and 61-7151 once Transfer No. 78273 has been approved by the Department and the disposition of the Water Supply Bank Lease.

On July 20, 2006, portions of Water Right Nos. 61-2188 and 61-7151 were leased into the Water Resources Board's Water Supply Bank (Bank) for an indefinite term.

Transfer No. 78273 proposes to re-locate Water Right Nos. 61-2188 and 61-7151 to the city of Mountain Home's municipal service boundary.

On April 17, 2014, the entire Leased portions of Water Right Nos. 61-2188 and 61-7151 were rented to a third party until December 31, 2016.

Transfer No. 78273 can move towards Departmental approval; however, the city of Mountain Home acknowledges that Water Right Nos. 61-2188 and 61-7151 must adhere to the following schedule during years 2015 and 2016 so long that the rental agreement is renewed for each of those years:

- After the approval of Transfer No. 78273, the exercise of Water Right Nos. 61-2188 during said years shall be limited to 1.21 cfs, 269.6 af, and 60.6 acres.
- After the approval of Transfer No. 78273, the exercise of Water Right No. 61-7151 during said years shall be limited to 0.52 cfs, 182.1 af, and 45.4 acres.
- During 2015 and 2016 Water Right Nos. 61-2188 and 61-7151 will have a combined limit of 1.21 cfs on 106.0 acres pursuant to the water right conditions and Lease Contract.

In the event the renter does not continue their rental agreement in 2015 or 2016 involving Water Right Nos. 61-2188 and 61-7151 the Lease Contract will be released from the Bank and the city may make full use of their water rights by the beginning of the irrigation season.

The city also acknowledges and agrees that the Lease of Water Right Nos. 61-2188 and 61-7151 will be discontinued once the rental concludes at the end of 2016 and the city may make full use of their water rights by the beginning of the irrigation season 2017. If the city wishes to keep the water rights in the Bank, new Lease applications can be filed to bring the Lease in conformance with the modified elements of the water rights.

The city also acknowledges and agrees that the rental payments from the Bank for 2014 shall be paid to the Lessor described in the Lease Contract, Jay Brown. Furthermore, beginning in the calendar year following an acknowledged change in water right ownership, compensation for the rental will go to the city.

CITY OF MOUNTAIN HOME

Signature

Printed Name and Title

Date

JAY BROWN

Signature

Printed Name

Date