

Minutes
CHINO BASIN WATERMASTER
APPROPRIATIVE POOL MEETING

June 2, 2011

The Appropriative Pool Meeting was held at the offices of Chino Basin Watermaster, 9641 San Bernardino Road, Rancho Cucamonga, CA, on June 2, 2011 at 1:00 p.m.

APPROPRIATIVE POOL MEMBERS PRESENT WHO SIGNED IN

John Mura, Chair	City of Chino Hills
Mark Kinsey	Monte Vista Water District
J. Arnold Rodriguez	Santa Ana River Water Company
Geoff Kamansky	Niagara Water Company
Mohamed El-Amamy	City of Ontario
Marty Zvirbulis	Cucamonga Valley Water District
Sheri Rojo	Fontana Water Company
Josh Swift	Fontana Union Water Company
Tom Harder	Jurupa Community Services District
Charles Moorrees	San Antonio Water Company
Dave Crosley	City of Chino
Anthony La	City of Upland
Ron Craig	City of Chino Hills

Watermaster Board Member Present

Bob Kuhn	Three Valleys Municipal Water District
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Watermaster Staff Present

Desi Alvarez	Chief Executive Officer
Danni Maurizio	Senior Engineer
Joe Joswiak	Chief Financial Officer
Ben Pak	Senior Project Engineer
Sherri Molino	Recording Secretary

Watermaster Consultants Present

Michael Fife	Brownstein, Hyatt, Farber & Schreck
Mark Wildermuth	Wildermuth Environmental Inc.

Others Present Who Signed In

Ryan Shaw	Inland Empire Utilities Agency
David DeJesus	Three Valleys Municipal Water District
Eunice Ulloa	Chino Basin Water Conservation District
Ken Jeske	California Steel Industries
Jo Lynne Russo-Pereyra	Cucamonga Valley Water District
Curtis Paxton	Chino Desalter Authority
John Schatz	Attorney at Law

Chair Mura called the Appropriative Pool Meeting to order at 1:00 p.m.

AGENDA - ADDITIONS/REORDER

There were no additions or reorders made to the agenda.

I. CONSENT CALENDAR**A. MINUTES**

1. Minutes of the Appropriative Pool Meeting held May 5, 2011

B. FINANCIAL REPORTS

1. Cash Disbursements for the month of April 2011
2. Watermaster VISA Check Detail for the month of April 2011
3. Combining Schedule for the Period July 1, 2010 through April 30, 2011
4. Treasurer's Report of Financial Affairs for the Period April 1, 2011 through April 30, 2011
5. Budget vs. Actual July through April 2011

Motion by Zvirbulis second by El-Amamy, and by unanimous vote

Moved to approve Consent Calendar items A and B, as presented

II. BUSINESS ITEMS**A. DISCUSSION AND POSSIBLE ACTION – DATE AND TIME CHANGE FOR MEETINGS**

Mr. Alvarez introduced this item and explained the cost and time savings efforts that Watermaster staff is trying to come up with; this came up during the Watermaster budget process. Mr. Alvarez stated this change, by having all three Pools meet on the same day would show a significant cost savings to Watermaster. A lengthy discussion regarding this matter ensued. It was noted Mr. La and Chair Mura would make some inquiries and would then get back with Watermaster staff as to which Thursday would work best for this change. Mr. Alvarez stated Watermaster would like to make this change as early as July.

No motion was made.

B. WATERMASTER 2011-2012 BUDGET

Mr. Alvarez stated Mr. Joswiak is going to present this item with the latest version of the budget as it moves through the process for finalization. Mr. Joswiak noted there have been two changes to the budget and those changes do not affect the assessments. Mr. Joswiak gave the revised 2011-2012 Budget presentation. Mr. Joswiak reviewed the comments made at both the 1st and the 2nd Budget Workshops in detail. Mr. Kinsey inquired about reserves. Mr. Joswiak stated there is 30% for administration and 30% for OBMP, with approximately \$200,000 left from the funds this year. Mr. Kinsey inquired about excess reserves held. Mr. Joswiak stated that is correct, and the number being held in reserves is \$1.3 million dollars, which is in excess of the 30/30. Mr. Joswiak continued with his presentation. Mr. Joswiak noted the Appropriative, Non-Agricultural, and Agricultural Pools now have the actual costs of their legal expenses. Mr. Kinsey inquired into the Agricultural Pool accounts for \$358,000. Mr. Joswiak noted the \$358,000 includes the Agricultural Pool's normal legal expenses, plus the \$65,000 for Special Projects and the \$100,000 for the Restated Judgment. Mr. Kinsey stated, a few years ago the issue of how much funding the Appropriators could provide to the Agricultural Pool annually came up. It was discussed and it was his understanding the amount was \$225,000 per year on expenses; this would then eliminate the discussions on what constitutes as a Special Project. Counsel Fife stated he remembers those discussions; however, he did not remember what the specific outcome was and stated he would look into that. Ms. Rojo stated there was a Term Sheet that was agreed to. Mr. Kinsey inquired as to the amount decided. Ms. Rojo stated the Term Sheet states "all means all", which means the Appropriative Pool will pick up all of the Agricultural Pool expenses. Counsel Fife stated the actual paper needs to be reviewed first before any answers are provided. Mr. Kinsey stated he is uncomfortable approving a budget for the Agricultural Pool for \$358,000 at this time, and by approving that amount it will mean approving them to spend additional monies. Mr. Crosley stated he has heard that the Agricultural Pool has hired a second attorney specifically for the Restated Judgment. Ms. Rojo inquired into the \$100,000 additional monies for special attorney fees. Mr. Joswiak stated that is over their original amount for attorney fees. Ms. Rojo inquired if the Agricultural Pool still has an amount set aside for Special Projects. Mr. Joswiak stated they have money set aside for both the Restated Judgment and for legal costs. Ms. Rojo stated she

thought they would have enough money in their Special Projects category to cover an extra legal cost. Mr. Kinsey inquired about the Appropriative Pool legal serves for the Restated Judgment. Mr. Schatz stated his costs will be approximately \$1,000 for reviewing the Restated Judgment. Counsel Fife stated he found the Term Sheet and offered background on this matter. Counsel Fife noted that this was worked out with the chairs of each of the Pools and Mr. Willis who is the chairman for the Watermaster Board. Counsel Fife stated this came up in the context of the monies needed for the Regional Board to do a TMDL Study. Counsel Fife read the paragraph taken directly from the Memorandum dated April 11, 2009; there was no specific dollar limitation set, rather, the Agricultural Pool would submit a budget annually. Counsel Fife stated the Agricultural Pool would have to submit a budget and then live within that budget, and only after their budget was approved through the Watermaster process. A discussion regarding this issue ensued. Ms. Rojo inquired about meetings the Agricultural Pool is having regarding the Restated Judgment and asked if that is with themselves or with Watermaster staff also. Mr. Joswiak stated there were a few meetings with members of the Agricultural Pool and Watermaster staff to discuss well owner names and such. Mr. Joswiak noted the request for the \$100,000 came out of a closed session of the Agricultural Pool members. Mr. La inquired as to what the \$100,000 amount is for. Mr. Joswiak stated the \$100,000 is only for legal to review the Restated Judgment. Mr. Alvarez stated at the last Agricultural Pool meeting, the members did go into closed session and, subsequent to their closed session, the request was to include in their budget \$100,000 for special legal counsel for the Restated Judgment. Mr. Kinsey inquired if staff asked why it is such a high amount for this review. Mr. Kinsey also noted that he asked Monte Vista Water District's legal representative and they told him their review would be substantially lower than \$100,000. Mr. Alvarez stated the Agricultural Pool stated that is the number they are comfortable with budgeting. Mr. Zvirbulis stated through this entire budgeting process we have asked for justification from our consultants for monies to be spent. Mr. Zvirbulis stated if there was a request for this \$100,000 for legal fees associated with the Restated Judgment, there needs to be some sort of justification provided to those who pay those costs. Mr. Joswiak continued with the budget presentation. A discussion regarding taking out monies for the water auction ensued. Counsel Fife offered comment on this matter and referenced a handout presented at the Budget Workshop. Mr. Joswiak stated staff is seeking a motion to approve the presented 2011-2012 Budget. Mr. El-Amamy stated he would have a hard time voting for this item with the \$100,000 for the Agricultural Pool extra legal costs added without any type of justification. Mr. La inquired if this Pool can take an action on the presented budget with a condition that there needs to be clarification from the Agricultural Pool. Mr. Joswiak stated that is correct. Mr. La offered comment on this matter. Mr. Alvarez stated the motion could be to approve the budget with a condition that the request by the Agricultural Pool for supplemental legal services in support of the Restated Judgment be further clarified. A discussion regarding the motion and this matter ensued.

Motion by Kinsey second by El-Amamy, and by unanimous vote

Moved to approve the 2011-2012 Watermaster Budget, conditionally taking out the \$100,000 for the Agricultural Pool Legal Fees for the Restated Judgment, Subject to Clarification from the Agricultural Pool, as presented

C. PURCHASE OF 50,000 ACRE-FEET WATER FROM METROPOLITAN WATER DISTRICT

Mr. Alvarez stated this is a continuation discussion regarding the purchase of replenishment water that became available recently when the Metropolitan Water District approved the replenishment rate for the first time since 2007. Mr. Alvarez stated at the last Appropriative Pool meeting, and subsequent to the Pool meeting, this item has been considered and a couple of decisions have been made with this regard. One decision was to move forward with the approval of applications for local storage agreements for the purposes of replenishment purposes; two applications are before this Pool for approval. The second request is to approve the 30 day notice and consider periods be waived in furtherance of moving this forward in a timely manner. Mr. Alvarez stated water has been spread now for three weeks. Mr. Alvarez stated staff is seeking approval for both items today. Mr. Alvarez stated there will be a third

item introduced after the discussion for the first two items, regarding the financing of the purchased water. Mr. Kinsey inquired if these were local storage agreements or supplemental storage agreements. Ms. Maurizio stated they were local storage agreements. Mr. Kinsey inquired about space in the post-Peace Agreement storage account. Ms. Maurizio stated that number is approximately 30,000, and the cap is 100,000. Ms. Rojo referenced the staff letter on page 74 of the meeting package and inquired about the 85/15 Rule not being applied to this replenishment water purchase. Mr. Alvarez stated if a party is purchasing the water preemptively that rule does not apply. Mr. El-Amamy stated he had the same situation with the City of Ontario, who had some stored water and then applied that stored water to their overproduction. That was not subject to the 85/15 Rule. Ms. Rojo stated that was water from storage that was not subject to the 85/15 Rule. Mr. Rojo offered history on the 85/15 Rule and comment on this matter. A discussion regarding the 85/15 Rule ensued. Ms. Maurizio offered comment on what the Judgment states and noted this situation is not the exact same as what is described in the Judgment. Ms. Maurizio offered comment to help the parties relate to this particular situation - the MZ1 supplemental water purchase in the past and the situation with the recycled water recharge that is being purchased through Inland Empire Utilities Agency and put into supplemental storage accounts; in these instances the 85/15 Rule does not apply. Ms. Rojo offered instances of water purchases and overproduction using the 85/15 Rule and noted the last paragraph in the staff report does not make any sense. A lengthy discussion regarding this matter ensued. A motion was made by Mr. La and a second by Mr. El-Amamy to approve the two staff recommendations. Ms. Rojo requested the parties reconsider this motion and offered comment on this matter. Mr. Kinsey asked that Ms. Rojo find examples to support her case to show that a mistake was made in the past or that a precedent was established. Mr. Crosley stated it might be wise to re-examine how the 85/15 Rule is implemented. A lengthy discussion regarding this matter ensued.

Motion by La second by El-Amamy, and by unanimous vote

Moved to approve as follows: 1. Approve the applications of Fontana Water Company and Niagara Water Company for Local Storage Agreements, and 2. Request that the Watermaster Board waive the thirty day notice period (Watermaster Rules and Regulations Section 10.10) and the twenty-one day consideration period (Watermaster Rules and Regulations Section 10.11) for Applications for Local Storage Agreements, so that the Advisory Committee and Watermaster Board may approve the Local Storage Agreements in June. This request is sought with the express acknowledgment that it does not create precedent for future applications, as presented

Added Item:

Mr. Alvarez stated the second part of the replenishment water purchase deals with the financing aspect. Mr. Alvarez stated at the last meeting, the Pool directed staff to look at financing alternatives; this is a work in progress. Mr. Alvarez stated when this item first came to the committee the recommendation was to finance this endeavor through a Special Assessment. Mr. Alvarez gave the Replenishment Water Purchase Financing presentation. Mr. Alvarez discussed the Special Assessment, Watermaster Bank Financing, and Regional Agency Financing alternatives in detail. A lengthy discussion regarding this item, issues related to the presented numbers, and overall financing concerns ensued. Mr. Alvarez continued with his presentation. A lengthy discussion regarding financing options and funds that Watermaster has on hand ensued. Chair Mura stated Fontana brought up some good questions, and other questions continue to come up about the reserves and what is the appropriate amount of money Watermaster should have in reserve. Chair Mura stated the parties want to maximize as much financial clout as possible, and to only borrow what is actually needed. Chair Mura stated staff should have a definitive answer on the reserves question. Mr. Alvarez stated Mr. Joswiak did cover this question and Watermaster must carry in reserves enough cash to finance the operation from the beginning of the fiscal year through the time the assessments come in; basically six months of operating reserves. In addition to those operating reserves, there are permanent reserves which are the 30/30 reserves and those are set aside for a

rainy day. Chair Mura stated that is where the confusion lies; the 30/30 was set up to allow for those costs between the end of the fiscal year and when the assessments were collected. Mr. Alvarez offered further comment on the true reserves that need to be set aside. A discussion regarding reserves ensued. Chair Mura stated that maybe it would be a beneficial exercise to go back and have some thought put into it, and allows all the parties to fully understand exactly what it really is versus what parties think it is and if there are monies left over for us to use for reducing the amount that is needed to borrow. That will benefit everybody on a going forward basis. Mr. La stated whatever the left over reserve amount is, a hybrid version between that reserve number and borrowing money from Inland Empire Utilities Agency would be the preferred manner from the City of Upland rather than Watermaster going out and borrowing money.

III. REPORTS/UPDATES

A. WATERMASTER GENERAL LEGAL COUNSEL REPORT

1. Paragraph 31 Appeal

Counsel Fife stated there will be a closed session today regarding the Paragraph 31 appeal. Counsel Fife stated the Watermaster Board directed counsel to file Watermaster's reply brief by the deadline which is Tuesday, June 7, 2011. The brief has been completed and it will be mailed to the court tomorrow.

2. Restated Watermaster Judgment

Counsel Fife stated now, that the appeal brief is complete; counsel can focus more on the Restated Judgment matter. There is nothing more to report on this item other than it is going to be worked on and a more detailed report will come as progress is made.

3. July 8, 2011 Court Hearing

Counsel Fife stated, as reported at the Watermaster Board meeting last week, the CDA is not ready to go to court yet, and since the main reason to have the court hearing was to present the CDA Resolution, that court date will be moved out to the September time frame.

B. CEO/STAFF REPORT

1. Recharge Update

Mr. Alvarez stated the most recent spreadsheet is available on the back table. Mr. Alvarez reviewed the numbers in detail. Mr. Alvarez stated the recharge water that has been spread is at 3,646 acre-feet of the Metropolitan Water District's replenishment water.

2. Horizontal Extensometer Update

Mr. Alvarez stated this item was discussed during the budget presentation. Mr. Alvarez offered comment regarding this item. This item will come back through the Watermaster process.

IV. INFORMATION

1. Cash Disbursements for May 2011

No comment was made regarding this item.

2. Newspaper Articles

No comment was made regarding this item.

V. POOL MEMBER COMMENTS

No comment was made regarding this item.

VI. OTHER BUSINESS

No comment was made regarding this item.

The regular open Appropriative Pool meeting was convened to hold its confidential session at 2:40 p.m.

VII. CONFIDENTIAL SESSION - POSSIBLE ACTION

Pursuant to the Appropriative Pool Rules & Regulations, a Confidential Session may be held during the Watermaster Pool meeting for the purpose of discussion and possible action.

- 1. Paragraph 31 Motion

The confidential session concluded at 3:04 p.m.

There was no reportable action from the confidential session.

VIII. FUTURE MEETINGS

Thursday, June 2, 2011	1:00 p.m.	Appropriative Pool Meeting @ CBWM
Thursday, June 2, 2011	2:30 p.m.	Non-Agricultural Pool Conference Call Meeting
Thursday, June 9, 2011	9:00 a.m.	Agricultural Pool Meeting @ IEUA
Thursday, June 16, 2011	8:00 a.m.	IEUA Dry Year Yield Meeting @ CBWM
Thursday, June 16, 2011	9:00 a.m.	Advisory Committee Meeting @ CBWM
Thursday, June 16, 2011	10:30 a.m.	Land Subsidence Committee Meeting @ CBWM
Thursday, June 23, 2011	11:00 a.m.	Watermaster Board Meeting @ CBWM
Friday, July 8, 2011	10:30 a.m.	Watermaster Court Hearing @ Chino Court

The Appropriative Pool Committee meeting was dismissed by Chair Mura at 3:05 p.m.

Secretary: _____

Minutes Approved: July 14, 2011