EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT ("this Agreement") is made and entered into on the 20th day of September, 2012, with an effective date of July 1, 2012, by and between Lake Hemet Municipal Water District, hereinafter referred to as "District," and Thomas W. Wagoner, hereinafter referred to as "Employee," and in consideration of the mutual promises made herein, hereby agree as follows:

ARTICLE 1. AT-WILL EMPLOYMENT

Section 1.01. District hereby agrees to employ Employee, and Employee hereby accepts employment with District, upon the terms and conditions hereinafter set forth. The parties hereby expressly agree that the employment relationship created by this Agreement is "at will". At any time, District may terminate Employee with or without cause. Nothing in this Agreement, any statute, ordinance or rule, shall prevent, limit or otherwise interfere with the right of the Board of Directors to terminate, with or without cause. If Employee is terminated by the Board of Directors, he will receive six (6) months pay (salary and health benefits), subject to Article 7 of this Agreement.

ARTICLE 2. DUTIES AND OBLIGATIONS OF EMPLOYEE

General Duties and Indemnity

Section 2.01. Employee shall serve as General Manager for District. In such capacity, Employee shall serve at the will and pleasure of the Board and shall do and perform all duties, acts, or things necessary or advisable which are appropriate for that position as well as such other services as may be assigned by the District's Board of Directors, subject at all times to applicable state and federal laws and the policies set by District's Board of Directors.

Section 2.02. Employee's duties shall be as determined by, and shall be subject to the authority of, the Board of Directors. Employee's duties shall be consistent with duties customarily required of a General Manager of municipal water districts.

Section 2.03. Employee shall focus his professional time, ability, and attention to District business during the term of this Agreement. Employee shall not engage in any other business duties or pursuits whatsoever or, directly or indirectly, render any services of a business, commercial, or professional nature to any other person or organization, whether for compensation or otherwise, without the prior consent of the Board of Directors. However, the expenditure of reasonable amounts of time not in conflict with District needs and interests, for educational, charitable, community, and professional activities, shall not be deemed a breach of this Agreement and shall not require such prior consent.

This Agreement shall not be interpreted to prohibit Employee from making passive personal investments or conducting private business affairs if those activities do not materially interfere with the services required under this Agreement.

Section 2.04. District shall defend, indemnify and hold Employee harmless, of and from any and all claims, demands, actions, and causes of action arising out of Employee's performance of his duties in his capacity as General Manager, except to the extent that Employee willfully acts outside the scope of Employee's authority or commits a crime. This indemnity shall continue after any termination of Employee's employment with respect to acts or omissions occurring during Employee's employment. This indemnity may be provided through insurance. Employee shall be obligated to cooperate in defense of any such claim. This indemnity shall not, at District's option, apply to material intentional criminal or wrongful acts of the Employee that have not been expressly ratified or approved by District's Board of Directors. This indemnity shall, however, apply to wrongful acts, which are not material and were committed by Employee in good faith in the exercise of his authority within the course and scope of his employment.

ARTICLE 3. OBLIGATIONS OF DISTRICT

Section 3.01. District shall provide Employee (or cause to be provided to Employee) with the compensation, benefits, and business expense reimbursements specified elsewhere in this Agreement and more specifically addressed on Exhibit "A".

Section 3.02. The Board of Directors shall conduct an ongoing assessment of performance and annually conduct an evaluation of Employee. Such evaluation shall be in writing and shall in January of each year or as soon as reasonably practical.

Section 3.03. As an additional evaluation procedure, at the discretion of the Board of Directors, in January of each year or as soon as reasonably practical, the parties may meet to establish Employee's performance objectives for the following year. If such performance objectives are established, they shall be reduced to writing and shall be based on the duties and responsibilities set forth in this Agreement, and any other criteria mutually agreed upon by the parties or determined by the Board of Directors.

ARTICLE 4. COMPENSATION OF EMPLOYEE

Section 4.01. As compensation for services performed hereunder, Employee shall receive a base salary at the rate of One Hundred Seventy-Three Thousand and Ten dollars ($173,010) per annum payable in such installments as District may adopt (currently twice per month) during the employment term.

Section 4.02. Employee will be eligible for increases in base salary as determined by the compensation policies set by the Board of Directors of District and as in Exhibit "A".

ARTICLE 5. BENEFITS

Section 5.01. Employee shall be entitled to all benefits as set forth in Exhibit "A". Employee shall be responsible for payment of any portion of coverage not paid by District.

ARTICLE 6. BUSINESS EXPENSES

Reimbursement of Business Expenses

Section 6.01. District shall promptly reimburse Employee for all reasonable business expenses incurred in connection with District business. Each such expenditure shall be reimbursable only if Employee furnishes to District adequate records and other documentary evidence required by federal and state statutes and regulations issued by the appropriate taxing authorities for the substantiation of each such expenditure. Such expenses include, but are not limited to, the expenses incurred in the attendance of regional, state or national conferences, seminars, hearings or meetings which are devoted to matters that in Employee's best judgment relate to the benefit and welfare of District. Out-of-state travel is subject to prior approval by the Board of Directors. Such expenses shall also include Employee's dues for membership in professional organizations approved by the Board of Directors.

ARTICLE 7. SEVERANCE/GENERAL RELEASE

Termination by District

Section 7.01. In the event Employee is terminated as an employee for any reason (except as provided in Sections 7.02 or 7.03), or Employee and District shall mutually agree to a forced resignation by the Employee at such time Employee is willing and able to perform his duties under this Agreement, District, agrees to pay Employee a severance benefit equal to six (6) months of Employee's base salary and health benefits. For purposes of this Agreement, base salary is defined as the base rate of pay at the time of termination of Employee by District (without other compensation or benefits). Such benefit may, at District's election, be payable as either (a) a lump sum payment, or (b) continuation of payroll at the same level of base salary as paid to Employee immediately prior to such termination (but without, further accrual of paid time off, or any other compensation or benefits with the exception of continued participation in District's health insurance program during the severance period.). In each case, such payments shall be subject to applicable Federal and State deductions and contributions. The foregoing benefit is in addition to accrued but unused vacation, sick pay, or other paid time off as of the date of such termination, in accordance with District's policies with respect thereto.

In consideration of the foregoing, upon payment of the severance benefit provided for in this section, Employee, on behalf of himself, his relatives, heirs, estate, executors, administrators, successors, and assigns, does fully release and discharge District, its Board of Directors, officers, agents, employees, attorneys, subsidiaries, affiliated entities, successors, and assigns from all actions, causes of action, claims, judgments, obligations, damages, and liabilities of whatsoever kind and character, including, but not limited to, any actions, causes of action, claims, judgments, obligations, damages, or liabilities relating to him employment with District and the causes, procedures, and circumstances surrounding the termination of his employment with District, including, but not limited to, those arising out of any claims for violation of any actual or alleged contract, whether express or implied; any covenant of good faith and fair dealing, whether express or implied; any tort or any federal, state, or local statute or regulation, including, but not limited to, the Age Discrimination in Employment Act, the California Fair Employment and Housing Act, the California Labor Code, and Title VII of the Civil Rights Act of 1964. Employee waives any of the rights and benefits afforded by California Civil Code Section 1542, which provides as follows:

"A general release does not extend to claims which the creditor does not know or suspect to exist in him favor at the time of executing the release, which if known by him must have materially affected him settlement with the debtor."

The payment of such severance benefit shall be conditioned upon Employee executing such new agreements containing the foregoing terms and releases at the time of any such termination, in such form as may reasonably required by the District's counsel. District shall not condition such payment upon any new substantive conditions other than as set forth in this Agreement. Such severance benefit shall not be payable unless and until Employee executes such new agreements and until expiration of all waiver and rescission rights as provided by law at the time of such termination.

Termination by Employee

Section 7.02. Employee may terminate his obligations under this Agreement by giving District at least ninety (90) days written notice in advance. District may exercise the right to release Employee during said period but agrees to pay employee's base salary until the separation date, but in no instance more than 90 days from date of notice. If Employee determines to terminate his obligations under this Agreement, Employee shall not be entitled to any severance benefit pursuant to Section 7.01.

Termination for Other Reasons

Section 7.03. This Agreement shall automatically terminate, and District shall not be obligated for any severance benefit, upon the happening of any of the following events:

(a) Whenever Employee commits any material act of dishonesty which has a substantial and adverse effect on District; discloses confidential information that substantially or adversely affects District; is guilty of gross carelessness or misconduct; unjustifiably neglects his duties under this Agreement which has a substantial and adverse effect on District's finances, financial ability or position, or competitive position in its marketplace; or acts in any way that has a substantial and adverse effect on District's reputation;

(b) Whenever Employee and District shall mutually agree to termination without severance in writing;

(c) Upon the death of Employee;

(d) When Employee has been unable to perform all or substantially all of his duties due to illness or other disability for a period of three (3) months (whether or not consecutive) in any twelve (12) month period, and it is medically determined that Employee is permanently disabled from performing all or substantially all of the essential functions of his position, with or without reasonable accommodation. Employee will be allowed to exhaust all accrued vacation and extended sick leave prior to termination. The Board of Directors shall make the determination that Employee is permanently disabled, in their sole discretion. In making this determination, the Board of Directors may, at any time it is determined that a question exists as to Employee's ability to perform, require that Employee undergo a

comprehensive medical examination by a physician designated by District. Such examination shall occur within two (2) weeks of the date written notice is given Employee that the Board of Directors are exercising the right to an examination as provided in this Article 7. If Employee wishes to do so, he may, within two (2) weeks of said examination, submit a separate report made by a physician chosen by Employee and concerning all or part of the matters covered in said comprehensive medical examination. The Board of Directors shall consider said report whether or not a decision had been made prior to receipt of said report, and shall thereafter take such action as the Board of Directors, in their sole discretion, shall determine.

ARTICLE 8. GENERAL PROVISIONS

Notices

Section 8.01. Any notices to be given hereunder by either party to the other shall be in writing and may be transmitted by personal delivery or by mail, registered or certified, postage prepaid with return receipt requested. Notices shall be addressed to the parties, as follows:

If to District:

Board President
26385 Fairview Ave.
Hemet, CA 92544

If to Employee:

Thomas W. Wagoner

Hemet, CA 92544

Entire Agreement

Section 8.02. This Agreement supersedes any and all other Agreements, either oral or in writing, between the parties hereto with respect to the employment of Employee by District and contains all of the covenants and agreements between the parties with respect to that employment, and termination thereof, in any manner whatsoever. Each party to this Agreement acknowledges that no representation, inducements, promises, or agreements, orally or otherwise, have been made by any party, or anyone acting on behalf of any party, which are not embodied herein, and that no other Agreement, statement or promise not contained in this Agreement shall be valid or binding on either party.

Modifications

Section 8.03. Any modification of this Agreement will be effective only if it is in writing and signed by both parties.

Amendments/Waivers

Section 8.04. This Agreement may not be amended except by an instrument in writing, signed by each of the parties hereto. The failure of either party to insist on strict compliance with any of the terms, covenants, or conditions of this Agreement by the other party shall not be deemed a waiver of that term, covenant, or condition, nor shall any waiver or relinquishment of any right or power at any one time or times be deemed a waiver or relinquishment of that right or power for all or any other times.

Partial Invalidity

Section 8.05. If any provision in this Agreement is held by a court of competent jurisdiction to be invalid, void, or unenforceable, the remaining provisions shall nevertheless continue in full force without being impaired or invalidated in any way.

Governing Law

Section 8.06. This Agreement shall be governed by and construed in accordance with the laws of the State of California.

Action By District

Section 8.07. All actions required or permitted to be taken under this Agreement, including, without limitation, exercise of discretion, consents, waivers, and amendments to this Agreement, shall be made and authorized only but the Board of Directors or their representative specifically authorized in wiring to fulfill these obligations under r this Agreement.

Integration

Section 8.08. This Agreement is intended to be the final, complete, and exclusive statement of the terms of the Employee's employment by District. This Agreement supersedes all other prior and contemporaneous agreements and statements, whether written or oral, express or implied, pertaining in any manner to the employment of Employee, and it may not be contradicted by evidence of any prior or contemporaneous statements or agreements. To the extent that the practices, policies, or procedures of District, now or in the future, apply to Employee and are inconsistent with the terms of this Agreement, the provisions of this Agreement shall control.

Severability

Section 8.09. If any provision of this Agreement, or its application to any person, place, or circumstances is held by a court of competent jurisdiction to be invalid, unenforceable, or void, such provision shall be enforced to the greatest extent permitted by law, and the remainder of this Agreement and such provision as applied to other persons, places, and circumstances shall remain in full force and effect.

Employee Acknowledgment

Section 8.10. Employee acknowledges that he has had the opportunity to consult legal counsel in regard to this Agreement, that he has read and understands this Agreement, that he is fully aware of its legal effect, and that he has entered into freely and voluntarily and based on his own judgment and not on any representations or promises other that those contained in this Agreement.

Attorneys Fees

Section 8.11. If any legal action is necessary to enforce the terms of this Agreement, the prevailing party shall be entitled to reasonable attorney's fees in addition to any other relief to which that party may be entitled.

IN WITNESS WHEREOF, the parties have executed this Agreement on the date written above.

DISTRICT: LAKE HEMET MUNICIPAL WATER DISTRICT

Frank Gorman

FRANK GORMAN,
President of the Board of Directors

EMPLOYEE: THOMAS WAGONER

Thomas W. Wagoner

THOMAS W. WAGONER

EXHIBIT "A"

SPECIFICATION OF BENEFITS

Employee shall be entitled to the following benefits:

a. Vacation, Sick Leave, Related Benefits: Except as otherwise provided herein, Employee shall be entitled to all benefits provided to management employees of District as set forth in the July 1, 2012 Employee Manual, including vacation, medical health plan, sick leave, family leave as provided by law, group life insurance, long term disability insurance, and such other benefits per the Employee Manual. Any modifications to the Employee Manual shall not be applicable to Employee without the written consent of all the parties.

b. Merit Pay: The Board of Directors shall evaluate and assess the performance of the Employee annually. Based on the performance objectives of the Employee, the Board of Directors, in its sole discretion, may provide Employee with an annual merit payment between zero and five percent (0 and 5%) of Employee's base salary. The merit payment shall not carry over from year to year.

c. Automobile Usage: Employee shall be provided a District-owned vehicle for his use on all District-related business and for transportation to and from the District from his home. Employee may not use the vehicle for more than de minimus personal purposes i.e. to run minor personal errands on his way to or from the District.

d. Membership in Professional Organizations: Employee shall endeavor to maintain and improve his professional competence by subscribing to and reading appropriate periodicals, by maintaining memberships in appropriate professional and water-related organizations, and by attending professional meetings at the local, state, and national level. The District shall pay these reasonable fees and costs. The Employee shall apprise the Board of Directors annually of the expenses incurred in implementing this section. The Employee shall seek advance approval from the Board of Directors for his attendance of out-of state meetings and shall report to the Board of Directors the subject matter covered at the conference.