

Minutes
CHINO BASIN WATERMASTER
APPROPRIATIVE POOL MEETING

March 8, 2012

The Appropriative Pool Meeting was held at the offices of Chino Basin Watermaster, 9641 San Bernardino Road, Rancho Cucamonga, CA, on March 8, 2012 at 9:00 a.m.

APPROPRIATIVE POOL MEMBERS PRESENT

Marty Zvirbulis, Chair	Cucamonga Valley Water District
Dennis Mejia	City of Ontario
Rosemary Hoerning	City of Upland
Raul Garibay	City of Pomona
Ron Craig	City of Chino Hills
Dave Crosley	City of Chino
Justin Scott-Coe	Monte Vista Water District
Van Jew	Monte Vista Irrigation Company
Sheri Rojo	Fontana Water Company
Josh Swift	Fontana Union Water Company
Tom Harder	Jurupa Community Services District
Geoff Kamansky	Niagara Bottling Company
Ben Lewis	Golden State Water Company
Charles Moorrees	Santa Antonio Water Company
J. Arnold Rodriguez	Santa Ana River Water Company

Watermaster Board Members Present

Paula Lantz	City of Pomona
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Watermaster Staff Present

Ken Jeske	Interim CEO
Danielle Maurizio	Senior Engineer
Joe Joswiak	Chief Financial Officer
Gerald Greene	Senior Environmental Engineer
Sherri Molino	Recording Secretary

Watermaster Consultants Present

Brad Herrema	Brownstein, Hyatt, Farber & Schreck
Andy Malone	Wildermuth Environmental Inc.

Others Present

Rick Hanson	Three Valleys Municipal Water District
Mike Maestas	City of Chino Hills
Jo Lynne Russo-Pereyra	Cucamonga Valley Water District
Sandra Rose	Monte Vista Water District
Mark Kinsey	Monte Vista Water District
Craig Miller	Inland Empire Utilities Agency
Ryan Shaw	Inland Empire Utilities Agency
Eunice Ulloa	Chino Basin Water Conservation District
Curtis Paxton	Chino Desalter Authority

Chair Zvirbulis called the Appropriative Pool Meeting to order at 9:02 a.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 February 9, 2012
2. Minutes of the Special Confidential Appropriative Pool Meeting held February 7, 2012
3. Minutes of the Special Confidential Appropriative Pool Meeting held February 16, 2012

B. FINANCIAL REPORTS

1. Cash Disbursements for the month of January 2012
2. Watermaster VISA Check Detail for the month of January 2012
3. Combining Schedule for the Period July 1, 2011 through January 31, 2012
4. Treasurer's Report of Financial Affairs for the Period January 1, 2012 through January 31, 2012
5. Budget vs. Actual Report for the Period July 1, 2011 through January 31, 2012

C. WATER TRANSACTION

1. **Consider Approval for Notice of Sale or Transfer** – The lease and/or purchase of 2.372 acre-feet of water from San Antonio Water Company to Monte Vista Water District as a method of utilizing its SAWCO shares. This lease is made first from San Antonio's net underproduction in FY 2011-2012, with any remainder to be recaptured from storage. Date of application: February 9, 2012
2. **Consider Approval for Notice of Sale or Transfer** – The lease and/or purchase of 500.000 acre-feet of water from San Antonio Water Company to Monte Vista Water District. This lease is made first from San Antonio's net underproduction in FY 2011-2012, with any remainder to be recaptured from storage. Date of application: February 14, 2012

Motion by Moorrees, second by Hoerning, and by unanimous vote

Moved to approve Consent Calendar items A through C, as presented

II. BUSINESS ITEMS**A. MATERIAL PHYSICAL INJURY ANALYSIS**

Mr. Jeske stated Watermaster received an application from the City of Ontario and staff has asked that a Material Physical Injury Analysis be performed. Mr. Jeske noted this is similar to the Material Physical Injury Analysis that was on the agenda recently for several historical applications. Mr. Jeske stated Mr. Malone is here today and can answer any questions; however, the Material Physical Injury Analysis does not show any injury. Chair Zvirbulis stated he just had a conversation with Ms. Hoerning this morning and questions were raised about recent conversations regarding storage and those types of discussions. Chair Zvirbulis stated although those meetings have not yet started, he has had conversations with Mr. Jeske regarding developing an agenda and priorities related to those discussions. Chair Zvirbulis stated taking action on this item today does not mean the need has been dismissed, there is a need to continue discussions on issues related to storage, and those meetings will begin shortly. Mr. Craig inquired about the other seven applications, if they have gone through the Material Physical Injury Analysis. Mr. Jeske stated yes, they have been done. Mr. Scott-Coe inquired if there were any issues with other applications for water that is being stored, particularly recycled water being stored by Inland Empire Utilities Agency (IEUA), but they don't have storage agreements, or is that going to be resolved in those upcoming discussions. Mr. Scott-Coe inquired if there are going to be more applications like this forthcoming. Mr. Jeske stated he cannot answer question number two, that is up to each individual agency. Mr. Jeske stated on the first question, it did not show any injury; however, there was one exception and that was on the City of Upland's application, which did not include the City of Upland discharging recycled water. Mr. Jeske stated all of the recycled water through IEUA has been addressed as part of their permit process. Mr. Jeske offered further comment on this matter. Mr. Craig stated the City of Chino Hills was going to do something similar. Mr. Craig stated it is confusing to him because the City of Chino Hills already has a storage agreement, and noted this needs to be worked out. Mr. Jeske stated instead of everyone scrambling to do paperwork, maybe the parties should wait and just work through this as a group on policies with the recognition that the

doors will be open based on the results that come forward on policies. Mr. Jeske offered further comment on this matter. Ms. Rojo stated when the City of Upland brought their applications forward it was for both recharge and for storage and then we split those two out and said let's just put the storage portion on the shelf and approve the application for recharge. Chair Zvirbulis stated this isn't an approval of storage; this is just the Material Physical Injury. Chair Zvirbulis stated maybe what we can do over the course of this next month is get that first meeting together on issues related to storage. Chair Zvirbulis stated he and Mr. Jeske can work out a schedule for that meeting. Mr. Jeske stated he would schedule that meeting. Ms. Hoerning offered comment on recycled water and the storage matter. Chair Zvirbulis stated we need to start that conversation and collectively decide how to proceed. Mr. Crosley stated it was his understanding that what we are contemplating on having, which might end up being a series of discussions, to reveal the deficiencies in our documentation. Mr. Crosley stated we really don't know what we need to paper yet, and there is some question about what the limits are and what the limits actually apply to. Mr. Crosley stated he really does not know what he is submitting an application for at this point, and he is concerned that there is a notion out there about first in time practice, which could end up as a race. Mr. Moorrees inquired as to how much storage has been applied for. Mr. Jeske stated slightly over 100,000 acre-feet. A discussion regarding this matter ensued. Chair Zvirbulis stated we need to start these conversations promptly.

Motion by Moorrees, second by Craig, and by unanimous vote

Moved to receive and file the Wildermuth Environmental Material Physical Injury Analysis on the City of Ontario Application for Local Storage Agreement, as presented

B. WATERMASTER ANNUAL AUDIT FISCAL YEAR 2010/2011

Mr. Jeske stated every year Watermaster has an audit performed; however, this year a different auditor was used. Mr. Jeske stated audits are commissioned by, and work for, the governing Board. Mr. Jeske stated this item was on the Watermaster Board's agenda at their last meeting which included a presentation by Charles Z. Fedak & Company, and this is now coming back through the process. Mr. Jeske stated it was a good audit report and it did not have any exceptions to the audit report. Mr. Scott-Coe inquired if there could be more comments on the impact of Watermaster's limitation under the Judgment as far as the ownership of assets is concerned in the auditing process. Mr. Scott-Coe inquired that if, in the future, we could see the auditing process and be able to address the difference between Watermaster and other agencies, as far as its success in achieving increased assets, as opposed to what it says in the Judgment concerning the limitation of Watermaster to actually retain real property and limited assets – it was noted this was a comment first made by Mr. Geoffrey Vanden Heuvel at the last Watermaster Board meeting. Mr. Jeske stated unfortunately he was not at the Board meeting where the detailed presentation was given and comments were received. Mr. Scott-Coe stated it was discussed regarding Watermaster returning the reserves to the Appropriators which will look like a real big loss and Watermaster will not look like a successful organization because of that. Mr. Joswiak stated if you go back and historically look, the operations has always shown a profit or loss depending upon what operations have taken place, with either high or low revenues. Mr. Joswiak stated the auditors are willing to look at this, but historically it has always been shown as profit or loss; staff can work with the auditors to come up with the terminology that is more appropriate for Watermaster. Mr. Joswiak stated staff can also include internal notes in the management report for clarification. Mr. Jeske stated Watermaster's success is in water and not in dollars, and year end audits are accounting reviews, and not performance reviews of whether it makes a profit or a loss. Mr. Jeske offered final comments on the actual audit performed for Watermaster.

Moved to receive and file the Watermaster Annual Audit Fiscal Year 2010/2011 with no opposition

C. PROPOSED SUPPLEMENTAL ORDER FOR RESOLUTION 2010-04

Mr. Jeske stated several months ago there was a lengthy process to come up with a resolution regarding the Chino Creek Well Field and the Chino Desalter Authority (CDA), and those were filed with the court at its last hearing. Mr. Jeske stated after that time there were some parties, particularly in the Agricultural Pool, that expressed concern as to whether or not it adequately protected the right of individual private well owner; a resolution to that effect has been negotiated and prepared, and is now ready to be filed with the court. Mr. Jeske stated the action would be to approve the proposed supplemental order and recommend to the Watermaster Board moving forward with the filing; it will be filed jointly with other filings. Mr. Craig inquired if this has been coordinated with CDA counsel. Mr. Jeske stated yes, it has.

Motion by Harder, second by Moorrees, and by unanimous vote

Moved to approve the recommendation to forward this item to the Watermaster Board for the Order for Resolution 2010-04, as presented

D. PROPOSED CASH RESERVE POLICY

Mr. Jeske stated there have been discussions on cash reserves, which included the return of excess cash for the past few years. Mr. Jeske stated each one of the Pools, the Advisory Committee, and the Watermaster Board all suggested staff put together a workshop type meeting and that was done. Mr. Jeske stated that meeting was held to discuss policies that Watermaster would need; Watermaster does not currently have a policy on reserves. Mr. Jeske noted several good comments were received at that meeting, and there were a number of parties there and their input was valuable. Mr. Jeske stated the finance director from the City Of Chino brought up some very good points. Mr. Jeske stated that Watermaster has initiated this year the return of excess reserves, and with this policy we will define the reserve levels, and then every year Watermaster will be returning the reserves to the parties. Mr. Jeske stated this puts into position that everything that isn't spent is returned every year within the policy guidelines, so there is not as much of an impact to the parties. Mr. Jeske stated if Watermaster is earning a different amount on the reserve funds that are held than what the individual parties may be earning, it is really an Investment Policy and not a Reserve Policy, and the City of Chino's finance director suggested that the parties may want to look at the Investment Policy and expand the ability to be a bit more aggressive in its investments than our current policy allows us. Mr. Jeske offered further comment on the discussions which took place at that meeting. Mr. Jeske stated the group did not give staff a firm direction and said that Watermaster should divide operating reserves into administrative and OBMP, as they currently are, and then instead of the current 30% of annual budget, Watermaster should keep somewhere between 10% and 15%. Mr. Jeske stated when looking at the expenditures and the categories in those two areas, staff recommends a 10% contingency operating reserve on the administrative side and a 15% on the OBMP side. Mr. Jeske stated staff also needs reserves for six months, and that practice has been done for many years. Mr. Jeske stated if this Committee decides, it can be included in your motion to ask staff to re-review its current Investment Policy. Mr. Crosley inquired as to the time frame for reviewing the Investment Policy and having the discussions with the interested parties. Mr. Jeske stated at your direction. Mr. Crosley stated he would like to make a motion to approve the recommended Reserve Policy and to direct staff to initiate discussions with the stakeholders to take a look at the Investment Policy. Mr. Scott-Coe stated Monte Vista Water District (MVWD) has a concern with section 4.17.9 regarding preemptive replenishment water purchases. Mr. Scott-Coe stated it was their understanding that preemptive replenishment purchases is still a concept under discussion and when the parties passed the Preemptive Replenishment Agreements with parties, that those were created as a non-precedent setting agreements, and that was going to be discussed with the storage discussions as well as the Recharge Master Plan Update. Mr. Scott-Coe stated MVWD has concerns about preemptive replenishment as a concept and would like to express those concerns through that process. Mr. Scott-Coe stated MVWD feels it is premature to add a concept that has not yet been developed as a policy under Watermaster, within this presented policy. Chair Zvirbulis stated he had this conversation with Mr. Jeske prior to this meeting, and in rereading that language his thought might be to consider striking that language. A lengthy discussion regarding the matter of striking that language, the

matter of losses, and this item ensued. Mr. Scott-Coe stated he would like to recommend striking section 4.17.9 from the policy. Mr. Crosley stated the recommendation is acceptable to the maker of the motion and Ms. Rojo stated that was acceptable also.

Motion by Crosley, second by Rojo, and by unanimous vote

Moved to approve Reserve Policy, direct staff to get together and look at the Investment Policy, and to strike 4.17.9 from the Policy, as presented

E. WATERMASTER RESTATED JUDGMENT

Mr. Jeske stated this item is the approval of the Watermaster Restated Judgment as the official copy. Mr. Jeske stated this has been submitted to the court already but not as the official copy. Mr. Jeske noted there was some disagreement between the Pools as to whether or not to submit it as an official copy; however, after the court hearing the judge ordered it to be resubmitted as an official copy and there have been no changes made since the October hearing on the document. This is in accordance with the orders of the judge to have it resubmitted, which needs the approval to go through the Watermaster process. Mr. Jeske stated if there are questions Brad Herrema is here from Brownstein to answer them, and he will typically be the new person to direct questions of this nature to at the Pool meetings. Mr. Jeske introduced Counsel Herrema. Mr. Garibay inquired to the particular label of "official copy" and of what significance that title holds. Mr. Jeske offered the history on this item, and noted in the past there was the Judgment and then numerous amendments added to it in a book format. Mr. Jeske stated the official copy is the court ordered Judgment document which provides all the amendments into one official copy. Counsel Herrema stated this will effectively replace the existing Judgment and be considered the Judgment itself going forward, which includes the Judgment and then all of the changes that had been ordered by the court to be made to the Judgment. Counsel Herrema stated attached to the agenda item is a small portion of the court transcript from the October hearing where the court asked that this be done. Mr. Garibay inquired if people refer to the Judgment they will then be referring to the 2011 Judgment and not the 1978 Judgment. Counsel Herrema stated that is correct. Mr. Scott-Coe inquired once this goes through the Watermaster process, what happens then as far as going to the court. Counsel Herrema stated there is a draft motion to the court for the approval which is included in the agenda package. Counsel Herrema stated there is a court hearing already set for June of this year, which will also include other filings. Mr. Scott-Coe inquired if counsel and staff believed that this is exactly and what the judge was looking for, just this Restated Judgment. Counsel Herrema stated at this point the court has only asked for a Restated Judgment. Counsel Herrema stated Brownstein is also working on the annotated Judgment, and the draft of that will be brought through the Watermaster process in April. Mr. Scott-Coe asked if the work on the annotated Judgment has been started. Counsel Herrema stated yes, and a draft of that will be submitted in April. Mr. Scott-Coe stated he was not aware that process had been started. Mr. Crosley stated it is his recollection that when this process was started several months ago, the parties identified three different work efforts; 1) the Restatement Judgment, 2) annotated work product, and 3) more of an interpretative, and perhaps the start of the negotiation of what the first 2 pieces say, because we expect there might be some difference of opinions. Mr. Crosley stated he recalls the group met and discussed this, and they indicated they were in favor of moving forward with the first two pieces but not the third. Chair Zvirbulis stated he does not recall that and would have to go back and check his records. Mr. Scott-Coe thought it was his understanding that the first piece would be done, which was the minimal amount that the court was looking for, and then we would come back to discuss whether to move forward with the annotated phase; he was not aware it was authorized to move forward with the annotated phase. Chair Zvirbulis stated he thinks what changed at the last hearing was that it was clarified by the judge that he wanted the Restated Judgment to be the official copy and to replace the 1978 Judgment. Chair Zvirbulis offered further comment on this matter. Ms. Hoerning stated she thought counsel was looking at this one more time, because the change from being it being a reference document to the superseded Judgment document obviously has some potentially significant impacts. Mr. Jeske stated what was submitted was fully vetted and reviewed with all the parties and a lot of work went into preparing this Restated Judgment in making sure everybody had it right and that it was

cross-referenced properly. Mr. Jeske stated this includes all the court ordered changes that have occurred over the years. Mr. Jeske stated the reference document is the annotated version that references back and forth between the different agreements, and many of the components in those agreements were not amendments to the Judgment, they were court orders, and only the amendments to the Judgment are here. Mr. Jeske stated the third element, and he noted he was not in that meeting to try to offer opinion on what some of those agreements said, and the parties decided to set that part of it aside just to work on the reference document. Mr. Kinsey stated he thought the approach that we all agreed to was to take the minimal approach and to do just what the court asked Watermaster to do, which is the Restated Judgment, and all the parties that have seen it are happy with it. Mr. Kinsey stated his concern, as we start talking about an annotated version would be from a timing standpoint, as to when we want to start this because everybody is going to want to check it to make sure that it is all encompassing and contains the full range of annotations of both the Peace Agreement and the Peace II Agreement that tells the full story and doesn't tilt in interpretation. Mr. Kinsey stated once that process starts it is going to take time, attorneys are going to get involved, and we already have a full plate with the Recharge Master Plan, storage, and getting ready for our next court hearing, so if we add another item to this already full schedule we run the risk of losing focus on those things which are most important to us. Mr. Kinsey stated the judge did say, even on this document, he recognized we are busy and to do this at a time when we are not as busy. Mr. Kinsey stated maybe it would be best that we do this when other items are accomplished so as to give the annotated version our full focus. Mr. Jeske stated it is his understanding there is a substantial first draft already done and what he is hearing is the parties want to proceed with recharge and storage issues, and then the annotated Judgment in that order, and that is not part of this motion. Mr. Garibay asked if this is going to be posted only after the judge approves it and counsel Herrema stated no, and that the draft is already posted on the Watermaster ftp site.

Motion by Garibay, second by Mejia, and by unanimous vote

Moved to approve the Restated Judgment as the "Official" copy of the Judgment, as presented

III. REPORTS/UPDATES

A. ENGINEERING REPORT

1. Extensometer Progress

Mr. Malone stated Watermaster is getting ready to install a sophisticated monitoring facility to monitor land subsidence that might be associated with Desalter pumping. Mr. Malone gave the Extensometer Progress presentation in detail. Mr. Malone stated installation will begin in April and it will be finished before the end of the fiscal year. Mr. Malone reviewed several maps in detail. Mr. Malone stated there are a number of agreements for this endeavor, one is the land lease agreement with the County and Watermaster approved that last month, and the County Board of Supervisors at the end of this month is scheduled to approve it. Mr. Malone stated the second agreement is the reimbursement agreement that Watermaster and the Chino Desalter Authority have agreed to. Mr. Malone stated there is also the CEQA document, which is to go the IEUA board at the end of the month for approval. Mr. Malone stated if you need more information there is a Land Subsidence Committee and they meet at the end of this month before the Watermaster Board meeting.

B. CEO/STAFF REPORT

1. Recharge Master Plan Update/Storage Issues Review Process

Mr. Jeske stated we have already discussed the Recharge Master Plan and the need to start moving forward on storage issues. Mr. Jeske stated the next Recharge Master Plan meeting will be next Thursday after the Advisory Committee meeting. Mr. Jeske stated it is expected at that meeting that a lot of information will be presented by Mark Wildermuth and encouraged all to attend. Mr. Jeske stated staff is also working with IEUA and they are producing section 4 in that report and they are moving forward with that, and we are meeting weekly with them. Mr. Jeske stated the next meeting is one that needs the right people there to start discussion decisions.

2. Investment Policy

Mr. Jeske stated this item was discussed previously and there was no further comment made.

3. Record and Document Request

Mr. Jeske stated quite frequently Watermaster staff gets requests, particularly on Fridays when we are short staffed and trying to get agendas packages out, and sometimes from third parties. Mr. Jeske stated sometimes when people call in and reach one of the support staff, sometimes it is very unclear what they want or need, and in looking at how to make this easier on them and on Watermaster staff, an already Board approved policy is in place which is not being utilized presently. Mr. Jeske stated on the back table is the Request for Information form which is also posted to the Watermaster website, along with the Resolution adopting this policy that staff is now requesting be used each and every time any kind of information is being requested. Mr. Jeske stated this will alleviate any confusion on what the party wants.

4. CEO Search

Mr. Jeske stated the Watermaster Board has directed staff to move forward in the effort regarding the new CEO search. Mr. Jeske stated staff is to work with the Pool chairs, the chairman of the Board, and himself, and that process has already started. Mr. Jeske stated he has gone out and solicited proposals for a firm to assist us with this search. Mr. Jeske stated one of the elements of doing that will be a lot of up-front discussion on defining the needs and defining what the parties and the Board want, including the skills and the duties of the new CEO. Mr. Jeske stated many of the proposals we get from recruiters are thin on that so he will have to do some negotiating with them. Mr. Jeske stated once a recruiting firm is brought on board it will probably be a four to five month process. Mr. Jeske stated there will be an expense to this endeavor and his question today is, if we want to move forward we would have to appropriate some dollars to this. Mr. Jeske stated it is his anticipation that this will be able to be accomplished, and even including any possible candidate reimbursement for probably no more than \$32,000. Mr. Jeske stated he could take that request for appropriation to the Advisory Committee next week and then to the Board if the three Pools are comfortable with doing that, otherwise we are going to have to start the Watermaster process in April and start a consulting firm around May 1st. Mr. Jeske stated if we want to start the process and to devote adequate time to defining the position, this Committee could authorize staff to go straight to the Advisory Committee and have them make a recommendation to the Watermaster Board. Mr. Jeske stated staff would recommend that the money come from the excess from the administrative work that was done for Metropolitan Water District. Chair Zvirbulis asked if there was any objection to authorize the CEO to move forward with that budget transfer and present it to the Advisory Committee and Watermaster Board. Chair Zvirbulis stated he heard no objection and gave the authorization to Mr. Jeske to proceed.

IV. INFORMATION

1. Cash Disbursements for February 2012

No comment was made.

V. POOL MEMBER COMMENTS

Chair Zvirbulis offered comment on the Recharge Master Plan Committee meetings which has made a tremendous amount of progress and that Committee is at a point, as Mr. Jeske mentioned, where decisions have to be made and he encouraged all the parties to ensure that we have the appropriate decision makers at those meetings so this can move along and stay on schedule.

VI. OTHER BUSINESS

No comment was made.

The regular open Appropriative Pool meeting was convened to hold its confidential session at 9:56 a.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.

Chair Zvirbulis stated there was no reportable action.

The confidential session concluded at 10:38 a.m.

VIII. FUTURE MEETINGS AT WATERMASTER

Thursday, March 8, 2012	9:00 a.m.	Appropriative Pool Meeting
Thursday, March 8, 2012	11:00 a.m.	Non-Agricultural Pool Conference Call Mtg.
Thursday, March 8, 2012	2:00 p.m.	Agricultural Pool Meeting
(PLEASE NOTE: NEW TIME FOR THE AGRICULTURAL POOL MEETINGS)		
Thursday, March 15, 2012	8:00 a.m.	IEUA DYY Meeting
Thursday, March 15, 2012	9:00 a.m.	Advisory Committee Meeting
Thursday, March 15, 2012	10:00 a.m.	CB RMPU Steering Committee Mtg.
Thursday, March 22, 2012	9:00 a.m.	Land Subsidence Committee Meeting
Thursday, March 22, 2012	11:00 a.m.	Watermaster Board Meeting
Tuesday, March 27, 2012	9:00 a.m.	GRCC Meeting

The Chino Basin Recharge Master Plan Update Steering Committee will now be meeting on a regular basis on the 1st and 3rd Thursday of every month at 10:00 a.m. starting in March until further notice

Chair Zvirbulis adjourned the Appropriative Pool meeting at 10:39 a.m.

Secretary: _____

Minutes Approved: April 12, 2012