

Minutes
CHINO BASIN WATERMASTER
WATERMASTER BOARD MEETING

August 26, 2010

The Watermaster Board Meeting was held at the offices of the Chino Basin Watermaster, 9641 San Bernardino Road, Rancho Cucamonga, CA, on August 26, 2010 at 11:00 a.m.

WATERMASTER BOARD MEMBERS PRESENT

Ken Willis, Chair
Michael Camacho
Charles Field
Bob Kuhn
Michael Whitehead
Bob Bowcock
Tom Haughey
Geoffrey Vanden Heuvel
Paul Hofer

West End Consolidated Water Company
Inland Empire Utilities Agency
Western Municipal Water District
Three Valleys Municipal Water District
Fontana Water Company
Vulcan Materials Company
City of Chino
Agricultural Pool
Agricultural Pool

Watermaster Staff Present

Kenneth R. Manning
Joe Joswiak
Danielle Maurizio
Ben Pak
Sherri Lynne Molino

Chief Executive Officer
Chief Financial Officer
Senior Engineer
Senior Project Engineer
Recording Secretary

Watermaster Consultants Present

Scott Slater
Michael Fife
Andy Malone

Brownstein, Hyatt, Farber & Schreck
Brownstein, Hyatt, Farber & Schreck
Wildermuth Environmental, Inc.

Others Present Who Signed In

Jack Safely
Mark Kinsey
Dave Crosley
Ron Craig
Ben Lewis
Tom Love
Ryan Shaw
Terry Catlin
Robert DeLoach
Marty Zvirbulis
Mike Thornton
Eunice Ulloa
David DeJesus
Rick Hansen
Steve Kennedy
Robert Young
Steven G. Lee
Jeff Pierson
Bob Feenstra
Pete Hall
Mohamed El-Amamy

Western Municipal Water District
Monte Vista Water District
City of Chino
City of Chino Hills
Golden State Water Company
Inland Empire Utilities Agency
Inland Empire Utilities Agency
Inland Empire Utilities Agency
Cucamonga Valley Water District
Cucamonga Valley Water District
TKE Engineering
Chino Basin Water Conservation District
Three Valleys Municipal Water District
Three Valleys Municipal Water District
Three Valleys Municipal Water District
Fontana Water Company
Reid & Hellyer for the Agricultural Pool
Ag Pool – Crops
Ag Pool – Dairy
State of California- CIM
City of Ontario

Scott Burton
Chuck Hays
Brian Geye
Gary Meyerhofer
Karen Johnson

City of Ontario
City of Fontana
Auto Club Speedway
Carollo Engineering
Water Resources Planning

Chair Willis called the Watermaster Board meeting to order at 11:02 a.m.

PLEDGE OF ALLEGIANCE

AGENDA - ADDITIONS/REORDER

Mr. Manning commented on the discussions regarding the budget in relation to the Watermaster audio system; it was finally decided to purchase a digital audio system for the boardroom and a portable system for any other meetings out of the boardroom instead of what was originally presented during the budget process. Mr. Manning commented on the sensitivity of the microphones and noted sidebar conversations will be picked up more easily than the old system.

Mr. Bowcock pulled Consent Calendar items 1A and 1B for separate motion and offered comment.

I. CONSENT CALENDAR

A. MINUTES

1. Minutes of the Watermaster Board Meeting held July 22, 2010

*Motion by Field, second by Whitehead, and by majority vote – Non-Agricultural Pool voted no
Moved to approve Consent Calendar item A Minutes, as presented*

B. FINANCIAL REPORTS

1. Cash Disbursements for the month of June 2010
2. Watermaster Visa Check Detail for the month of June 2010
3. Combining Schedule for the Period July 1, 2009 through June 30, 2010
4. Treasurer's Report of Financial Affairs for the Period June 1, 2010 through June 30, 2010)
5. Budget vs. Actual July 2009 through June 2010

A discussion regarding the presented financial reports ensued. Mr. Manning reviewed the new financial reporting format in detail and addressed items brought up during the discussion. A discussion regarding Mathis & Associates bills and reports ensued. Mr. Manning noted a report regarding the CEO evaluation has been given to the Personnel Committee and the Mathis bills related to that matter are shown in the financial report presented; that contract has been completed. Watermaster staff is currently working with the Mathis & Associates on staff development processes.

Motion by Vanden Heuvel, second by Field, and by unanimous vote

Moved to receive and file Consent Calendar item B Financial Reports, as presented

C. WATER TRANSACTION

1. **Consider Approval for Notice of Sale or Transfer** – Cucamonga Valley Water District is purchasing 500 acre-feet of water from West Valley Water District. This purchase is made from WVWD's water in storage and is to be placed in CVWD's Excess Carryover Account – Date of Application: June 14, 2010
2. **Consider Approval for Notice of Sale or Transfer** – The lease and/or purchase of 765 acre-feet from San Antonio Water Company to the City of Ontario. This lease is made first from San Antonio's net under-production in Fiscal Year 2009-2010, with any remainder to be recaptured from storage – Date of Application: June 21, 2010
3. **Consider Approval for Notice of Sale or Transfer** – Monte Vista Water District is purchasing 19.245 acre-feet of water from the San Antonio Water Company. This purchase

is made first from San Antonio's net underproduction, if any, in Fiscal Year 2009-2010, with any remainder to be recaptured from storage – Date of Application: June 7, 2010

4. **Consider Approval for Notice of Sale or Transfer** – Fontana Water Company (“Company”) has agreed to purchase from The Nicholson Trust annual production right in the amount of 6.082 acre-feet to satisfy a portion of the Company's anticipated Chino Basin replenishment obligation for Fiscal Year 2009/2010 – Date of Application: June 23, 2010

Motion by Field, second by Haughey, and by unanimous vote

Moved to approve Consent Calendar item C Water Transactions, as presented

II. BUSINESS ITEMS

A. NON-AGRICULTURAL POOL VOLUME VOTE CHANGES

Mr. Manning stated this item was discussed at the last Watermaster Board meeting regarding the Non-Agricultural Pool changing its volume vote. At the July 22, 2010 meeting the Board directed staff and counsel to put this item through the Watermaster process for the purpose of filing the change with the court. Mr. Manning noted the Non-Agricultural Pool legal counsel has already filed the volume vote changes with the court. Watermaster's pleading of support for the change of Non-Agricultural Pool's volume vote is available on the back table. Mr. Vanden Heuvel inquired about this matter. Mr. Manning reviewed Watermaster staff and Watermaster counsel's perception of what was conveyed regarding this matter. Counsel Slater stated there was an action taken within the Overlying Non-Agricultural Pool to amend their Pooling Plan and the intention of Watermaster staff was to try to alleviate any conflict related to a potential Judgment amendment to implement that Pooling Plan. The Pool was entitled to change its Pooling Plan by a Judgment amendment; however, it was the intention of Watermaster staff and Watermaster counsel to shepherd it through the Watermaster process. An interest was expressed to bring this item to the Watermaster Board for authorization to file a pleading in an avoidance of any conflict by another party drafting and filing their own pleading. By action, the Non-Agricultural Pool choose to do something else and file their Judgment amendment themselves. Counsel Slater stated staff and counsel have reviewed their pleading and in review, find no issues with the pleading filed. Counsel Slater stated staff is seeking authorization to file a pleading with the court to allow Watermaster to weigh into the process so the court understands there is no objection with the Overlying Non-Agricultural Pool's change to their Pooling Plan. The draft pleading has been supplied to the Overlying Non-Agricultural Pool's legal counsel; however, have not received clear consent of Watermaster's pleading of non-opposition. Counsel Slater stated the Watermaster Board is being requested to approve the brief pleading that is dispositive of this item for the time being.

Motion by Field, second by Kuhn, and by majority vote – Non-Agricultural Pool abstained

Moved to file a pleading with no opposition to the Non-Agricultural Pool's volume vote change, as presented

B. ALCOA FINAL AGREEMENT

Mr. Manning stated this item was discussed at the Pool and Advisory Committee meetings and is coming to the Watermaster Board with a unanimous vote. Mr. Manning stated Alcoa has constructed and has been monitoring and using three wells that are located within right of ways from the county and the City of Fontana. Those three wells were for the purpose of monitoring for water quality. Watermaster has been using the data from the wells for many different purposes. Alcoa has been given a no further action letter by the Regional Board and therefore their requirement to monitor and maintain those wells is no longer their responsibility. Alcoa was interested in destroying those wells and before they proceeded, Alcoa contacted Watermaster to see if there was interest in taking them over. Mr. Manning stated Watermaster ultimately wants another party to take over these three wells; however, that did not happen in the timeframe needed so Watermaster took them over as equipment. Mr. Manning noted there is no money in the current budget for maintenance on these wells and there should not be any requirement for maintenance on them this year. Counsel Fife offered comment on the property where the wells are located. A discussion regarding this matter ensued.

Motion by Haughey, second by Field, and by unanimous vote

Moved to approve the Alcoa Final Agreement, as presented

C. PEACE II AGREEMENT AND PHASE III DESALTER EXPANSION

Mr. Manning stated Watermaster legal counsel and Watermaster staff has been asked to coordinate with the CDA to move the process forward and continue to augment the CDA deliberations in its effort to try and get the expansion completed based upon the schedule that was submitted to the court and to the Regional Water Quality Control Board (RWQCB). Counsel Slater stated this Board appointed an Ad-Hoc Committee to work in the context to try and facilitate a resolution among the members of the CDA and the Expansion Group regarding the completion of the Phase III Desalter. Counsel Slater stated the business of desalters became a Watermaster responsibility in 2000 and it was initially raised to the context of the OBMP including the financial obligation associated with the prognosis of 40,000 acre-feet of desalter capacity and production in the southwesterly portion of the basin; this cost was significant. One of the things which led to the Peace Agreement process was an allocation of financial responsibility in order to get parties to pay for this expansion. In the Peace Agreement there was an allocation of rights and responsibilities to the first round of desalting, which were the Chino I Expansion and the Chino II Desalter. Parties to the Judgment proceeded to require ownership of the Chino I Desalter and a full transfer of full responsibility from SAWPA's Project Committee 14; the desalters moved over and a group of retail agencies formed the Chino Basin Desalter Authority (CDA) and the CDA is not a party to the Judgment, it is a joint powers agency, all the parties however to CDA are parties to the Judgment. The process did not conclude with a resolution of all of the desalting capacity; there was still reserved a Watermaster obligation to do an additional 10,000 acre-feet of desalting. This was a financial/economic and real obligation that was an overhang from the first Peace Agreement. In the context of the Peace II discussions, there were numerous discussions over who was going to finance and construct the second round of desalting which led to the Peace II process and a commitment to do a 9 mgd desalter expansion within certain defined parameters. This was coupled with an economic incentive which also provided residual benefits; that project was known as reoperation to secure Hydraulic Control which would dewater the basin of approximately 400,000 acre-feet and make that water available to the desalters who were primarily responsible for securing Hydraulic Control. The major capital component in this was the expansion. Counsel Slater stated Western Municipal Water District (WMWD) was the primary partner in moving forward on the desalter expansion and they ask for, and received certain assurances from the Watermaster Board and the court; those assurances are contained in the Peace II Agreement. The court was interested in the entire process; on December 21, 2007, when the court approved the Peace II Measures, it included several reporting requirements. One of the reporting requirements was to have great progress on this element and to inform the court on the progress in securing Hydraulic Control. Counsel Slater stated Watermaster is co-permittees with Inland Empire Utilities Agency in developing our Hydraulic Control and in completing the construction of the desalters. Counsel Slater stated this project fell behind and were fined by the RWQCB. The Watermaster Board made the decision for Watermaster to become more involved in the outcome; the important time to come to a closure is this month in order to stay on track, get the facilities financed and constructed/operational on a schedule which was consistent with the schedule provided to the court and to the RWQCB. A set of principals was provided to the Watermaster Board which was the first step to bring economic resolution between and among the members of CDA and the Expansion Group and was approved by this board. There were issues of a buy in and the issues between the members of the CDA and the Expansion Group on how to allocate financial responsibility associated with the Expansion Project and Counsel Slater stated it appears all those issues have been resolved and are scribed into Water Purchase Agreements. Counsel Slater stated there are three Water Purchase Agreements and will be available at Watermaster later today and then will be sent out for review. The agreements set all the pertinent terms among the members of the CDA and the Expansion Group for the project. Although, other issues arose that needed to be addressed in order for the project to move forward. Some of those items

involve third parties and Watermaster. With the large financial responsibilities the parties will be undertaking, they want certain assurances regarding their relationships with Watermaster, the court, and the other parties to the Judgment. Those issues have been identified and have provided clarification and assurances in the same way as in the past by engaging in a public process using a template document to work from. This was done by taking public input from your own staff and experts while ensuring what is being proposed comports with your notions of what was intended in the Peace Agreement and the Peace II Measures. Counsel Slater stated evidence comes before this Board and then an ultimate conclusion is given and whatever is done will go to the court and be approved by the Judge. During the presentation to the court including facts, findings, and conclusions, an order will be asked for which directs Watermaster to proceed in a fashion that was recommended. This provides a level of security to all the parties who are participating in the process that parties were given an opportunity for review and comment and any claims have been resolved before contracts firm. Counsel Slater stated no action is being requested today other than a referral to a workshop where staff and the parties can present expert testimony and information to give the public and the Board an opportunity to be comfortable with the underlying foundation. After the workshop this item will be sent through the Watermaster process for one last comment period and then ultimately have this on the October agenda for final approval and action. A lengthy discussion regarding Counsel Slater's summarization of proceedings to date and future requirements ensued.

Motion by Field, second by Vanden Heuvel, and by unanimous vote

Moved to refer this item to a Watermaster Workshop, as presented

III. REPORTS/UPDATES

A. WATERMASTER GENERAL LEGAL COUNSEL REPORT

1. CDA Facilitation

No comment was made regarding this item.

2. Non-Agricultural Pool Paragraph 31 Motion Appeal

Counsel Fife stated there are two notices of appeal on the back table; one from the Non-Agricultural Pool and one from California Steel Inc., meaning they have filed an appeal of the Paragraph 31 Motion.

B. ENGINEERING REPORT

1. Horizontal Strain Monitoring in the MZ1 Monitoring Zone Presentation

Mr. Manning introduced the OBMP Implementation Plan presentation that will be given today by Andy Malone. Mr. Malone stated this item is for information only and the same report was given to the Appropriative Pool last week; however, the Non-Agricultural Pool passed on the presentation since their meeting was via a conference call. Mr. Malone noted this topic is discussed frequently during the MZ1 Technical Committee meetings. Mr. Malone read Exhibit B from the Peace Agreement. Mr. Malone stated what we are trying to find out is what is considered tolerable subsidence and fissuring. Mr. Malone showed slides of actual fissure locations in 1991 and 1992 on the CIM property. A map of the Projected Drawdown (ft) in the Deep Aquifer System Peace II Alternative 2030 was reviewed in detail. Mr. Malone showed slides of street maps from an aerial view and discussed them in detail. A spreadsheet of the Ayala Park Dual Extensometer Facility from July 2003 to April 2005 was reviewed in detail. Mr. Malone reviewed the upcoming schedule which is a multi-year project and noted the project includes: Periodic check-in with MZ1 Technical Committee members, revision of the program when necessary, and Watermaster approval which is required each year due to the financial aspects of the project. Mr. Manning stated discussions during the MZ1 Committee have already begun and starting next year the committee will be broadened because of the modeling work that has been done by Wildermuth. Mr. Manning offered comment on the drawdown diagrams showing deep and shallow pumping affects. A further discussion regarding deep and shallow pumping with regard to the Voluntary Management Plan ensued. Mr. Malone stated both Wildermuth Environmental and Watermaster staff feels the MZ1 Technical Committee

should be expanded from an MZ1 area only, to more of a subsidence management district committee. This would allow more participation from other Watermaster parties who are outside of the MZ1 area. Mr. Manning commented that the MZ1 Technical Committee should be broadened for all the reasons discussed today. Mr. Malone stated the program may need to be revised and will need to go through the Watermaster process for the next two years to see it through completion. A brief discussion regarding Mr. Malone's presentation ensued.

C. CEO/STAFF REPORT

1. Legislative Update

Mr. Manning stated there is still no budget and is still in the neighborhood of nineteen billion dollars in the deficit position. Mr. Manning commented on SB 565(Pavley) and noted as chairman of the CGC he has written a letter to Senator Pavley regarding four different changes that need to be made to that bill, of which they have made only one of those changes. Mr. Manning noted the governor did sign the bill delaying the bond. Mr. Manning stated there is a bill that was just introduced within the last few days and is sponsored by the Water Quality Authority and the San Gabriel Basin which is a carve out of the one billion dollars in the water bond scheduled for two years from now; specifying a hundred million dollars of that is for them. Mr. Manning stated he is not opposed to the state contributing to the Water Quality Authority's efforts; the concern is it is starting the process of carve outs. Mr. Manning stated people are starting to see some legislation now in reaction to the Bell controversy.

2. Recharge Update

Mr. Manning stated the year end recharge data information spreadsheet is provided in your packets. Mr. Manning stated overall this year is characterized as a very good year for recharge, despite the problems with obtaining imported water through the Metropolitan Water District. Mr. Manning stated the recharge basins were able to take in over 5,000 acre-feet of imported water; however, the rate is still not known. The Cumulative Unmet Replenishment Obligations (CURO) was assisted by taking in that imported water. Mr. Manning reviewed the storm and recycled water year end numbers in detail.

3. Implementation of MWD's Water Supply Allocation Plan

Mr. Manning stated there are several items tied together regarding this item. Mr. Manning offered comment on the IRP hearing that was held by Metropolitan Water District (MWD) in Ontario recently. MWD is adopting a new IRP and it is a long term plan. Watermaster, by virtue of the Groundwater Committee at MWD, has participated with them on some of the development issues relative to groundwater; although, staff is of the opinion that MWD got about two thirds of the way through that process and then stopped after they had received what they wanted. Mr. Manning stated groundwater managers got together with them, a draft white paper is being drafted, and a cover letter that will be sent to MWD as part of the IRP hearing process that outlines the fact that additional work needs to be done.

4. Peace II SEIR

Mr. Manning stated Inland Empire Utilities Agency (IEUA) has issued the draft Peace II SEIR and comments from several agencies have been received. The responses to the comments have been drafted and the document will be ready for distribution, including the responses, shortly. Mr. Manning noted the soonest it would be adopted by the IEUA Board would be in the mid September time frame.

5. Strategic Planning Conference – October 4-5, 2010

Mr. Manning stated Watermaster will be holding its 6th Annual Strategic Planning Conference on October 4th and 5th locally at the Frontier Project. Mr. Manning noted in his opening this will be the start of Peace III. The Sunday prior, Watermaster will be hosting a small golf tournament and kick off reception at the Sierra Lakes Golf Course. Mr. Manning stated the main topic discussed at the conference will be the implementation of the

Recharge Master Plan; however, this appears to be the beginning of Peace III. Mr. Manning stated discussions will include policy issues, scheduling issues, funding issues, and how we start to move through those subjects.

6. Water Activity Reports

Mr. Manning stated there are still a few Water Activity Reports that have not been received and they were due Tuesday. The Non-Agricultural Pool's were reissued and were given an additional week to turn theirs in.

7. Non-Agricultural Pool Special Assessment

Mr. Manning stated the Non-Agricultural Pool had this on their August agenda; however, they took no action on it at their meeting.

IV. INFORMATION

1. Cash Disbursements for July 2010 as of July 28, 2010

No comment was made regarding this item.

2. OBMP Staff Status Report 2010-1: January to June 2010

No comment was made regarding this item.

3. Newspaper Articles

No comment was made regarding this item.

V. BOARD MEMBER COMMENTS

Mr. Bowcock noted he took objection to the CEO Report item no. C7 regarding the Non-Agricultural Pool Special Assessment and asked this item be discussed during the closed session.

VI. OTHER BUSINESS

No comment was made regarding this item.

The regular open Watermaster Board meeting was convened to hold its confidential session at 12:30 p.m.

VII. CONFIDENTIAL SESSION - POSSIBLE ACTION

Pursuant to Article 2.6 of the Watermaster Rules & Regulations, a Confidential Session may be held during the Watermaster committee meeting for the purpose of discussion and possible action.

1. Negotiations on the Desalter Expansion
2. Chino Airport Remediation Discussions

The confidential session was convened at 1:25 p.m.

No reportable action.

VIII. FUTURE MEETINGS

Thursday, August 26, 2010	11:00 a.m.	Watermaster Board Meeting @ CBWM
Thursday, September 2, 2010	1:00 p.m.	Appropriative Pool Meeting @ CBWM
Thursday, September 2, 2010	2:30 p.m.	Non-Agricultural Pool Meeting @ CBWM
Thursday, September 9, 2010	9:00 a.m.	Agricultural Pool Meeting @ IEUA
Thursday, September 16, 2010	8:00 a.m.	IEUA DYY Meeting @ CBWM
Thursday, September 16, 2010	9:00 a.m.	Advisory Committee Meeting @ CBWM
Thursday, September 23, 2010	11:00 a.m.	Watermaster Board Meeting @ CBWM
Friday, September 24, 2010	10:30 a.m.	CBWM Hearing @ Chino Courthouse

The Watermaster Board meeting was dismissed by Chair Willis at 1:25 p.m.

Minutes Watermaster Board Meeting

August 26, 2010

Secretary: _____

Minutes Approved: September 23, 2010