

Minutes
CHINO BASIN WATERMASTER
APPROPRIATIVE POOL MEETING

July 12, 2012

The Appropriative Pool Meeting was held at the offices of Chino Basin Watermaster, 9641 San Bernardino Road, Rancho Cucamonga, CA, on July 12, 2012 at 9:00 a.m.

APPROPRIATIVE POOL MEMBERS PRESENT

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| Scott Burton, Chair | City of Ontario |
| Jo Lynne Russo-Pereyra | Cucamonga Valley Water District |
| Raul Garibay | City of Pomona |
| Ron Craig | City of Chino Hills |
| Gil Aldaco | 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 |
| Todd Corbin | Jurupa Community Services District |
| Geoff Kamansky | Niagara Bottling Company |
| Teri Layton | San Antonio Water Company |

Watermaster Board Members Present

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| Paula Lantz | City of Pomona |
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Watermaster Staff Present

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| Ken Jeske | Interim CEO |
| Danielle Maurizio | Assistant General Manager |
| Joe Joswiak | Chief Financial Officer |
| Sherri Molino | Recording Secretary |

Watermaster Consultants Present

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| Brad Herrema | Brownstein, Hyatt, Farber & Schreck |
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Others Present

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| Mike Maestas | City of Chino Hills |
| Nadeem Majaj | City of Chino Hills |
| John Bosler | Cucamonga Valley Water District |
| Sandra Rose | Monte Vista Water District |
| Chuck Hays | City of Fontana |
| Craig Miller | Inland Empire Utilities Agency |
| Ryan Shaw | Inland Empire Utilities Agency |
| Eunice Ulloa | Chino Basin Water Conservation District |
| Curtis Paxton | Chino Desalter Authority |
| Marsha Westropp | Orange County Water District |
| John Schatz | John J. Schatz, Attorney at Law |

Chair Burton called the Appropriative Pool Meeting to order at 9:05 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 June 14, 2012
2. Minutes of the Special Confidential Appropriative Pool Meeting held June 26, 2012

B. FINANCIAL REPORTS

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

C. WATER TRANSACTION

1. **Consider Approval for Notice of Sale or Transfer** – Fontana Water Company ("Company") has Agreed to Purchase from the Nicholson Trust 2011-2012 Annual Production Right in the Amount of 5.000 acre-feet. Date of Application: June 27, 2012

Mr. Justin Scott-Coe noted there was one small word change in the June 14, 2012 minutes which has already been discussed with the recording secretary and the minutes were changed to reflect that correction.

Motion by Scott-Coe, second by Garibay, and by unanimous vote

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

II. BUSINESS ITEMS**A. BUDGET TRANSFERS**

Mr. Jeske stated these are routine transfers within the current framework of the budget to allow Watermaster to pay bills in the right and correct category for the year. Mr. Jeske stated starting on page 63 are the details for these transfers. Mr. Jeske discussed the budget for this past fiscal year in detail. Mr. Jeske inquired to Mr. Joswiak if there were going to be any more transfers for the year end filing. Mr. Joswiak stated this should be the last one for this fiscal year unless there is something out of the ordinary that comes up.

Mr. Scott-Coe stated he wanted to raise a concern that has been raised in the past concerning our collective inability to control Watermaster's legal expenses. Mr. Scott-Coe stated we note in the budget actual in the consent calendar that legal expenses are above the budget. Mr. Scott-Coe stated we understand that during the budgeting process that the budget was kind of projected out and during the resolution of the budget process as well; however, it is now 20% above budget currently, and this resolution is the flipping around of different budget categories for legal expenses which shows a slight, but still a change, in the positive for legal expenses. Mr. Scott-Coe stated, in responding to Mr. Jeske's comments, we would like to entertain the opportunity, maybe not right now, but the Appropriative Pool requests that legal counsel not come unless specifically requested to assist in reducing that cost from our perspective, and we would suggest that we might also ask that the other Pools to consider doing the same with regard to their legal attending meetings. Mr. Scott-Coe offered further comment regarding cutting costs for Watermaster. Mr. Jeske stated we have information on this and staff can bring this back at a later time. Mr. Jeske stated there will be certain times that legal counsel needs to be at meetings because of legal things going on. Mr. Jeske stated staff can get you the information on what costs would be saved if legal was not attending the meetings. Mr. Jeske noted engineering services are not here today because they were not needed. Mr. Jeske offered comment on other ways Watermaster can cut some costs with not having consultants present at all meetings. Mr. Scott-Coe stated there are other ways to cut costs such as the annotated Judgment process, where we don't feel like there was a definitive decision made through the formal Watermaster process to move to step 2, and yet it was budgeted and the expense has already been done as well as with some of the recharge master plan updates (RMPU.)

Mr. Scott-Coe commented on having legal at those RMPU meetings. Chair Burton stated maybe in the next month or so staff could possibly put this topic on the agenda to talk about this, or maybe even have a separate meeting. Mr. Jeske stated if that is the pleasure of this Pool. Ms. Russo-Pereyra stated the one thing that she particularly would like to see is a trend or data on this matter because we all made a conscious effort during the last budget process to reduce these costs and she noted that she agrees with what Mr. Scott-Coe is saying. Mr. Jeske stated staff has presented multi-year data on this subject with the budget development and we can resend that out to the members of the Pool. Mr. Jeske stated we will send the information that staff has on this to the parties. Mr. Jeske inquired if this information was still on the Watermaster website and Mr. Joswiak state he believes that was taken off our site. Mr. Jeske stated staff can put that back on the ftp site, and then we will send a note on where it is on the ftp site. Mr. Scott-Coe stated this is a start and noted the parties still want further opportunities to discuss this matter. Mr. Jeske noted that Watermaster is now budgeting legal expenses by tasks and being billed by task, so there have been changes made in how staff is monitoring the work that is done by legal. Ms. Layton stated Six Basins Watermaster stopped having legal counsel coming to every meeting to help lower their costs. Ms. Rojo stated in hearing what has been discussed, it appears there is an interest in more of a process wanted or if we are going to embark on a new project, as well, that is something that should be brought forward and get separate consideration. Mr. Scott-Coe stated that is correct. Chair Burton called for the question.

Motion by Craig, second by Russo-Pereyra, and by unanimous vote

Moved to approve Watermaster FY2011/2012 Budget Transfer Form T-12-06-01, as presented

III. REPORTS/UPDATES

A. LEGAL REPORT

1. CSI Paragraph 15 Motion

Counsel Herrema stated this item is an update on the California Steel Industries (CSI) paragraph 15 motion. Counsel Herrema stated Watermaster has sent out email notices through the Watermaster email process regarding filings by CSI and Aqua Capital Management (ACM) in regard to CSI's motion to confirm post judgment orders. Counsel Herrema stated these are related to disputed water rights for the Non-Agricultural Pool overlying water rights. Counsel Herrema stated there is an ongoing dispute between CSI and ACM as to each of their interest in those water rights. Counsel Herrema noted there is a separately pending quiet title action that was filed by ACM and the motion that was filed by CSI on June 20, 2012 is a motion requesting that Judge Reichert, under paragraph 15 of the Judgment, which allows the court to make interpretative orders pursuant to the Judgment in carrying out the Judgment, there has been a request that the judge state that the effective of two of its prior orders related to these particular water rights; the effective of those water orders is that CSI has a interest in those particular water rights for which ACM has filed a this separate quiet title action. Counsel Herrema stated what CSI is looking to do is take an order from the court in to its quiet title action as proof of their ownership. Counsel Herrema stated last Monday ACM filed its opposition; effectively it's their position that the quiet title action is not prohibited by the Judgment and that Judge Reichert should allow it to proceed and not make any order that would have any affect in that proceeding. Counsel Herrema stated he believes the reply by CSI will be due next Monday, and there will be a hearing on the motion next Friday. Counsel Herrema noted the two parties that are active in that are CSI and ACM and both have a direct interest in those water rights. Mr. Jeske stated Watermaster counsel well be present at that hearing without a position in the matter. Counsel Herrema stated Watermaster counsel has not been directed to take a position at this time. Chair Burton inquired about the total water rights in this matter. Counsel Herrema stated he is not exactly sure but he believes around 600 or 700 acre-feet total in dispute.

Added Item:

2. Post Appeal Order

Counsel Herrema stated there was a June 29, 2012 post appeal order issued by Judge Reichert that Watermaster provided notice to all of the parties. Counsel Herrema stated he received a few questions on what exactly what that order is. Counsel Herrema stated this is the order that Judge Reichert issued to conform his opinion to the opinion of the appellate court in the paragraph 31 litigation. Counsel Herrema offered final comment on the paragraph 31 matter.

B. CEO REPORT1. August Meeting Schedule

Mr. Jeske stated the next GRCC meeting is scheduled for Tuesday, July 17, 2012 at 9:00 a.m. here at Watermaster.

Mr. Jeske stated at looking at vacation schedules, items for the agenda, and other suggestions regarding the month of August, it appears that we could go dark in that month; continuing meetings in September. Mr. Jeske stated if the Pool so desires, August meetings will be suspended with an action by this Pool. Mr. Jeske stated Watermaster and the parties will still be working on storage and recharge issues during that time. Chair Burton stated if this is something the Pool members want, then the August Pool meeting can be cancelled. Mr. Jeske offered comment on the meetings being cancelled for August. A discussion regarding this matter ensued. Ms. Rojo offered comment on being informed about the closed sessions for the Board. Mr. Jeske stated reporting on those meetings are reported out at the end of their meetings.

Motion by Aldaco, second by Scott-Coe, and by unanimous vote

Moved to approve suspending the August 2012 Appropriative Pool meeting, as presented

2. CBWM 34th Annual Report

Mr. Jeske stated the Chino Basin Watermaster 34th Annual Report is now available on our website and hard copies are on the back table.

IV. INFORMATION1. Cash Disbursements for June 2012

No comment was made.

V. POOL MEMBER COMMENTS

Mr. Scott-Coe stated we noticed in the Agricultural Pool meeting minutes some mention was made about the annotated Judgment and the decision to move forward with the annotated Judgment; we would like to reiterate, we believe some of the statements are slightly inaccurate concerning whether the judge wants an annotated Judgment. Mr. Scott-Coe stated we believe in reading the hearing transcript of what the judge requested that he did not request an annotated text. Mr. Scott-Coe stated as well as in the 3rd step process that we discussed in that workshop whether or not that 2nd step was officially approved or just thought about and discussed with a few heads nodding. Mr. Scott-Coe stated we do not believe the 2nd step was approved; it is not our minutes to correct but we did want to put on the record we believe that some of the statements were not the way we understand. Chair Burton inquired as to which minutes these were. Mr. Scott-Coe stated those are the Agricultural Pool minutes on page 17 of the meeting package. Mr. Jeske stated he believes the Board gave direction on step 2 and staff can double check that; however, he believes that in the past there was direction given by the Board for the first 2 steps and the 3rd step was discontinued in the process. Mr. Jeske stated that may have not been a formal action through the Pools. Mr. Jeske he recalls asking that question once before and had been given the answer that there was a Board authorization, which is why we see some expenses on that step. Mr. Scott-Coe stated it may have gone through the Board but not the full Pool process, which reflects our concern about the

authorization of expenditures of even budgeted funds that we still would like that authorization to go through the full Pool process in order to have the ability to try and control costs.

Mr. Garibay inquired about the water purchased from the Non-Agricultural Pool in where that water ended up or what account did that end up being placed into. Mr. Jeske stated he can't answer this question because he has been excluded from that particular process. Ms. Maurizio stated it has not actually been transferred yet and it will all occur through the Assessment Package; in the storage account in the Assessment Package under excess carryover.

VI. OTHER BUSINESS

No comment was made.

The regular open Appropriative Pool meeting was convened to hold its confidential session at 9:28 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.

The confidential session concluded at 10:13 a.m.

Chair Burton stated there is one item to report out as follows.

To authorize the chair to execute the settlement agreement with California Steel Industries subject to non-substantial changes in one week provided there are no objections from the pool members during that one week period.

VIII. FUTURE MEETINGS AT WATERMASTER

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| Thursday, July 12, 2012 | 9:00 a.m. | Appropriative Pool Meeting |
| Thursday, July 12, 2012 | 11:00 a.m. | Non-Agricultural Pool Conference Call Mtg. |
| Thursday, July 12 2012 | 1:30 p.m. | Agricultural Pool Meeting |
| Thursday, July 19, 2012 | 9:00 a.m. | Advisory Committee Meeting |
| Thursday, July 19, 2012 | 10:00 a.m. | CB RMPU Steering Comm. and Storage Mtg. |
| Friday, July 20, 2012 | 10:00 a.m. | WM Board Confidential GM Recruitment Mtg. |
| Thursday, July 26, 2012 | 11:00 a.m. | Watermaster Board Meeting |

Chair Burton adjourned the Appropriative Pool meeting at 10:14 a.m.

Secretary: _____

Minutes Approved: September 13, 2012