

CHINO BASIN WATERMASTER



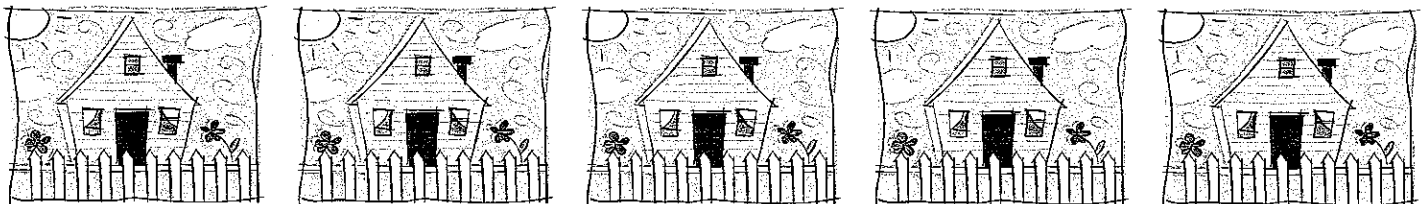
NOTICE OF MEETINGS

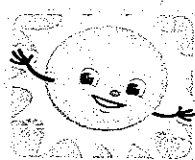
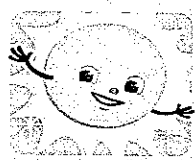
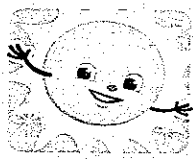
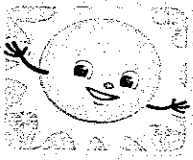
Thursday, June 22, 2006

9:00 a.m. – Advisory Committee Meeting
11:00 a.m. – Watermaster Board Meeting

(Lunch will be served)

AT THE CHINO BASIN WATERMASTER OFFICES
9641 San Bernardino Road
Rancho Cucamonga, CA 91730
(909) 484-3888





CHINO BASIN WATERMASTER

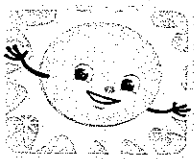
JUNE 22, 2006

9:00 a.m. - Advisory Committee Meeting

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(Lunch will be served)

AGENDA PACKAGE



**CHINO BASIN WATERMASTER
ADVISORY COMMITTEE MEETING**

9:00 a.m. – June 22, 2006

At The Offices Of

Chino Basin Watermaster

9641 San Bernardino Road

Rancho Cucamonga, CA 91730

AGENDA

CALL TO ORDER

AGENDA - ADDITIONS/REORDER

I. CONSENT CALENDAR

Note: All matters listed under the Consent Calendar are considered to be routine and non-controversial and will be acted upon by one motion in the form listed below. There will be no separate discussion on these items prior to voting unless any members, staff, or the public requests specific items be discussed and/or removed from the Consent Calendar for separate action.

A. MINUTES

1. Minutes of the Advisory Committee Meeting held May 25, 2006 *(Page 1)*

B. FINANCIAL REPORTS

1. Cash Disbursements for the month of May 2006 *(Page 15)*
2. Combining Schedule of Revenue, Expenses and Changes in Working Capital for the Period July 1, 2005 through April 30, 2006 *(Page 19)*
3. Treasurer's Report of Financial Affairs for the Period April 1, 2006 through April 30, 2006 *(Page 21)*
4. Profit & Loss Budget vs. Actual July through April 2006 *(Page 23)*

C. WATER TRANSACTION

1. **Consider Approval for Transaction of Notice of Sale or Transfer** – Fontana Water Company has agreed to purchase from The Nicholson Trust water in storage in the amount of 0.623 acre-feet and annual production rights in the amount of 8.000 acre-feet. Date of application: April 14, 2006 *(Page 25)*
2. **Consider Approval for Transaction of Notice of Sale or Transfer** – Fontana Water Company has agreed to purchase from West Valley Water District water in storage in the amount of 2,000 acre-feet. Date of application: April 7, 2006 *(Page 39)*

D. NOTICE: MAYER, HOFFMAN & McCANN TO PERFORM AUDIT FOR 2005-2006 FISCAL YEAR ENDING JUNE 30, 2006

E. CHINO BASIN WATERMASTER 28TH ANNUAL REPORT

II. BUSINESS ITEMS

A. PEACE II TERM SHEET

Consider Approval for the Chino Basin Watermaster Peace II Term Sheet *(Page 53)*

- B. JOINT CHINO BASIN WATERMASTER/IEUA CHINO BASIN DATA EXCHANGE (DATA X) SYSTEM DEVELOPMENT AGREEMENT AMENDMENT**
 Consider Approval of the Joint Chino Basin Watermaster/Inland Empire Utilities Agency Chino Basin Data Exchange (DataX) System Development Agreement Amendment (*Page 83*)

III. REPORTS/UPDATES

A. WATERMASTER GENERAL LEGAL COUNSEL REPORT

- 1. OCWD PEIR Comments (*Page 87*)
- 2. RWQCB Waste Discharge Permit Update
- 3. North Gualala Decision (*Page 93*)

B. CEO/STAFF REPORT

- 1. Storm Water/Recharge Report
- 2. Legislative/Bond Update
- 3. MZ1 Committee Update
- 4. Desalter I Production Update

C. INLAND EMPIRE UTILITIES AGENCY

- 1. Recycled Water Update – Oral Report
- 2. CCWRF Salinity Report – Oral Report
- 3. Monthly Water Conservation Programs Report (*Page 131*)
- 4. Groundwater Operations Recharge Summary (*Page 135*)
- 5. Monthly Imported Water Deliveries Report (*Page 137*)
- 6. State/Federal Legislation Reports (*Page 143*)
- 7. Public Relations Report (*Page 175*)

D. OTHER METROPOLITAN MEMBER AGENCY REPORTS

IV. INFORMATION

- 1. Newspaper Articles (*Page 177*)
- 2. Cost of Living Adjustment

V. COMMITTEE MEMBER COMMENTS

VI. OTHER BUSINESS

VII. FUTURE MEETINGS

June 22, 2006	9:00 a.m.	Advisory Committee Meeting
June 22, 2006	11:00 a.m.	Watermaster Board Meeting
July 13, 2006	10:00 a.m.	Joint Appropriative & Non-Agricultural Pool Meeting
July 18, 2006	9:00 a.m.	Agricultural Pool Meeting @ IEUA
July 26, 2006	T. B. D.	Workshop for Peace II
July 27, 2006	9:00 a.m.	Advisory Committee Meeting
July 27, 2006	11:00 a.m.	Watermaster Board Meeting

Meeting Adjourn

**CHINO BASIN WATERMASTER
BOARD MEETING**

11:00 a.m. – June 22, 2006

At The Offices Of

Chino Basin Watermaster

9641 San Bernardino Road

Rancho Cucamonga, CA 91730

AGENDA

CALL TO ORDER

PLEDGE OF ALLEGIANCE

AGENDA - ADDITIONS/REORDER

I. CONSENT CALENDAR

Note: All matters listed under the Consent Calendar are considered to be routine and non-controversial and will be acted upon by one motion in the form listed below. There will be no separate discussion on these items prior to voting unless any members, staff, or the public requests specific items be discussed and/or removed from the Consent Calendar for separate action.

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D. NOTICE: MAYER, HOFFMAN & McCANN TO PERFORM AUDIT FOR 2005-2006 FISCAL YEAR ENDING JUNE 30, 2006

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Consider Approval of the Joint Chino Basin Watermaster/Inland Empire Utilities Agency Chino Basin Data Exchange (DataX) System Development Agreement Amendment *(Page 83)*

C. COST OF LIVING ADJUSTMENT (COLA)

Authorize 4.7% COLA to be Applied to the Salary Schedule as Approved in the FY 2006-07 Budget, Beginning July 1, 2006

D. HEALTH BENEFITS

Consider Approval from the Recommendation of the Personnel Committee on the Revised Health Benefits Package

III. REPORTS/UPDATES

A. WATERMASTER GENERAL LEGAL COUNSEL REPORT

1. OCWD PEIR Comments *(Page 87)*
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B. CEO/STAFF REPORT

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IV. INFORMATION

1. Newspaper Articles *(Page 177)*

V. BOARD MEMBER COMMENTS

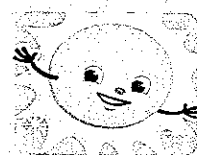
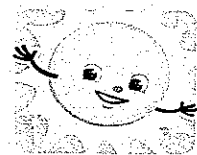
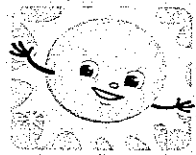
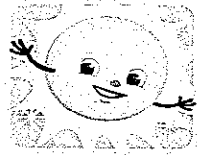
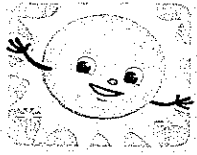
VI. OTHER BUSINESS

VII. CONFIDENTIAL SESSION

VIII. FUTURE MEETINGS

June 22, 2006	9:00 a.m.	Advisory Committee Meeting
June 22, 2006	11:00 a.m.	Watermaster Board Meeting
July 13, 2006	10:00 a.m.	Joint Appropriative & Non-Agricultural Pool Meeting
July 18, 2006	9:00 a.m.	Agricultural Pool Meeting @ IEUA
July 26, 2006	T. B. D.	Workshop for Peace II
July 27, 2006	9:00 a.m.	Advisory Committee Meeting
July 27, 2006	11:00 a.m.	Watermaster Board Meeting

Meeting Adjourn



CHINO BASIN WATERMASTER

I. CONSENT CALENDAR

A. MINUTES

1. Advisory Committee Meeting – May 25, 2006



Draft Minutes
CHINO BASIN WATERMASTER
ADVISORY COMMITTEE MEETING
May 25, 2006

The Advisory Committee meeting was held at the offices of the Chino Basin Watermaster, 9641 San Bernardino Road, Rancho Cucamonga, California, on May 25, 2006 at 9:00 a.m.

ADVISORY COMMITTEE MEMBERS PRESENT

Agricultural Pool

Nathan deBoom, Chair	Ag Pool/Dairy
Bob Feenstra	Ag Pool/Dairy

Appropriative Pool

Ken Jeske	City of Ontario
Robert DeLoach	Cucamonga Valley Water District
Chris Diggs	Fontana Water Company
Rosemary Hoerning	City of Upland
Dave Crosley	City of Chino
Jim Taylor	City of Pomona
Charles Moorrees	San Antonio Water Company
Mark Kinsey	Monte Vista Water District
J. Arnold Rodriguez	Santa Ana River Water Company
Justin Brokaw	Marygold Mutual Water Company
Mike Maestas	City of Chino Hills

Non-Agricultural Pool

Justin Scott-Coe	Vulcan Materials Company (Calmat Division)
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Watermaster Staff Present

Kenneth R. Manning	Chief Executive Officer
Sheri Rojo	CFO/Asst. General Manager
Gordon Treweek	Project Engineer
Janine Wilson	Recording Secretary

Watermaster Consultants Present

Michael Fife	Hatch & Parent
Mark Wildermuth	Wildermuth Environmental Inc.

Others Present

Phil Rosentrater	Western Municipal Water District
Bill Kruger	City of Chino Hills
Ashok K. Dhingra	City of Pomona
Tom McMonagle	Metcalf & Eddy, Inc.
Rich Atwater	Inland Empire Utilities Agency
Steve Kennedy	Three Valleys Municipal Water District

The Advisory Committee meeting was called to order by Chair deBoom at 9:04 a.m.

AGENDA - ADDITIONS/REORDER

No additions or reorders were made to the agenda.

I. CONSENT CALENDAR

A. MINUTES

1. Minutes of the Advisory Committee Meeting held April 27, 2006

B. FINANCIAL REPORTS

1. Cash Disbursements for the month of April 2006
2. Combining Schedule of Revenue, Expenses and Changes in Working Capital for the Period July 1, 2005 through March 31, 2006
3. Treasurer's Report of Financial Affairs for the Period March 1, 2006 through March 31, 2006
4. Profit & Loss Budget vs. Actual July through March 2006

Motion by Kinsey, second by Jeske, and by unanimous vote

Moved to approve Consent Calendar Items A through B, as presented

II. BUSINESS ITEMS**A. WATERMASTER BUDGET FOR FISCAL YEAR 2006/2007**

Mr. Manning stated the full presentation was given at each of the pool meetings and noted Sheri Rojo is available to give the presentation again if the committee members want to see it. Mr. Manning stated most of the increases in the budget are due to our increased operation and maintenance (O&M) costs that are not being absorbed this year by the FEMA grant or the State and/or shared grants with Inland Empire Utilities Agency (IEUA). This budget also includes our debt repayment options, a 4.7% Cola which was a CPI index from March to March of this year, and also includes money for the Personnel Committee's proposals (does not include acceptance of those proposals – only the money to deal with them with the Personnel Committee makes their reports in June through the Watermaster process). Mr. DeLoach noted Sheri did give a detailed presentation at each of the pool meetings and unless the committee members want to see it again he would make the motion for approval of the presented Watermaster budget for discussion. Ms. Horning inquired if Watermaster staff was going to be holding a separate meeting on the allocation of recharge O&M costs. Mr. Manning stated that would be an option if the party members wanted to hold such a meeting and noted this item was discussed at the recently held Budget Workshop. Ms. Hoerning inquired about the surcharge. Ms. Rojo stated that prior to the recharge improvement project the only basins that were on-line were the Montclair Basins and when Watermaster passed through the IEUA cost of the water to the parties they would add the \$2.00 OC59 connection fee and an additional \$2.00 for the projected maintenance costs on the Montclair Basins. Now that we have twenty basins on-line the O&M costs have gone up substantially so the \$2.00 dollar surcharge would now be a around \$40.00 per acre-foot. Mr. Jeske inquired if Watermaster is paying for others to perform the O&M out of the budget and how that is formulated. Ms. Rojo stated those costs are included the budget and will be billed through the Assessment Package. Mr. Manning stated this item will be brought back with scenarios on how the distributions might work out and noted it will be thoroughly discussed prior to the distribution of the Assessment Package through the Watermaster process.

Motion by DeLoach, second by Rodriguez, and by unanimous vote

Motion to approve the Watermaster budget for fiscal year 2006/2007 and direct staff to bring back the allocation discussion of the recharge maintenance, as presented

III. REPORTS/UPDATES**A. WATERMASTER GENERAL LEGAL COUNSEL REPORT****1. Santa Ana River Application**

Counsel Fife stated there are a number of issues surrounding this item including SB 1795 which appears to be stalled. Counsel Fife stated the comments on the Orange County Water District EIR are due next week and Watermaster will be submitting a brief letter supporting them and the 1969 judgment. Once the letter is ready it will be distributed to the parties.

2. Boardsmanship Workshop Update

Counsel Fife stated there was a Boardmanship workshop held after the last Watermaster Board meeting in April. A number of people have inquired to receive the paperwork that was distributed at that workshop and Sherri Lynne has been handling that distribution. If anyone still needs copies they can contact her when she gets back or me after this meeting.

3. Peace II Update

Counsel Fife stated there does seem to be an agreement on the Peace II Term Sheet and that will be presented to the Watermaster Board members today for discussion. The Board members have received the agreement in advance of today's meeting and there is a short staff letter in the meeting package. Counsel Fife stated staff will be requesting an approval to move the Term Sheet through the Watermaster process.

Counsel Fife noted he will be reporting on the second item under the Watermaster Engineering Consultants Report on the proposed Waste Discharge Requirements for recharge of imported water.

B. WATERMASTER ENGINEERING CONSULTANT REPORT

1. Summary of WEI April 2006 Report Regarding Hydraulic Control, Desalters and New Yield
Mr. Wildermuth stated a detailed presentation was given by Mr. Malone regarding the summary of hydraulic control at the pool meetings. It was noted by the committee members this presentation does not need to be given again because of prior review and discussions at the pool meetings.

2. Proposed Waste Discharge Requirements (WDR) for Recharge of Imported Water
Counsel Fife stated this item was discussed at the pool meetings in detail and after the last meeting there was a workshop with the Regional Board. This was a very interesting workshop. The San Bernardino Municipal Water District (SBMWD) has some strong opinions about these waste discharge requirements; their presentation at that workshop was about an hour long. There were also six or seven various representatives from SBMWD testifying at this workshop. Also in attendance were several other parties who also gave presentations on their observations. The bottom line is that the Regional Board, through SAWPA is going to convene a process to discuss the waste discharge requirements and what should be done and how the issue should be approached. Watermaster is in an interesting position in this regard because we are at the center of the issue. Both Watermaster and IEUA are discussed in the waste discharge requirements. Counsel Fife stated Watermaster's position at the workshop and previously has been just one of support for Jerry Thibeault and for the Regional Board and to stay focused on the good work they have done. A discussion ensued with regard to the recent workshop and counsel noted this workshop was a way to introduce the implementation of the Basin Plan Amendment Requirements. Mr. Kinsey stated it was his understanding that this item has been pulled off calendar and is being redirected to entities on an appointed task force and Mr. Manning agreed that was also his understanding. Mr. Manning stated it is staff's objective to keep things positive and to not jeopardize what we have already accomplished in the Chino Basin. A discussion ensued with regard to this issue. Mr. Atwater added comments on the history of these types of processes and what IEUA's objectives are to move forward in this matter in a positive and creative way. A discussion on the potential to resume Colorado River recharge ensued.

C. CEO/STAFF REPORT

1. Water Quality Update

Mr. Treweek stated that over the last year the Water Quality Committee has concentrated on three major plumes and each of those plumes is in a different phase of the remediation process. The first plume is from the Ontario International Airport which is in the remedial investigation phase because the process is just getting started. A second meeting with the potential responsible parties (PRPs) has taken place and at that meeting staff tried to establish a cooperative relationship with them. Staff hoped the PRPs recognized that one or more of them were the cause of this plume and that they would look at the expansion of

the desalter well field and the desalters as a logical remedial action to which they would be willing to contribute. The PRPs have banded together and hired Tetra Tech to review data and compile findings. The second plume is from the Chino Airport which has been discussed at these meetings before and this undertaking is in the feasibility study phase. In the last two years the PRPs have also hired Tetra Tech to do an investigation and have put in nine wells on the airport; these are shallow wells and have identified the plume on the airport property. They have linked that finding to two possible sources at the airport where they did renovations of aircrafts. Staff has met with this group with the idea of seeing the desalter expansion as an additional opportunity to remediate the plume and at the same time recover more water and put that water to beneficial use. It was noted the Regional Board has participated in all these discussions and are very supportive of this process. The third and final plume is the GE Flat Iron plume; it is in the remedial action phase and has been that way for over a decade now. They have a two step process of doing air stripping to remove TCE and then they also have ION exchange which is used to remove chromate. Their water, after treatment, meets all the maximum containment levels and would be acceptable as drinking water. GE does not want to introduce their water into the drinking water system; they have discharged that water into the Ely Basins. Watermaster staff has explained to GE that we need those basins for storm water and for recycled water and we would like to phase out their usage of the basins. Last month GE met with the Flood Control District and all the interested parties and pointed out they have performed a feasibility study, in which they have identified additional basins that they may purchase for recharge. They are also looking at additional options.

2. Strategic Planning Committee Update

Mr. Manning stated an open invitation conference is being planned by the Strategic Planning Committee for October 1, 2, and 3, in Indian Wells at the Grand Champions Hyatt Hotel. The event will be kicked off on Sunday with workshops held all day Monday, October 2, and then Tuesday, October 3, will be a half day session. We will be working on issues dealing with expansion of our recharge facilities based upon the Urban Water Management Plans that were submitted. There is strategic planning that we are going to be doing in many other areas as well. Flyers for this conference will be sent out so that this conference can be placed on agendas. A question regarding holding the conference locally was presented. Mr. Manning stated the idea behind not holding the conference locally is we want peoples' focus to be solely on the task at hand and not on trying to leave early or come late because of other obligations. Staff expects to have follow-up sessions and those sessions will be held locally.

3. Personnel Committee Update

Mr. Manning stated part of this item was covered under the budget presentation. The second part is the CEO evaluation going on through the Personnel Committee; they are still meeting on this item. Mr. Manning noted Watermaster contracted with a new consultant this year by the name of Mathis and Associates who deal with cities and water districts around the country on issues dealing with personnel and recruitment. Mathis and Associates is currently working with the Personnel Committee on both the surveys that were needed for the health issues and on the CEO evaluation.

4. GAMA Presentation by Robert Kent, California Water Science Center

Mr. Manning stated that Mr. Belitz and Mr. Kent from USGS gave a detailed presentation at the May Appropriative & Non-Agricultural pool meeting. USGS is scheduled to be in the Chino Basin in the fall to begin their work. A public workshop will be held prior to the start of their project so that people will be given an opportunity to have input on how the process will be monitored and how information will be dealt with. Their presentation was very informative and it did allow the process of dialog to start between USGS and the Chino Basin.

5. Storm Water/Recharge Update

Mr. Treweek stated through the end of April we have recharged 36,000 acre-feet of storm water, imported, and recycled water. April was a very good water month and in that month alone there were over 5,000 acre-feet of water recharged.

Mr. Treweek stated the Chino Basin Watermaster in conjunction with Inland Empire Utilities Agency has decided to pursue a company by the name of Hansen Aggregates. We are requesting them to repair the damage that their discharges did to our Lower Day Basin. Over the winter Hansen Aggregates discharged silt which went into the Lower Day Basin and the damage from that silt discharge is estimated to be about a half a million dollars. Staff has met with IEUA and they are going to draft a demand letter to Hansen Aggregates. Staff feels we have very good evidence that it was their discharge that caused the basin damage. Chair deBoom inquired if the Regional Board was involved in this issue. Mr. Treweek stated the Regional Board has a waste discharge permit for them, which will be a strong element in our case as this was an illegal discharge of silt and clay into the flood control channel. Mr. Manning stated CBWM's position is Hansen Aggregates can either voluntarily participate in the clean up or staff can go to the Regional Board and they can force their hand in clean up efforts. A discussion ensued with regard to the water recharge lost due to this issue.

6. Inland Empire Public Affairs Network (IEPAN) Update

Jerry Silva with Southern California Edison and Mr. Manning are involved with setting up this event. This is a public affairs network that is involved with trying to bring speakers who are policy makers both in the State of California and the federal government to the policy decision people within the Inland Empire and allow them to speak directly to each other. Our first luncheon is Friday, June 2, with the guest speaker being Fred Aguiar; he is going to be talking about the State of California and the governor's proposals. IEPAN will be holding quarterly luncheons and the next speaker for September is Gary Miller. The intention behind IEPAN is to try and bring into the basin on a regular basis those people make policy and set policy within this country and state.

7. Legislative/Bond Update

Mr. Manning stated he was in Sacramento on May 24, 2006 and had a chance to facilitate a meeting with the Southern California Water Committee and Senator Perada's office. This meeting was to attempt to get a feel for where Senator Perada's water issues will go given the fact it was not part of this year's bond package. We were also able to discuss the Simitian Bill. Senator Perada was very positive with regard to the Simitian Bill. Several other meetings took place regarding water policy which opened doors for good conversation on where we are at in the water policy issues process. These meetings were especially interesting because they combined staff from the Southern California Water Committee and the Bay Area Counsel. Mr. Manning stated he felt it was a very progressive day and was a good start; we are committed to having these types of meetings on a regular basis.

Mr. Manning stated he recently received an email regarding SB 1795 having to do with the changes within the bill regarding recharge. The changes are advantageous to us in the Chino Basin.

D. INLAND EMPIRE UTILITIES AGENCY

1. Monthly Water Conservation Programs Report

Mr. Atwater stated on June 2, 2006 in Ontario at the Kaiser medical facility the State Board will be doing a groundbreaking event to celebrate their \$4M grant for the San Antonio pipeline. That will take recycled water through Ontario over to Montclair and will also recharge the Brooks Basin. All are welcome to be at this event which will start at 10:00 a.m.

Some cleaning needs to be performed at the Banana and Hickory Basins from the rain in March and April. The good news is that rain water is free water; however, it does slow up recharge operations.

- 2. Groundwater Operations Recharge Summary
No comment was made regarding this item.
- 3. Monthly Imported Water Deliveries Report
No comment was made regarding this item.
- 4. State/Federal Legislation Reports
No comment was made regarding this item.
- 5. Public Relations Report
No comment was made regarding this item.

E. OTHER METROPOLITAN MEMBER AGENCY REPORTS
No comment was made regarding this item.

IV. INFORMATION

- 1. Newspaper Articles
No comment was made regarding this item.

V. COMMITTEE MEMBER COMMENTS

No comment was made regarding this item.

VI. OTHER BUSINESS

No comment was made regarding this item.

VII. FUTURE MEETINGS

May 23, 2006	9:00 a.m.	GRCC Committee Meeting
May 25, 2006	9:00 a.m.	Advisory Committee Meeting
May 25, 2006	11:00 a.m.	Watermaster Board Meeting
June 8, 2006	10:00 a.m.	Appropriative & Non-Agricultural Pool Meeting
June 20, 2006	9:00 a.m.	Agricultural Pool Meeting @ IEUA
June 22, 2006	9:00 a.m.	Advisory Committee Meeting
June 22, 2006	11:00 a.m.	Watermaster Board Meeting

The Advisory Committee Meeting Adjourned at 9:49 a.m.

Secretary: _____

Minutes Approved: _____



CHINO BASIN WATERMASTER

I. CONSENT CALENDAR

A. MINUTES

1. Watermaster Board Meeting – May 25, 2006



Draft Minutes
CHINO BASIN WATERMASTER
WATERMASTER BOARD MEETING

May 25, 2006

The Watermaster Board Meeting was held at the offices of the Chino Basin Watermaster, 9641 San Bernardino Road, Rancho Cucamonga, California, on May 25, 2006 at 11:00 a.m.

WATERMASTER BOARD MEMBERS PRESENT

Ken Willis, Chair	West End Consolidated Water Company
Sandra Rose	Monte Vista Water District
John Anderson	Inland Empire Utilities Agency
Al Lopez	Western Municipal Water District
David DeJesus	Three Valleys Municipal Water District
Bob Bowcock	Vulcan Materials Company
Paul Hofer	Agricultural Pool, Crops
Paul Hamrick	Jurupa Community Services District
Geoffrey Vanden Heuvel	Agricultural Pool, Dairy

Watermaster Staff Present

Kenneth R. Manning	Chief Executive Officer
Sheri Rojo	CFO/Asst. General Manager
Gordon Treweek	Project Engineer
Janine Wilson	Recording Secretary

Watermaster Consultants Present

Scott Slater	Hatch & Parent
Michael Fife	Hatch & Parent
Mark Wildermuth	Wildermuth Environmental Inc.

Others Present

Rosemary Hoerning	City of Upland
Bill Kruger	City of Chino Hills
Steve Kennedy	Three Valleys Municipal Water District
Manuel Carrillo	Senator Soto's office
Jeff Pierson	Ag Pool
Jim Taylor	City of Pomona
Mike Maestas	City of Chino Hills
Carole McGreevy	Jurupa Community Services District
Dave Crosley	City of Chino

The Watermaster Board Meeting was called to order by Mr. Willis at 11:04 a.m.

PLEDGE OF ALLEGIANCE

AGENDA - ADDITIONS/REORDER

There were no additions or reorders made to the agenda.

I. CONSENT CALENDAR

A. MINUTES

1. Minutes of the Watermaster Board Meeting held April 27, 2006

Mr. Vanden Heuvel stated he wanted the April 27, 2006 minutes to reflect the costs that would be incurred if there was no implementation of Peace II since it is such a costly amount and there was a long discussion at that meeting regarding such costs. Mr. Manning stated the minutes could be revised to include Mr. Vanden Heuvel's request of projected costs.

Motion by Lopez, second by Hofer, and by unanimous vote

Moved to approve Consent Calendar Item A with the amendment made regarding the cost of non-implementing Peace II added to the April 27, 2006 minutes, as presented

B. FINANCIAL REPORTS

1. Cash Disbursements for the month of April 2006
2. Combining Schedule of Revenue, Expenses and Changes in Working Capital for the Period July 1, 2005 through March 31, 2006
3. Treasurer's Report of Financial Affairs for the Period March 1, 2006 through March 31, 2006
4. Profit & Loss Budget vs. Actual July through March 2006

Ms. Rose asked if would be possible on the check register to have a separate memo column that might explain the costs incurred for. Mr. Manning stated that would take a great deal of work on staff's part and that we could possibly have more specific categories in place of an exact description. Ms. Rose asked a question regarding check number 10416 to Mathis & Associates and whether it was too late to stop the check from being mailed. The response was that the check had already gone out. A brief discussion ensued with regard to the policy of approving checks that have already gone out.

Motion by Hamrick, second by Willis, and by unanimous vote

Moved to approve Consent Calendar Item B, as presented

II. BUSINESS ITEMS

A. WATERMASTER BUDGET FOR FISCAL YEAR 2006/2007

Mr. Manning stated Ms. Rojo will give a more detailed description for this item and noted this item has gone to the Pools and Advisory Committee and had unanimous approval at those meetings. A budget workshop was held prior to this item being placed on the agenda and was very well attended. Ms. Rojo stated several appropriators and a few board members attended the budget workshop and the budget was reviewed and discussed in great detail. What is in the meeting package is the actual summary budget; the detailed budget will be available on our ftp and web site. The Watermaster budget is made up of four main expense areas; 1) administration, 2) general OBMP expenses, 3) OBMP implementation projects, and 4) water purchases. The budget in the administration area has two main areas of interest, first being the proposed COLA of 4.7% which is based on the CPI for this area and then the second is the proposed increase in the medical insurance cap; this is actually a place holder which Mr. Manning will be discussing further on the June meeting. Mr. Manning stated the adoption of the presented budget places the money that is in the category to cover the expenses. The actual item will go through the Watermaster process in June as a separate action item with a recommendation from the Personnel Committee. In the general OBMP category there are a couple of areas that increased overall. The first is staff is proposing, as a result of Peace II, we are going to have to do CEQA work and that is budgeted in the OBMP category; this is a place holder; we will be sub-contracting out that work. The second is the next State of the Basin Report, before now this was placed in the budget as an OBMP expense; this is now a separate line item to allow people to better understand the cost. Under the implementation projects and special projects there are a few areas that will be increasing; some slightly and some substantially. Ground water quality monitoring is anticipated to increase; those expenses are being tracked separately. The recharge O&M which was discussed in detail at the Appropriative and Advisory Committee meetings, substantially increased due to the number of basins which have recently come on-line. There is also our recharge debt service a result of the DWR grant funding, that is being cost shared with Inland Empire Utilities Agency on the payment. The debt

service line item was reviewed and discussed in detail. There are a few decreases in the project implementation area which relate to ground level monitoring. The MZ1 and the meter installation and maintenance costs are projected to drop. Overall staff is expecting an increase to assessments this year. Mr. Hofer inquired into how the cost of living adjustment is determined. Ms. Rojo stated that figure is based on the Consumer Price Index (CPI) for the Inland Empire.

Mr. Manning stated, in regards to our groundwater quality monitoring program, that Chino Basin Watermaster is pursuing working with the potential responsible parties (PRP's) on both the Ontario International Airport and the Chino Airport. All of those expenses are recoverable when we settle with the PRP's. Those are funds that would come back to the agency and to the organization at some point in time; we do not know when that will be exactly but they are recoverable expenses.

Mr. Vanden Heuvel inquired where were the increased costs of operations and maintenance for recharge located in the budget. Ms. Rojo stated that has been placed into the OBMP implementation projects category.

Ms. Rose inquired into the three bullets that Mr. Manning mentioned one being the Personnel Committee recommendations regarding the market survey. Mr. Manning stated this is a placeholder which allows the latitude to be able to work with any recommendation that would come through the approval by the Watermaster Board in June.

Motion by Lopez, second by Anderson, and by unanimous vote

Motion to approve the Watermaster budget for fiscal year 2006/2007, as presented

B. PEACE II NON-BINDING TERM SHEET

Mr. Manning stated this item will be covered by Counsel Slater and noted that each member should have already received a copy of the Peace II Non-Binding Term Sheet under separate cover. Counsel Slater stated this item has been developed by the diligent work of the parties for the past twenty-four months who attempted to come to resolution for a proposed road map to take us into the next generation of Watermaster planning. At the last Board meeting in April counsel had indicated that a broader stakeholder meeting had taken place and that there was interest and support in convening additional meetings in an effort to, once and for all, come to a final conclusion as to an appropriate road map. Meetings were held on May 4, 2006 and May 15, 2006; those meetings resulted in a proposed stakeholder non-binding term sheet which is being presented to you today for your consideration. Counsel Slater stated he wanted to make clear the requested action that is being sought today by the Board members. The responsibility for preparation of the Optimum Basin Management Plan lies with this board. The genesis for the plan and for modifications of the plan lies with this board. Staff is not asking today to approve the non-binding term sheet; staff is recommending that this board refer the term sheet to the Pools and the Advisory Committee to move through the Watermaster process. Ms. Rose stated that she is glad that the board members were allowed to attend the last few sessions because it really helped in the understanding of the issues. Mr. Vanden Heuvel complimented the staff and all the parties for all the serious work done on the concerns raised at the last go around of the term sheet noting this is a better document now that all parties should be proud of.

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

Motion to approve to move the non-binding term sheet through the Watermaster process for further consideration, as presented

C. MZ1 SUMMARY REPORT

Mr. Manning stated this is the same item that was presented to the Board a month ago noting this item has gone through the Pools and Advisory Committee and was passed with only one dissenting vote at the Advisory Committee meeting. At the Board meeting last month a

recommendation was made that this item be postponed for a month to give the Board Chairman an opportunity to meet with members of the Chino Hills counsel to discuss this subject. Mr. Manning stated he was not in attendance at any of those meetings. However, it is his understanding that the City of Chino Hills is now in the process of preparing a document that will provide some guidance for us on what they think could or should be achieved through the long-term plan. The outcome turned out well from the meetings that Chair Willis conducted with the City of Chino Hills. Staff's recommendation is still the same in that the Summary Report is just a report and does include the interim criterion which is voluntary in nature in terms of compliance. It does set out the guidance for good behavior to occur until the long-term plan is decided upon and is adopted. Staff is encouraging the Board to approve the report at this time. Chair Willis invited representatives of Chino Hills to speak. Mr. Maestas stated there are still some concerns with the MZ1 Criteria that have been released. Chino Hills believes there are still concerns that have not yet been addressed through this criteria plan, and believe they are going to be affected by it in production and/or source of water. It appears the MZ1 Committee is attempting to set up criteria. It is unknown how Chino Hills is going to be assisted or compensated for the loss of production by following this criteria. The City of Chino Hills wishes to work with Watermaster and wants resolution. However, Chino Hills does not want to step into a position were they are not taken care of as far as loss of production by following this set of criteria. Until these issues are resolved, the City of Chino Hills is not on board for approval. Chair Willis stated he looks forward to Watermaster staff and members of the Board working with the City of Chino Hills to find out what is in the realm of possibilities and to see if what they are suggesting is or is not possible. Mr. Manning stated he had a conversation with Mr. Kruger prior to the start of the Board meeting and Mr. Kruger commented that the city manager was going to be in contact with Watermaster staff shortly to schedule a meeting.

*Motion by Lopez, second by Anderson, and by unanimous vote
Motion to approve the MZ1 Summary Report, as presented*

III. REPORTS/UPDATES

A. **WATERMASTER GENERAL LEGAL COUNSEL REPORT**

1. Santa Ana River Application

Counsel Slater stated that Orange County has come with its revised environmental report and the comment period is now open. Watermaster's general legal counsel is presently working to provide a set of draft comments which will be circulated shortly.

2. Boardsmanship Workshop Update

Counsel Slater stated staff and counsel did follow through with the holding of the Boardsmanship workshop and overall it was well received by those who attended. Counsel enjoyed the process and is in contact with the Special Referee with regard to potentially composing advanced curriculum to the extent that the Board thinks it is useful. Staff is thinking of putting together a technical segment which will entail more detailed information on any subject that the Board feels they would like to know more about. Counsel Slater noted that staff and counsel are involving the Special Referee in that curriculum.

B. **WATERMASTER ENGINEERING CONSULTANT REPORT**

1. Summary of WEI April 2006 Report Regarding Hydraulic Control, Desalters and New Yield

Mr. Wildermuth stated he wanted to bring the board up to date on the Hydraulic Control Monitoring Program and then compare those results to the actual modeling work that was recently done. Mr. Wildermuth reviewed a map from the late 1800's to the early 1900's when USGS was investigating this entire watershed, mapping springs and performing geology work. Mr. Wildermuth stated when the desalter program was designed it was actually designed to do two things; 1) to replace the supply that would be lost from agriculture and 2) to keep water from going out to the river. If we did nothing and Watermaster parties just did what they normally do and agriculture went away there would be no production in that area. What the modeling results shows is that the water levels in the north would drop quite a bit and we would lose, on average, over 20,000 acre-feet a

year to the river. This would also cause us to have water quality problems with the Regional Board and we would have to desalt wastewater or dilute that water. After the OBMP and Peace Agreement were completed and during the TIN/TDS process it became clear that we could isolate the basin with the desalters and if we could isolate it we could end up with higher water quality objectives for TDS and nitrogen. The desalters were set up to cut off outflow; this is how they were developed initially with the information that was at hand. During the preparation of the Basin Plan Amendment which included the Chino Basin/Inland Empire's Maximum Benefits Proposal, we came up with a Hydraulic Control Monitoring Plan. That plan was incorporated into the Basin Plan Amendment. The 2004 Basin Plan Amendment required us to produce annual reports; the first report came out in May. In that report there are nine new wells that were constructed by Watermaster/IEUA and were partially funded by grant monies. In addition to that there are approximately forty other wells that were needed to provide water quality data for this purpose along with twenty five surface water stations. What we are trying to accomplish with the monitoring program is to look at the water level data and determine from the water level data how much containment we have. Mr. Wildermuth reviewed the modeling results map in detail. A discussion ensued with regard to some of the modeling results. Mr. Wildermuth discussed the conclusions which included monitoring data and groundwater simulations that suggest failure to gain hydraulic control west of Desalter I/well no. 5, surface water monitoring which suggests negligible water quality impact to the Santa Ana River. The Regional Water Quality Control Board requires the containment at wells, the locating of the new desalter wells in the west, reducing storage of the basin by 400,000 acre-feet, with the possibility that basin yield could increase by 14,000 to 17,000 acre-feet per year.

2. Proposed Waste Discharge Requirements (WDR) for Recharge of Imported Water

Mr. Wildermuth stated that when CBWM and IEUA were participating in the TIN/TDS work which started in 1996 and was completed in 2002, the technical people along with the decision makers participated in discussing the likelihood of managing the recharge of imported water and eventually permit it. The Regional Board has come out with a proposal to do which basically states, if you have a maximum benefit basin and if anyone else tried to recharge which is not consistent with our plan and did not obtain approval, they would get anti-degradation objectives. The Regional Board is trying to protect the maximum benefits objectives. The hopes are that parties will try and adopt a management plan that implement the Basin Plan without the Regional Board having to issue WDR's for recharge. Mr. Vanden Heuvel offered comments regarding water quality and costs to ensure that quality.

C. **CEO/STAFF REPORT**

1. Water Quality Update

Mr. Treweek stated that over the last year he Water Quality Committee over the last year has concentrated on three major plumes and each of those plumes is in a different phase of the remediation process. The first plume is from the Ontario International Airport which is in the remedial investigation phase because the process is just getting started. A second meeting with the potential responsible parties (PRPs) has taken place and at that meeting staff tried to establish a cooperative relationship with them. Staff hoped the PRPs recognized that one or more of them were the cause of this plume and that they would look at the expansion of the desalter well field and the desalters as a logical remedial action to which they would be willing to contribute. The PRPs have banded together and hired Tetra Tech to review data and compile findings. The second plume is from the Chino Airport which has been discussed at these meetings before and this undertaking is in the feasibility study phase. In the last two years the PRPs have also hired Tetra Tech to do an investigation and have put in nine wells on the airport; these are shallow wells and have identified the plume on the airport property. They have linked that findings to two possible sources at the airport where they did renovations of aircrafts. Staff has met with this group with the idea of seeing the desalter expansion as an additional opportunity to remediate the plume and at the same time recover more water and put that water to beneficial use. It was noted the Regional Board has participated in all these discussions and are very supportive

of this process. The third and final plume is the GE Flat Iron plume; it is in the remedial action phase and has been that way for over a decade now. They have a two step process of doing air stripping to remove TCE and then they also have ION exchange which is used to remove chromate. Their water, after treatment, meets all the maximum containment levels and would be acceptable as drinking water. GE does not want to introduce their water into the drinking water system; they have discharged that water into the Ely Basins. Watermaster staff has explained to GE that we need those basins for storm water and for recycled water and we would like to faze them out of the use of them. The GE permits came up for renewal (one with the Water Conservation District and one with the Flood Control District), we have asked the Flood Control District to extend their permit year-by-year to ensure GE made sequential progress in getting out of the Ely Basins. The Flood Control District decided to extend their permit through 2011. Last month GE met with the Flood Control District and all the interested parties and pointed out they have performed a feasibility study, in which they have identified additional basins that they may purchase and recharge into. They are also looking at Aquifer Storage and Recovery well installation and also have looked into recycling water into the recycled water distribution system. A discussion ensued with regard to the String Fellow Plume.

2. Strategic Planning Committee Update

Mr. Manning stated an open invitation conference is being planned by the Strategic Planning Committee for October 1, 2, and 3, in Indian Wells at the Grand Champions Hyatt Hotel. The event will be kicked off on Sunday with workshops held all day Monday, October 2, and then half day Tuesday, October 3. We will be working on issues dealing with expansion of our recharge facilities based upon the Urban Water Management Plans that were submitted. There is strategic planning that we are going to be doing in many other areas as well. Flyers for this conference will be sent out in a timely manner to be placed on agendas as needed. Staff expects to have follow up sessions and those sessions will be held at Chino Basin Watermaster office or a near by facility locally. Ms. Rose inquired as to how many people are going to be invited. Mr. Manning stated the agencies who are a part of the Watermaster family and their board of directors also the agencies who have an influence on what we are doing at Watermaster, the total count of invitees could be very large. Ms. Rose inquired as to how many from Watermaster will be attending. Mr. Manning stated the majority of our key staff will be attendance. Ms. Rose asked if it will cost to attend the conference and Mr. Manning stated there will be a charge to attend. A discussion ensued with regard to the conference. Chair Willis suggested that the area of governance and policy resolution be discussed at the conference. Mr. Manning stated this item will be discussed with regard to processes.

3. Personnel Committee Update

Mr. Manning stated part of this item was covered under the budget presentation. The second part is the CEO evaluation going on through the Personnel Committee; they are still meeting on this item. Mr. Manning noted Watermaster contracted with a new consultant this year by the name of Mathis and Associates who deal with cities and water districts around the country on issues dealing with personnel and recruitment. Mathis and Associates is currently working with the Personnel Committee on both the surveys that were needed for the health issues and on the CEO evaluation.

4. GAMA Presentation by Robert Kent, California Water Science Center

Mr. Manning stated that Mr. Belitz and Mr. Kent from USGS gave a detailed presentation at the May Appropriative & Non-Agricultural pool meeting. USGS is scheduled to be in the Chino Basin in fall to begin their work. A public workshop will be held prior to the start of their project so that people will be given an opportunity to have input on how the process will be monitored and how information will be dealt with. Their presentation was very informative and it did allow dialog to start between USGS and the Chino Basin.

5. Storm Water/Recharge Update

Mr. Treweek stated through the end of April we have recharged 36,000 acre-feet of storm water, imported, and recycled water. April was a very good water month and in that month alone there were over 5,000 acre-feet of water recharged.

Chino Basin Watermaster in conjunction with Inland Empire Utilities Agency has decided to pursue Hansen Aggregates (a sand and gravel operation) to repair the damage that their discharges did to our Lower Day Basin. Over the winter Hansen Aggregates discharged silt which went into the Lower Day Basin and the damage from that silt discharge is about a half a million dollars. Staff has met with IEUA and they are going to draft a demand letter to Hansen Aggregates. Staff feels we have very good evidence that it was their discharge that caused the basin damage. Mr. Manning stated CBWM's position is Hansen Aggregates can either voluntarily participate in the clean up or we can go to the Regional Board and they can force clean up.

6. Inland Empire Public Affairs Network (IEPAN) Update

Jerry Silva with Southern California Edison and Mr. Manning are involved with setting up this event. This is a public affairs network that is involved with trying to bring speakers who are policy makers both in the State of California and the federal government to the policy decision people within the Inland Empire and allow them to speak directly to each other. Our first luncheon is Friday, June 2, with the guest speaker being Fred Aguiar; he is going to be talking about the State of California and the governor's proposals. IEPAN will be holding quarterly luncheons and the next speaker for September is Gary Miller. The intention behind IEPAN is to try and bring into the basin on a regular basis those people who are helping set policy within this country and state.

7. Legislative/Bond Update

Mr. Manning stated he was in Sacramento on May 24, 2006 and had a chance to facilitate a meeting with the Southern California Water Committee and Senator Perada's office. This meeting was to attempt to get a feel for where Senator Perada's water issues will go given the fact it was not part of this year's bond package. We were also able to the Simitian Bill. Senator Perada was very positive with regard to the Simitian Bill. Several other meetings took place regarding water policy which opened doors for good conversation on where we are at in the water policy issues process. These meetings were especially interesting because they combined staff from the Southern California Water Committee and the Bay Area Counsel. Mr. Manning stated he felt it was a very progressive day and was a good start; we are committed to having these types of meetings on a regular basis.

Mr. Manning stated he recently received an email regarding SB 1795 having to do with the changes within the bill regarding recharge. The changes are advantageous in the Chino Basin.

Mr. Vanden Heuvel offered comment on legislative issues and thanked Mr. Manning for his recent efforts in Sacramento.

IV. INFORMATION

1. Newspaper Articles

No comment was made regarding this item.

V. BOARD MEMBER COMMENTS

Mr. Vanden Heuvel stated he would like to see the production for Desalter 1 on future agendas and offered comment on the minutes from the October 25, 2001 Board meeting regarding desalters.

This is a very important issue and will require some serious staff work. Mr. Vanden Heuvel requested this item be explored and to be on the June agenda if at all possible.

VI. OTHER BUSINESS

No comment was made regarding this item.

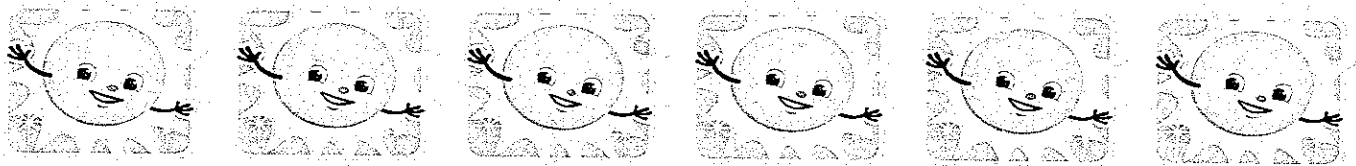
VII. FUTURE MEETINGS

May 23, 2006	9:00 a.m.	GRCC Committee Meeting
May 25, 2006	9:00 a.m.	Advisory Committee Meeting
May 25, 2006	11:00 a.m.	Watermaster Board Meeting
June 8, 2006	10:00 a.m.	Appropriative & Non-Agricultural Pool Meeting
June 20, 2006	9:00 a.m.	Agricultural Pool Meeting @ IEUA
June 22, 2006	9:00 a.m.	Advisory Committee Meeting
June 22, 2006	11:00 a.m.	Watermaster Board Meeting

The Watermaster Board Meeting Adjourned at 12:50 p.m.

Secretary: _____

Minutes Approved: _____



CHINO BASIN WATERMASTER

I. CONSENT CALENDAR

B. FINANCIAL REPORTS

1. Cash Disbursements for the month of May 2006
2. Combining Schedule of Revenue, Expenses and Changes in Working Capital for the Period July 1, 2005 through April, 2006
3. Treasurer's Report of Financial Affairs for the Period April 1, 2006 through April 30, 2006
4. Profit & Loss Budget vs. Actual July through April 2006





CHINO BASIN WATERMASTER

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KENNETH R. MANNING
Chief Executive Officer

STAFF REPORT

DATE: June 8, 2006
June 20, 2006
June 22, 2006

TO: Committee Members
Watermaster Board Members

SUBJECT: Cash Disbursement Report – May 2006

SUMMARY

Issue – Record of cash disbursements for the month of May 2006.

Recommendation – Staff recommends the Cash Disbursements for May 2006 be received and filed as presented.

Fiscal Impact – All funds disbursed were included in the FY 2005-06 Watermaster Budget.

BACKGROUND

A monthly cash disbursement report is provided to keep all members apprised of Watermaster expenditures.

DISCUSSION

Total cash disbursements during the month of May 2006 were \$1,956,019.33. The most significant expenditures during the month were Wildermuth Environmental Inc. in the amount of \$229,353.78 and Hatch and Parent in the amount of \$65,987.68.

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CHINO BASIN WATERMASTER
Cash Disbursement Detail Report
May 2006

Type	Date	Num	Name	Amount
May 06				
Bill Pmt -Check	5/2/2006	10458	VIP AUTO DETAILING	-399.40
Bill Pmt -Check	5/4/2006	10459	ANDERSON, JOHN	-125.00
Bill Pmt -Check	5/4/2006	10460	APPLIED COMPUTER TECHNOLOGIES	-2,063.20
Bill Pmt -Check	5/4/2006	10461	BOWCOCK, ROBERT	-375.00
Bill Pmt -Check	5/4/2006	10462	COSTCO	-426.06
Bill Pmt -Check	5/4/2006	10463	CUCAMONGA VALLEY WATER DISTRICT	-5,076.00
Bill Pmt -Check	5/4/2006	10464	DIRECTV	-74.98
Bill Pmt -Check	5/4/2006	10465	HAMRICK, PAUL	-375.00
Bill Pmt -Check	5/4/2006	10466	INLAND COUNTIES INSURANCE SERVICES, INC.	-238.57
Bill Pmt -Check	5/4/2006	10467	INLAND EMPIRE UTILITIES AGENCY	-507,306.10
Bill Pmt -Check	5/4/2006	10468	KUHN, BOB	-375.00
Bill Pmt -Check	5/4/2006	10469	LOS ANGELES TIMES	-42.40
Bill Pmt -Check	5/4/2006	10470	MEDIA JIM	-975.00
Bill Pmt -Check	5/4/2006	10471	MONTE VISTA WATER DIST	-375.00
Bill Pmt -Check	5/4/2006	10472	PAYCHEX	-180.38
Bill Pmt -Check	5/4/2006	10473	PURCHASE POWER	-2,016.99
Bill Pmt -Check	5/4/2006	10474	THE FURMAN GROUP, INC.	-2,648.00
Bill Pmt -Check	5/4/2006	10475	UNION 76	-141.84
Bill Pmt -Check	5/4/2006	10476	UNITEK TECHNOLOGY INC.	-16,377.77
Bill Pmt -Check	5/4/2006	10477	VANDEN HEUVEL, GEOFFREY	-250.00
Bill Pmt -Check	5/4/2006	10478	VELASQUEZ JANITORIAL	-1,200.00
Bill Pmt -Check	5/4/2006	10479	VERIZON	-425.43
Bill Pmt -Check	5/4/2006	10480	WILLIS, KENNETH	-500.00
Bill Pmt -Check	5/4/2006	10481	YUKON DISPOSAL SERVICE	-134.72
Bill Pmt -Check	5/11/2006	10482	INLAND EMPIRE UTILITIES AGENCY	-399,761.00
Bill Pmt -Check	5/11/2006	10483	LAYNE CHRISTENSEN COMPANY	-90,630.00
Bill Pmt -Check	5/15/2006	10484	ACWA SERVICES CORPORATION	-234.16
Bill Pmt -Check	5/15/2006	10485	BANK OF AMERICA	-1,587.63
Bill Pmt -Check	5/15/2006	10486	COMPUSA, INC.	-3,064.35
Bill Pmt -Check	5/15/2006	10487	HATCH AND PARENT	-65,987.68
Bill Pmt -Check	5/15/2006	10488	INLAND EMPIRE UTILITIES AGENCY	-80.00
Bill Pmt -Check	5/15/2006	10489	MATHIS & ASSOCIATES	-6,656.00
Bill Pmt -Check	5/15/2006	10490	MAYER HOFFMAN MC CANN P.C.	-85.00
Bill Pmt -Check	5/15/2006	10491	MCI	-908.17
Bill Pmt -Check	5/15/2006	10492	PARK PLACE COMPUTER SOLUTIONS, INC.	-2,805.00
Bill Pmt -Check	5/15/2006	10493	PETTY CASH	-408.74
Bill Pmt -Check	5/15/2006	10494	PREMIERE GLOBAL SERVICES	-29.08
Bill Pmt -Check	5/15/2006	10495	REID & HELLYER	-9,902.35
Bill Pmt -Check	5/15/2006	10496	RICOH BUSINESS SYSTEMS-Lease	-4,500.14
Bill Pmt -Check	5/15/2006	10497	STANTEC CONSULTING, INC.	-225.00
Bill Pmt -Check	5/15/2006	10498	UNITED PARCEL SERVICE	-367.06
Bill Pmt -Check	5/15/2006	10499	RICOH BUSINESS SYSTEMS-Maintenance	-985.08
Bill Pmt -Check	5/15/2006	10500	CAFE CALATO	-315.17
General Journal	5/15/2006	06/05/3	PAYROLL	-5,585.41
General Journal	5/15/2006	06/05/3	PAYROLL	-20,382.72
Bill Pmt -Check	5/16/2006	10501	CITISTREET	-5,550.00
Bill Pmt -Check	5/16/2006	10502	PUBLIC EMPLOYEES' RETIREMENT SYSTEM	-6,727.80
Bill Pmt -Check	5/16/2006	10503	PUBLIC EMPLOYEES' RETIREMENT SYSTEM	-6,347.06
Bill Pmt -Check	5/16/2006	10504	PUBLIC EMPLOYEES' RETIREMENT SYSTEM	-425.30
Bill Pmt -Check	5/18/2006	10505	COMPUSA, INC.	-94.81
Bill Pmt -Check	5/18/2006	10506	ELLISON, SCHNEIDER & HARRIS, LLP	-7,993.00
Bill Pmt -Check	5/18/2006	10507	INLAND EMPIRE UTILITIES AGENCY	-510,000.00
Bill Pmt -Check	5/18/2006	10508	RAUCH COMMUNICATION CONSULTANTS, LLC	-5,146.43
Bill Pmt -Check	5/18/2006	10509	STATE COMPENSATION INSURANCE FUND	-86.64
Bill Pmt -Check	5/18/2006	10510	STAULA, MARY L	-136.61
Bill Pmt -Check	5/18/2006	10511	WILDERMUTH ENVIRONMENTAL INC	-229,353.78
Bill Pmt -Check	5/18/2006	10512	STATE COMPENSATION INSURANCE FUND	-791.71
Bill Pmt -Check	5/19/2006	10513	CAFE CALATO	-102.90
Bill Pmt -Check	5/22/2006	10514	ONO HAWAIIAN BBQ	-171.27
Bill Pmt -Check	5/23/2006	10515	MEDIA JIM	-160.00
Bill Pmt -Check	5/30/2006	10516	PETTY CASH	-437.01
General Journal	5/30/2006	06/05/5	PAYROLL	-5,891.31
General Journal	5/30/2006	06/05/5	PAYROLL	-20,002.12
May 06				<u><u>-1,956,019.33</u></u>

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CHINO BASIN WATERMASTER
 COMBINING SCHEDULE OF REVENUE, EXPENSES AND CHANGES IN WORKING CAPITAL
 FOR THE
 PERIOD JULY 1, 2005 THROUGH APRIL 30, 2006

	WATERMASTER ADMINISTRATION	OPTIMUM BASIN MANAGEMENT	POOL ADMINISTRATION AND SPECIAL PROJECTS APPROPRIATIVE POOL	AGRICULTURAL POOL	NON-AGRIC. POOL	GROUNDWATER OPERATIONS GROUNDWATER REPLENISHMENT	SB222 FUNDS	EDUCATION FUNDS	GRAND TOTALS	BUDGET 2004-05
Administrative Revenues										
Administrative Assessments			4,781,347		66,160				4,847,507	\$3,984,888
Interest Revenue			207,296	13,620	6,304			57	227,277	78,330
Mutual Agency Project Revenue		29,434							29,434	0
Grant Income									-	0
Miscellaneous Income									-	0
Total Revenues	-	29,434	4,988,643	13,620	72,464	-	-	57	5,104,218	4,063,218
Administrative & Project Expenditures										
Watermaster Administration	473,216								473,216	621,784
Watermaster Board-Advisory Committee	46,206								46,206	37,018
Pool Administration			16,893	106,222	3,661				126,776	91,153
Optimum Basin Mgmt Administration		1,142,160							1,142,160	1,019,183
OBMP Project Costs		1,845,653							1,845,653	3,733,694
Education Funds Use								375	375	375
Mutual Agency Project Costs	26,773								26,773	80,004
Total Administrative/OBMP Expenses	546,195	2,987,813	16,893	106,222	3,661			375	3,661,159	5,583,211
Net Administrative/OBMP Income	(546,195)	(2,958,379)								
Allocate Net Admin Income To Pools	546,195		424,148	114,326	7,722				-	0
Allocate Net OBMP Income To Pools		2,958,379	2,297,328	619,227	41,824				-	0
Agricultural Expense Transfer			833,625	(833,625)					-	0
Total Expenses			3,571,994	6,150	53,206	-	-	375	3,661,159	5,583,211
Net Administrative Income			1,416,649	7,470	19,258			(318)	1,443,059	(1,519,993)
Other Income/(Expense)										
Replenishment Water Purchases						6,635,065			6,635,065	0
MZ1 Supplemental Water Assessments									-	2,179,500
Water Purchases									-	0
MZ1 Imported Water Purchase									-	(2,278,500)
Groundwater Replenishment						(6,896,667)			(6,896,667)	0
Net Other Income						(261,602)			(261,602)	(99,000)
Net Transfers To/(From) Reserves			1,416,649	7,470	19,258	(261,602)		(318)	1,181,457	(1,618,993)
Working Capital, July 1, 2005			4,450,869	464,653	187,298	3,580,499	158,251	2,238	8,843,808	
Working Capital, End Of Period			5,867,518	472,123	206,556	3,318,897	158,251	1,920	10,025,265	
04/05 Production			127,810.967	34,450.449	2,326.836				164,588.252	
04/05 Production Percentages			77.655%	20.931%	1.414%				100.000%	

CHINO BASIN WATERMASTER
 COMBINING SCHEDULE OF REVENUE, EXPENSES AND CHANGES IN WORKING CAPITAL
 FOR THE
 PERIOD JULY 1, 2005 THROUGH APRIL 30, 2006

	WATERMASTER ADMINISTRATION	OPTIMUM BASIN MANAGEMENT	POOL ADMINISTRATION AND SPECIAL PROJECTS APPROPRIATIVE POOL	AGRICULTURAL POOL	NON-AGRIC. POOL	GROUNDWATER OPERATIONS GROUNDWATER REPLENISHMENT	SB222 FUNDS	EDUCATION FUNDS	GRAND TOTALS	BUDGET 2004-05
Administrative Revenues										
Administrative Assessments			4,781,347		66,160				4,847,507	\$3,984,888
Interest Revenue			207,296	13,620	6,304			57	227,277	78,330
Mutual Agency Project Revenue		29,434							29,434	0
Grant Income									-	0
Miscellaneous Income									-	0
Total Revenues	-	29,434	4,988,643	13,620	72,464	-	-	57	5,104,218	4,063,218
Administrative & Project Expenditures										
Watermaster Administration	473,216								473,216	621,784
Watermaster Board-Advisory Committee	46,206								46,206	37,018
Pool Administration			16,893	106,222	3,661				126,776	91,153
Optimum Basin Mgmt Administration		1,142,160							1,142,160	1,019,183
OBMP Project Costs		1,845,653							1,845,653	3,733,694
Education Funds Use								375	375	375
Mutual Agency Project Costs	26,773								26,773	80,004
Total Administrative/OBMP Expenses	546,195	2,987,813	16,893	106,222	3,661			375	3,661,159	5,583,211
Net Administrative/OBMP Income	(546,195)	(2,958,379)								
Allocate Net Admin Income To Pools	546,195		424,148	114,326	7,722				-	0
Allocate Net OBMP Income To Pools		2,958,379	2,297,328	619,227	41,824				-	0
Agricultural Expense Transfer			833,625	(833,625)					-	0
Total Expenses			3,571,994	6,150	53,206	-	-	375	3,661,159	5,583,211
Net Administrative Income			1,416,649	7,470	19,258			(318)	1,443,059	(1,519,993)
Other Income/(Expense)										
Replenishment Water Purchases						6,635,065			6,635,065	0
MZ1 Supplemental Water Assessments									-	2,179,500
Water Purchases									-	0
MZ1 Imported Water Purchase									-	(2,278,500)
Groundwater Replenishment						(6,896,667)			(6,896,667)	0
Net Other Income						(261,602)			(261,602)	(99,000)
Net Transfers To/(From) Reserves			1,416,649	7,470	19,258	(261,602)		(318)	1,181,457	(1,618,993)
Working Capital, July 1, 2005			4,450,869	464,653	187,298	3,580,499	158,251	2,238	8,843,808	
Working Capital, End Of Period			5,867,518	472,123	206,556	3,318,897	158,251	1,920	10,025,265	
04/05 Production			127,810.967	34,450.449	2,326.836				164,588.252	
04/05 Production Percentages			77.655%	20.931%	1.414%				100.000%	

**CHINO BASIN WATERMASTER
TREASURER'S REPORT OF FINANCIAL AFFAIRS FOR THE PERIOD
APRIL 1 THROUGH APRIL 30, 2006**

DEPOSITORIES:

Cash on Hand - Petty Cash			\$	500
Bank of America				
Governmental Checking-Demand Deposits	\$	152,857		
Savings Deposits		9,697		
Zero Balance Account - Payroll		-		162,554
Vineyard Bank CD - Agricultural Pool				419,039
Local Agency Investment Fund - Sacramento				10,555,983
				<hr/>
TOTAL CASH IN BANKS AND ON HAND				\$ 11,138,076
TOTAL CASH IN BANKS AND ON HAND	4/30/2006			11,490,724
	3/31/2006			
PERIOD INCREASE (DECREASE)				<u>\$ (352,648)</u>

CHANGE IN CASH POSITION DUE TO:

Decrease/(Increase) in Assets: Accounts Receivable			\$	110,417
Assessments Receivable				141
Prepaid Expenses, Deposits & Other Current Assets				(17,886)
(Decrease)/Increase in Liabilities: Accounts Payable				740,120
Accrued Payroll, Payroll Taxes & Other Current Liabilities				574
Transfer to/(from) Reserves				(1,186,014)
				<hr/>
PERIOD INCREASE (DECREASE)				<u>\$ (352,648)</u>

SUMMARY OF FINANCIAL TRANSACTIONS:

		Petty Cash		Gov't'l Checking Demand		Zero Balance Account Payroll		Savings		Vineyard Bank		Local Agency Investment Funds		Totals
Balances as of 3/31/2006	\$	500	\$	117,151	\$	25,423	\$	9,697	\$	417,810	\$	10,945,566	\$	11,516,147
Deposits		-		141		-		-		1,229		110,417		111,787
Transfers		-		447,928		52,072		-		-		(500,000)		-
Withdrawals/Checks		-		(412,363)		(52,072)		-		-		-		(464,435)
														<hr/>
Balances as of 4/30/2006	\$	500	\$	152,857	\$	25,423	\$	9,697	\$	419,039	\$	10,555,983	\$	11,163,499
		-		-		25,423		-		-		-		<hr/>
PERIOD INCREASE OR (DECREASE)	\$	-	\$	35,706	\$	-	\$	-	\$	1,229	\$	(389,583)	\$	<u>(352,648)</u>

**CHINO BASIN WATERMASTER
TREASURER'S REPORT OF FINANCIAL AFFAIRS FOR THE PERIOD
APRIL 1 THROUGH APRIL 30, 2006**

INVESTMENT TRANSACTIONS

Effective Date	Transaction	Depository	Activity	Redeemed	Days to Maturity	Interest Rate(*)	Maturity Yield
4/15/2006	Withdrawal		\$ (500,000)				
4/13/2006	Interest		\$ 110,417				
TOTAL INVESTMENT TRANSACTIONS			\$ (389,583)	-			

* The earnings rate for L.A.I.F. is a daily variable rate; 4.03% was the effective yield rate at the Quarter ended March 31, 2006

**INVESTMENT STATUS
April 30, 2006**

<u>Financial Institution</u>	<u>Principal Amount</u>	<u>Number of Days</u>	<u>Interest Rate</u>	<u>Maturity Date</u>
Local Agency Investment Fund	\$ 10,555,983			
TOTAL INVESTMENTS	\$ 10,555,983			

Funds on hand are sufficient to meet all foreseen and planned Administrative and project expenditures during the next six months.

All investment transactions have been executed in accordance with the criteria stated in Chino Basin Watermaster's Investment Policy.

Respectfully submitted,



Sheri M. Rojo, CPA
Chief Financial Officer & Assistant General Manager
Chino Basin Watermaster

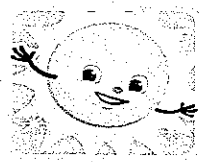
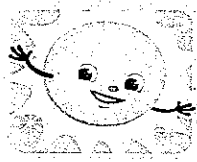
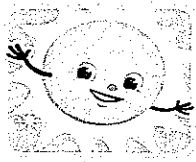
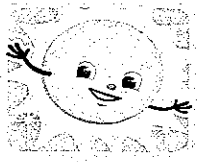
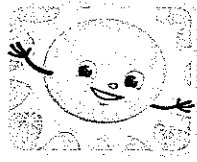
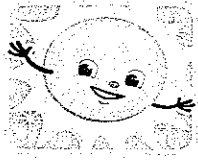
CHINO BASIN WATERMASTER
Profit & Loss Budget vs. Actual
July 2005 through April 2006

	<u>Jul '05 - Apr 06</u>	<u>Budget</u>	<u>\$ Over Budget</u>	<u>% of Budget</u>
Ordinary Income/Expense				
Income				
4010 · Local Agency Subsidies	29,434.38	132,000.00	-102,565.62	22.3%
4110 · Admin Asmnts-Approp Pool	4,781,346.88	4,804,121.00	-22,774.12	99.53%
4120 · Admin Asmnts-Non-Agri Pool	66,160.17	73,425.00	-7,264.83	90.11%
4700 · Non Operating Revenues	227,277.13	78,330.00	148,947.13	290.15%
Total Income	<u>5,104,218.56</u>	<u>5,087,876.00</u>	<u>16,342.56</u>	<u>100.32%</u>
Gross Profit	5,104,218.56	5,087,876.00	16,342.56	100.32%
Expense				
6010 · Salary Costs	388,368.26	404,153.00	-15,784.74	96.09%
6020 · Office Building Expense	67,411.15	97,850.00	-30,438.85	68.89%
6030 · Office Supplies & Equip.	42,664.69	47,500.00	-4,835.31	89.82%
6040 · Postage & Printing Costs	66,185.81	75,700.00	-9,514.19	87.43%
6050 · Information Services	92,326.56	103,500.00	-11,173.44	89.2%
6060 · Contract Services	30,619.69	130,500.00	-99,880.31	23.46%
6080 · Insurance	18,676.80	24,210.00	-5,533.20	77.15%
6110 · Dues and Subscriptions	10,596.95	14,000.00	-3,403.05	75.69%
6140 · WM Admin Expenses	2,369.58	6,500.00	-4,130.42	36.46%
6150 · Field Supplies	-1,751.96	4,050.00	-5,801.96	-43.26%
6170 · Travel & Transportation	50,644.99	45,200.00	5,444.99	112.05%
6190 · Conferences & Seminars	15,548.65	17,500.00	-1,951.35	88.85%
6200 · Advisory Comm - WM Board	11,243.53	14,082.00	-2,838.47	79.84%
6300 · Watermaster Board Expenses	34,962.41	29,782.00	5,180.41	117.39%
8300 · Appr PI-WM & Pool Admin	16,892.56	15,347.00	1,545.56	110.07%
8400 · Agri Pool-WM & Pool Admin	16,525.38	18,756.00	-2,230.62	88.11%
8467 · Agri-Pool Legal Services	81,047.10	45,000.00	36,047.10	180.11%
8470 · Ag Meeting Attend -Special	8,650.00	10,000.00	-1,350.00	86.5%
8500 · Non-Ag PI-WM & Pool Admin	3,660.74	7,423.00	-3,762.26	49.32%
6500 · Education Funds Use Expens	375.00	375.00	0.00	100.0%
9500 · Allocated G&A Expenditures	<u>-310,445.21</u>	<u>-378,284.00</u>	<u>67,838.79</u>	<u>82.07%</u>
	646,572.68	733,144.00	-86,571.32	88.19%
6900 · Optimum Basin Mgmt Plan	1,038,286.66	996,767.00	41,519.66	104.17%
6950 · Mutual Agency Projects	26,773.00	75,000.00	-48,227.00	35.7%
9501 · G&A Expenses Allocated-OBMP	<u>103,873.02</u>	<u>109,541.00</u>	<u>-5,667.98</u>	<u>94.83%</u>
	1,168,932.68	1,181,308.00	-12,375.32	98.95%
7101 · Production Monitoring	68,480.38	68,755.00	-274.62	99.6%
7102 · In-line Meter Installation	56,245.66	97,954.00	-41,708.34	57.42%
7103 · Grdwtr Quality Monitoring	66,434.63	66,503.00	-68.37	99.9%
7104 · Gdwtr Level Monitoring	126,648.87	184,812.00	-58,163.13	68.53%
7105 · Sur Wtr Qual Monitoring	13,223.48	90,223.00	-76,999.52	14.66%
7106 · Wtr Level Sensors Install	0.00	5,734.00	-5,734.00	0.0%
7107 · Ground Level Monitoring	231,309.45	554,825.00	-323,515.55	41.69%
7108 · Hydraulic Control Monitoring	290,191.50	495,368.00	-205,176.50	58.58%
7109 · Recharge & Well Monitoring Prog	226,096.30	133,061.00	93,035.30	169.92%

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06/01/06
Accrual Basis

CHINO BASIN WATERMASTER
Profit & Loss Budget vs. Actual
July 2005 through April 2006

	<u>Jul '05 - Apr 06</u>	<u>Budget</u>	<u>\$ Over Budget</u>	<u>% of Budget</u>
7200 · PE2- Comp Recharge Pgm	276,896.35	759,105.00	-482,208.65	36.48%
7300 · PE3&5-Water Supply/Desalte	338.93	12,548.00	-12,209.07	2.7%
7400 · PE4- Mgmt Plan	195,178.21	1,081,014.00	-885,835.79	18.06%
7500 · PE6&7-CoopEfforts/SaltMgmt	81,188.46	255,769.00	-174,580.54	31.74%
7600 · PE8&9-StorageMgmt/Conj Use	6,848.56	77,268.00	-70,419.44	8.86%
7690 · Recharge Improvement Debt Pymt	0.00	300,000.00	-300,000.00	0.0%
7700 · Inactive Well Protection Prgm	0.00	12,128.00	-12,128.00	0.0%
9502 · G&A Expenses Allocated-Projects	206,572.18	268,742.00	-62,169.82	76.87%
	<u>1,845,652.96</u>	<u>4,463,809.00</u>	<u>-2,618,156.04</u>	<u>41.35%</u>
Total Expense	<u>3,661,158.32</u>	<u>6,378,261.00</u>	<u>-2,717,102.68</u>	<u>57.4%</u>
Net Ordinary Income	<u>1,443,060.24</u>	<u>-1,290,385.00</u>	<u>2,733,445.24</u>	<u>-111.83%</u>
Other Income/Expense				
Other Income				
4231 · MZ1 Assigned Water Sales	0.00	600,000.00	-600,000.00	0.0%
4210 · Approp Pool-Replenishment	6,635,065.45	0.00	6,635,065.45	
Total Other Income	<u>6,635,065.45</u>	<u>600,000.00</u>	<u>6,035,065.45</u>	<u>1,105.84%</u>
Other Expense				
5010 · Groundwater Replenishment	6,896,667.10	699,000.00	6,197,667.10	986.65%
9999 · To/(From) Reserves	1,181,458.59	-1,389,385.00	2,570,843.59	-85.04%
Total Other Expense	<u>8,078,125.69</u>	<u>-690,385.00</u>	<u>8,768,510.69</u>	<u>-1,170.09%</u>
Net Other Income	<u>-1,443,060.24</u>	<u>1,290,385.00</u>	<u>-2,733,445.24</u>	<u>-111.83%</u>
Net Income	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.0%</u>

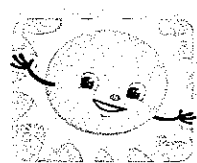
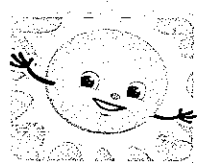
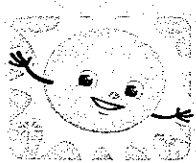
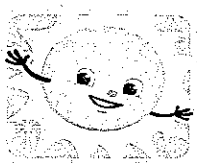


CHINO BASIN WATERMASTER

I. CONSENT CALENDAR

C. WATER TRANSACTIONS

1. Notice of Sale or Transfer – Fontana Water Company has agreed to purchase from The Nicholson Trust water in storage in the amount of 0.623 acre-feet and annual production rights in the amount of 8.000 acre-feet.
2. Notice of Sale or Transfer – Fontana Water Company has agreed to purchase from West Valley Water District water in storage in the amount of 2,000 acre-feet.



CHINO BASIN WATERMASTER

NOTICE

OF

APPLICATION(S)

RECEIVED FOR

WATER TRANSACTIONS – ACTIVITIES

Date of Notice:

April 19, 2006

This notice is to advise interested persons that the attached application(s) will come before the Watermaster Board on or after 30 days from the date of this notice.

NOTICE OF APPLICATION(S) RECEIVED

Date of Application: **April 14, 2006**

Date of this notice: **April 19, 2006**

Please take notice that the following Application has been received by Watermaster:

- A. Notice of Sale or Transfer – Fontana Water Company has agreed to purchase from The Nicholson Trust water in storage in the amount of 0.623 acre-feet and annual production right in the amount of 8.000 acre-feet.

This *Application* will first be considered by each of the respective pool committees on the following dates:

Appropriative Pool: May 11, 2006

Non-Agricultural Pool: May 11, 2006

Agricultural Pool: May 16, 2006

This *Application* will be scheduled for consideration by the Advisory Committee *no earlier than thirty days from the date of this notice and a minimum of twenty-one calendar days* after the last pool committee reviews it.

After consideration by the Advisory Committee, the *Application* will be considered by the Board.

Unless the *Application* is amended, parties to the Judgment may file *Contests* to the *Application* with Watermaster *within seven calendar days* of when the last pool committee considers it. Any *Contest* must be in writing and state the basis of the *Contest*.

Watermaster address:

Chino Basin Watermaster
9641 San Bernardino Road
Rancho Cucamonga, CA 91730

Tel: (909) 484-3888
Fax: (909) 484-3890

CHINO BASIN WATERMASTER

NOTICE OF TRANSFER OF WATER

Notification Dated: April 19, 2006

A party to the Judgment has submitted a proposed transfer of water for Watermaster approval. Unless contrary evidence is presented to Watermaster that overcomes the rebuttable presumption provided in Section 5.3(b)(iii) of the Peace Agreement, Watermaster must find that there is "no material physical injury" and approve the transfer. Watermaster staff is not aware of any evidence to suggest that this transfer would cause material physical injury and hereby provides this notice to advise interested persons that this transfer will come before the Watermaster Board on or after 30 days from the date of this notice. The attached staff report will be included in the meeting package at the time the transfer begins the Watermaster process (comes before Watermaster).

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CHINO BASIN WATERMASTER

9641 San Bernardino Road, Rancho Cucamonga, Ca 91730
Tel: (909) 484.3888 Fax: (909) 484-3890 www.cbwm.org

KENNETH R. MANNING
CHIEF EXECUTIVE OFFICER

DATE: April 19, 2006
TO: Watermaster Interested Parties
SUBJECT: Summary and Analysis of Application for Water Transaction

Summary -

There does not appear to be a potential material physical injury to a party or to the basin from the proposed transaction as presented.

Issue -

- Notice of Sale or Transfer – Fontana Water Company has agreed to purchase from The Nicholson Trust water in storage in the amount of 0.623 acre-feet and annual production right in the amount of 8.000 acre -feet.

Recommendation –

1. Continue monitoring as planned in the Optimum Basin Management Program.
2. Use all new or revised information when analyzing the hydrologic balance and report to Watermaster if a potential for material physical injury is discovered, and
3. Approve the transaction as presented.

Fiscal Impact –

- None
- Reduces assessments under the 85/15 rule
- Reduce desalter replenishment costs

Background

The Court approved the Peace Agreement, the Implementation Plan and the goals and objectives identified in the OBMP Phase I Report on July 13, 2000, and ordered Watermaster to proceed in a manner consistent with the Peace Agreement. Under the Peace Agreement, Watermaster approval is required for applications to store, recapture, recharge or transfer water, as well as for applications for credits or reimbursements and storage and recovery programs.

Where there is no material physical injury, Watermaster must approve the transaction. Where the request for Watermaster approval is submitted by a party to the Judgment, there is a rebuttable presumption that most of the transactions do not result in Material Physical Injury to a party to the Judgment or the Basin (Storage and Recovery Programs do not have this presumption).

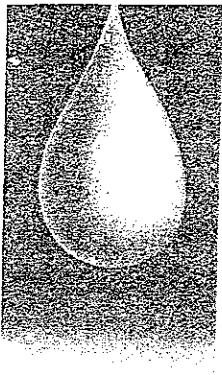
The following application for water transaction is attached with the notice of application.

- Notice of Sale or Transfer – Fontana Water Company has agreed to purchase from The Nicholson Trust water in storage in the amount of 0.623 acre-feet and annual production right in the amount of 8.000 acre -feet.

Notice of the water transaction identified above was mailed on April 19, 2006 along with the materials submitted by the requestors.

DISCUSSION

Water transactions occur each year and are included as production by the respective entity (if produced) in any relevant analyses conducted by Wildermuth Environmental pursuant to the Peace Agreement and the Rules & Regulations. There is no indication additional analysis regarding this transaction is necessary at this time. As part of the OBMP Implementation Plan, continued measurement of water levels and the installation of extensometers are planned. Based on no real change in the available data, we cannot conclude that the proposed water transaction will cause material physical injury to a party or to the Basin.



FONTANA WATER COMPANY

A DIVISION OF SAN GABRIEL VALLEY WATER COMPANY

8440 NUEVO AVENUE • P.O. BOX 987, FONTANA, CALIFORNIA 92334 • (909) 822-2201

April 14, 2006

Mr. Kenneth R. Manning, Chief Executive Officer
Chino Basin Watermaster
9641 San Bernardino Road
Rancho Cucamonga, California 91730

Subject: Purchase of Water in Storage
Chino Basin-Fiscal Year 2005/2006

Dear Mr. Manning:

Please take notice that Fontana Water Company ("Company") has agreed to purchase from The Nicholson Trust water in storage and annual production right in the amount of 8.623 acre-feet to satisfy a portion of the Company's anticipated Chino Basin replenishment obligation for Fiscal Year 2005/2006.

Enclosed are fully executed Chino Basin Watermaster Forms No. 3 and 5, along with the company's Recapture Plan for consideration by Watermaster. Please agendaize this proposed transfer at the earliest possible opportunity.

If you should have any question or require additional information concerning this matter, please call me.

Very truly yours,

A handwritten signature in black ink, appearing to read "Michael J. McGraw".

Michael J. McGraw
General Manager

MJM:bf
Enclosures

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APPLICATION FOR
SALE OR TRANSFER OR RIGHT TO PRODUCE WATER FROM STORAGE

TRANSFER FROM LOCAL STORAGE AGREEMENT # _____

The Nicholson Trust
Name of Party

April 12, 2006
Date Requested

Date Approved

11142 Garvey Avenue
Street Address

.623 Acre-feet
Amount Requested

Acre-feet
Amount Approved

El Monte CA 91737
City State Zip Code

Telephone: (626) 448-6183

Facsimile: (626) 448-5530

Robert H. Nicholson, Jr.
The Nicholson Trust
Robert H. Nicholson, Jr., Trustee

TRANSFER TO:

Fontana Water Company
Name of Party

Attach Recapture Form 4

8440 Nuevo Avenue
Street Address

Fontana CA 92335
City State Zip Code

Telephone: (909) 822-2201

Facsimile: (909) 823-5046

Have any other transfers been approved by Watermaster
between these parties covering the same fiscal year? Yes [] No [X]

WATER QUALITY AND WATER LEVELS

What is the existing water quality and what are the existing water levels in the areas that are likely to be affected?

MATERIAL PHYSICAL INJURY


Is the Applicant aware of any Material Physical Injury to a party to the judgment or the Basin that
may be caused by the action covered by the application? Yes [] No [X]

If yes, what are the proposed mitigation measures, if any, that might reasonably be imposed to ensure that the
action does not result in Material Physical Injury to a party to the Judgment or the Basin?

N/A

ADDITIONAL INFORMATION ATTACHED

Yes [] No [X]


Michael J. McGraw, General Manager
Fontana Water Company

TO BE COMPLETED BY WATERMASTER:

DATE OF APPROVAL FROM NON-AGRICULTURAL POOL: _____

DATE OF APPROVAL FROM AGRICULTURAL POOL: _____

DATE OF APPROVAL FROM APPROPRIATIVE POOL: _____

HEARING DATE, IF ANY: _____

DATE OF ADVISORY COMMITTEE APPROVAL: _____

DATE OF BOARD APPROVAL: _____ Agreement # _____

APPLICATION TO TRANSFER ANNUAL PRODUCTION RIGHT OR SAFE YIELD

Fiscal Year 2005 - 2006

Commencing on July 1, 2005 and terminating on June 30, 2006, The Nicholson Trust ("Transferor") hereby transfers to Fontana Water Company ("Transferee") the quantity of 8.0 acre-feet of corresponding Annual Production Right (Appropriative Pool) or Safe Yield (Non-Agricultural Pool) adjudicated to Transferor or its predecessor in interest in the Judgment rendered in the Case of "CHINO BASIN MUNICIPAL WATER DISTRICT vs. CITY OF CHINO, et al.," RCV 51010 (formerly Case No. SCV 164327).

Said Transfer shall be conditioned upon:

- (1) Transferee shall exercise said right on behalf of Transferor under the terms of the Judgment and the Peace Agreement and for the period described above. The first water production in any year shall be that produced pursuant to carry-over rights defined in the Judgment. After production of its carry-over rights, if any, the next (or first if no carry-over rights) water produced by Transferee from the Chino Basin shall be that produced hereunder.
(2) Transferee shall put all waters utilized pursuant to said Transfer to reasonable beneficial use.
(3) Transferee shall pay all Watermaster assessments on account of the water production hereby Transferred.
(4) Any Transferee not already a party must intervene and become a party to the Judgment.

TO BE EXECUTED by both Transferor and Transferee, and to be accomplished by a general description of the area where the Transferred water was to be Produced and used prior to the Transfer, and where it will be Produced and used after the Transfer. This general description can be in the form of a map.

WATER QUALITY AND WATER LEVELS

What is the existing water quality and what are the existing water levels in the areas that are likely to be affected?

Recapture by Fontana Water Company accomplished by pumping of 15 wells-static levels vary from 375' to 684'. Of the wells routinely pumped, nitrate levels vary from a low of 8 mg/l to a high of 33 mg/l.

MATERIAL PHYSICAL INJURY?

Is the Applicant aware of any potential Material Physical Injury to a party to the Judgment or the Basin that may be caused by the action covered by the applicant? Yes [] No [X]

If yes, what are the proposed mitigation measures, if any, that might reasonably be imposed to ensure that the action does not result in Material Physical Injury to a party to the Judgment or the Basin?

N/A

ADDITIONAL INFORMATION ATTACHED

Yes [] No [X]

Robert H. Nicholson, Trustee
The Nicholson Trust
Robert H. Nicholson, Jr., Trustee

Michael J. McGraw
Michael J. McGraw, General Manager
Fontana Water Company

TO BE COMPLETED BY WATERMASTER:

DATE OF APPROVAL FROM NON-AGRICULTURAL POOL: _____

DATE OF APPROVAL FROM AGRICULTURAL POOL: _____

DATE OF APPROVAL FROM APPROPRIATIVE POOL: _____

HEARING DATE, IF ANY: _____

DATE OF ADVISORY COMMITTEE APPROVAL: _____

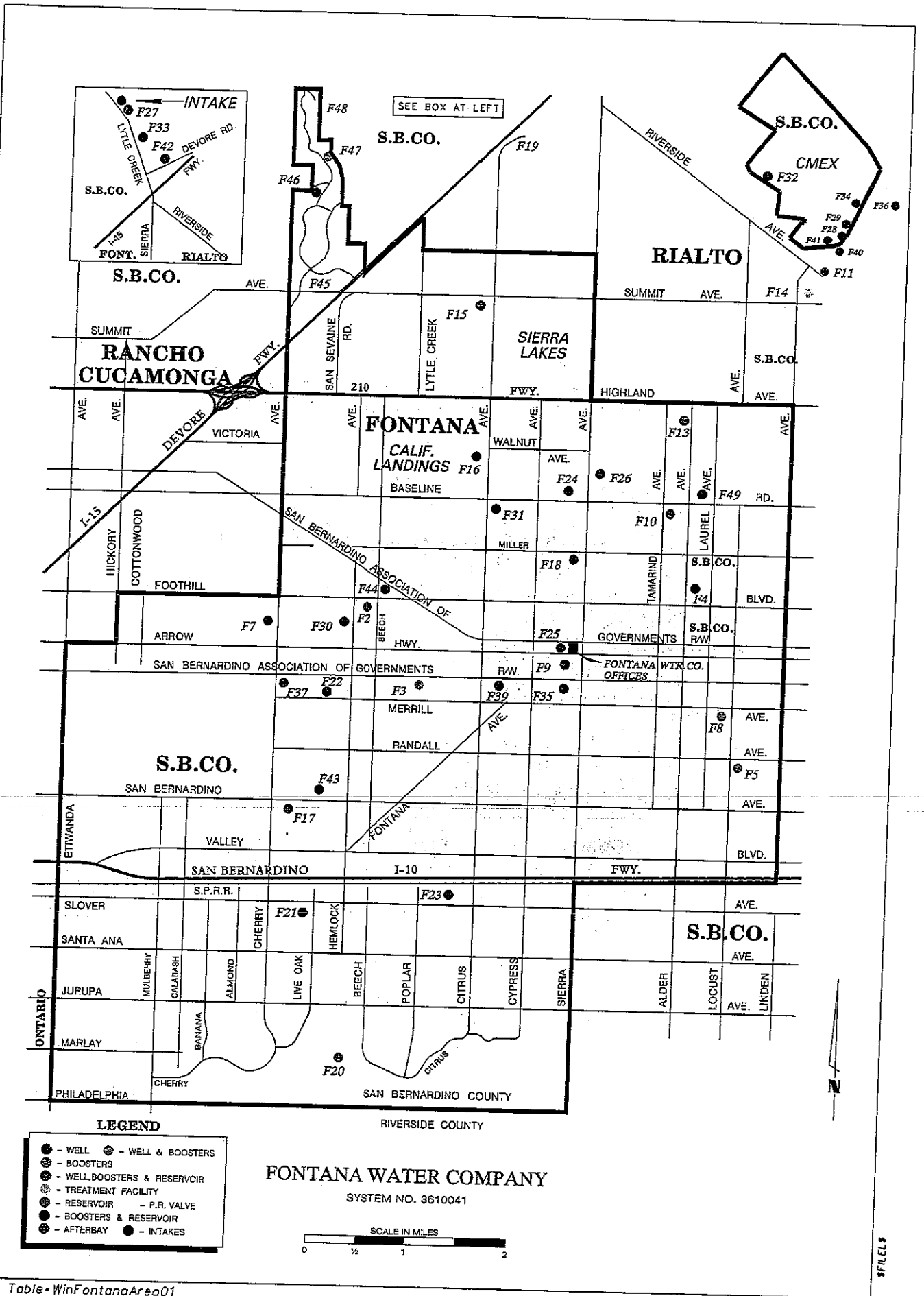
DATE OF BOARD APPROVAL: _____ Agreement # _____

FONTANA WATER COMPANY
Recapture Plan

The subject water is a transfer of stored groundwater and annual production right from The Nicholson Trust to Fontana Water Company (FWC) of 8.623 acre-feet to satisfy a portion of FWC's replenishment obligation for FY 2005/2006. Recapture of the stored water is accomplished by the production of any or all of the 15 wells owned and operated by FWC within Management Zone 3 of the Chino Groundwater Basin. The approximate daily production capacity of these wells is as follows:

<u>Well</u>	<u>Production</u> <u>Acre-Feet/Day</u>
F23A	10.6
F21A	5.7
F37A	5.7
F7A	11.0
F22A	8.2
F24A	8.4
F26A	8.6
F31A	7.3
F2A	10.6
F30A	5.1
F44A	11.0
F44B	10.6
F44C	10.6
F17B	5.7
F17C	7.1
Daily Total	<u>126.2</u>

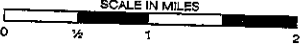
The attached map shows the location of these wells within FWC's service area. Prior to 1992, water produced from the majority of these wells was pumped within Management Zone 3 by Fontana Union Water Company with safe yield rights in the Chino Groundwater Basin. However, as a result of a bankruptcy settlement agreement dated February 7, 1992 all of Fontana Union's Chino Groundwater Basin water, including overlying (agricultural) pool reallocation, is annually transferred to Cucamonga Valley Water District's storage account. Pursuant to the same 1992 bankruptcy settlement agreement, Fontana Water Company acquired Fontana Union's water production wells and continues to produce water from Management Zone 3, in the same manner and for the same purpose as had been done prior to 1992.



- LEGEND**
- - WELL
 - ⊙ - WELL & BOOSTERS
 - ⊛ - BOOSTERS
 - ⊜ - WELL, BOOSTERS & RESERVOIR
 - ⊝ - TREATMENT FACILITY
 - ⊞ - RESERVOIR
 - ⊟ - P.R. VALVE
 - ⊠ - BOOSTERS & RESERVOIR
 - ⊡ - AFTERBAY
 - ⊢ - INTAKES

FONTANA WATER COMPANY

SYSTEM NO. 3610041



CHINO BASIN WATERMASTER

NOTICE

OF

APPLICATION(S)

RECEIVED FOR

WATER TRANSACTIONS – ACTIVITIES

Date of Notice:

April 19, 2006

This notice is to advise interested persons that the attached application(s) will come before the Watermaster Board on or after 30 days from the date of this notice.

NOTICE OF APPLICATION(S) RECEIVED

Date of Application: **April 7, 2006**

Date of this notice: **April 19, 2006**

Please take notice that the following Application has been received by Watermaster:

- A. Notice of Sale or Transfer – Fontana Water Company has agreed to purchase from West Valley Water District water in storage in the amount of 2000 acre-feet.

This *Application* will first be considered by each of the respective pool committees on the following dates:

Appropriative Pool: May 11, 2006

Non-Agricultural Pool: May 11, 2006

Agricultural Pool: May 16, 2006

This *Application* will be scheduled for consideration by the Advisory Committee *no earlier than thirty days from the date of this notice and a minimum of twenty-one calendar days* after the last pool committee reviews it.

After consideration by the Advisory Committee, the *Application* will be considered by the Board.

Unless the *Application* is amended, parties to the Judgment may file *Contests* to the *Application* with Watermaster *within seven calendar days* of when the last pool committee considers it. Any *Contest* must be in writing and state the basis of the *Contest*.

Watermaster address:

Chino Basin Watermaster
9641 San Bernardino Road
Rancho Cucamonga, CA 91730

Tel: (909) 484-3888
Fax: (909) 484-3890

CHINO BASIN WATERMASTER

NOTICE OF TRANSFER OF WATER

Notification Dated: April 19, 2006

A party to the Judgment has submitted a proposed transfer of water for Watermaster approval. Unless contrary evidence is presented to Watermaster that overcomes the rebuttable presumption provided in Section 5.3(b)(iii) of the Peace Agreement, Watermaster must find that there is "no material physical injury" and approve the transfer. Watermaster staff is not aware of any evidence to suggest that this transfer would cause material physical injury and hereby provides this notice to advise interested persons that this transfer will come before the Watermaster Board on or after 30 days from the date of this notice. The attached staff report will be included in the meeting package at the time the transfer begins the Watermaster process (comes before Watermaster).

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CHINO BASIN WATERMASTER

9641 San Bernardino Road, Rancho Cucamonga, Ca 91730
Tel: (909) 484.3888 Fax: (909) 484-3890 www.cbwm.org

KENNETH R. MANNING
CHIEF EXECUTIVE OFFICER

DATE: April 19, 2006
TO: Watermaster Interested Parties
SUBJECT: Summary and Analysis of Application for Water Transaction

Summary -

There does not appear to be a potential material physical injury to a party or to the basin from the proposed transaction as presented.

Issue -

- Notice of Sale or Transfer –Fontana Water Company has agreed to purchase from West Valley Water District water in storage in the amount of 2000 acre -feet.

Recommendation --

1. Continue monitoring as planned in the Optimum Basin Management Program.
2. Use all new or revised information when analyzing the hydrologic balance and report to Watermaster if a potential for material physical injury is discovered, and
3. Approve the transaction as presented.

Fiscal Impact --

- None
- Reduces assessments under the 85/15 rule
- Reduce desalter replenishment costs

Background

The Court approved the Peace Agreement, the Implementation Plan and the goals and objectives identified in the OBMP Phase I Report on July 13, 2000, and ordered Watermaster to proceed in a manner consistent with the Peace Agreement. Under the Peace Agreement, Watermaster approval is required for applications to store, recapture, recharge or transfer water, as well as for applications for credits or reimbursements and storage and recovery programs.

Where there is no material physical injury, Watermaster must approve the transaction. Where the request for Watermaster approval is submitted by a party to the Judgment, there is a rebuttable presumption that most of the transactions do not result in Material Physical Injury to a party to the Judgment or the Basin (Storage and Recovery Programs do not have this presumption).

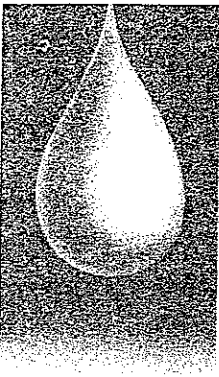
The following application for water transaction is attached with the notice of application.

- Notice of Sale or Transfer – Fontana Water Company has agreed to purchase from West Valley Water District water in storage in the amount of 2000 acre -feet.

Notice of the water transaction identified above was mailed on April 19, 2006 along with the materials submitted by the requestors.

DISCUSSION

Water transactions occur each year and are included as production by the respective entity (if produced) in any relevant analyses conducted by Wildermuth Environmental pursuant to the Peace Agreement and the Rules & Regulations. There is no indication additional analysis regarding this transaction is necessary at this time. As part of the OBMP Implementation Plan, continued measurement of water levels and the installation of extensometers are planned. Based on no real change in the available data, we cannot conclude that the proposed water transaction will cause material physical injury to a party or to the Basin.



FONTANA WATER COMPANY

A DIVISION OF SAN GABRIEL VALLEY WATER COMPANY

8440 NUEVO AVENUE • P.O. BOX 987, FONTANA, CALIFORNIA 92334 • (909) 822-2201

April 7, 2006

RECEIVED

APR 11 2006

CHINO BASIN WATERMASTER

Mr. Kenneth R. Manning, Chief Executive Officer
Chino Basin Watermaster
9641 San Bernardino Road
Rancho Cucamonga, California 91730

Subject: Purchase of Water in Storage
Chino Basin-Fiscal Year 2005/2006

Dear Mr. Manning:

Please take notice that Fontana Water Company ("Company") has agreed to purchase from West Valley Water District water in storage in the amount of 2000 acre-feet to satisfy a portion of the Company's anticipated Chino Basin replenishment obligation for Fiscal Year 2005/2006.

Enclosed are fully executed Chino Basin Watermaster Forms No. 3 and 4, along with the company's Recapture Plan for consideration by Watermaster. Please agendize this proposed transfer at the earliest possible opportunity.

If you should have any question or require additional information concerning this matter, please call me.

Very truly yours,

A handwritten signature in cursive script, appearing to read "Michael J. McGraw".

Michael J. McGraw
General Manager

MJM:bf
Enclosures

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APPLICATION FOR SALE OR TRANSFER OR RIGHT TO PRODUCE WATER FROM STORAGE

TRANSFER FROM LOCAL STORAGE AGREEMENT # _____

West Valley Water District Name of Party March 31, 2006 Date Requested _____ Date Approved _____

855 West Baseline Avenue Street Address 2000 Acre-feet Amount Requested 2000 Acre-feet Amount Approved

Rialto CA 92377 City State Zip Code

Telephone: (909) 875-1804 Facsimile: (909) 875-7284

Anthony W. Araiza, General Manager West Valley Water District

TRANSFER TO:

Fontana Water Company Name of Party

Attach Recapture Form 4

8440 Nuevo Avenue Street Address

Fontana CA 92334 City State Zip Code

Telephone: (909) 822-2201 Facsimile: (909) 823-5046

Have any other transfers been approved by Watermaster between these parties covering the same fiscal year? Yes [] No [X]

WATER QUALITY AND WATER LEVELS

What is the existing water quality and what are the existing water levels in the areas that are likely to be affected?

Recapture by Fontana Water Company accomplished by pumping of 15 wells-static water levels vary from 375' to 684'. Of the wells routinely pumped, nitrate levels vary from a low of 8 mg/l to a high of 33 mg/l.

MATERIAL PHYSICAL INJURY


Is the Applicant aware of any Material Physical Injury to a party to the judgment or the Basin that may be caused by the action covered by the application? Yes [] No [X]

If yes, what are the proposed mitigation measures, if any, that might reasonably be imposed to ensure that the action does not result in Material Physical Injury to a party to the Judgment or the Basin?

N/A

ADDITIONAL INFORMATION ATTACHED

Yes [] No [X]



Michael J. McGraw, General Manager
Fontana Water Company

TO BE COMPLETED BY WATERMASTER:

DATE OF APPROVAL FROM NON-AGRICULTURAL POOL: _____

DATE OF APPROVAL FROM AGRICULTURAL POOL: _____

DATE OF APPROVAL FROM APPROPRIATIVE POOL: _____

HEARING DATE, IF ANY: _____

DATE OF ADVISORY COMMITTEE APPROVAL: _____

DATE OF BOARD APPROVAL: _____ Agreement # _____

APPLICATION OR AMENDMENT TO APPLICATION TO RECAPTURE WATER IN STORAGE

APPLICANT

Fontana Water Company Name of Party March 31, 2006 Date Requested Date Approved 8440 Nuevo Avenue Street Address 2000 Acre-feet Amount Requested Acre-feet Amount Approved Fontana CA 92335 City State Zip Code Projected Rate of Recapture Projected Duration of Recapture Telephone: (909) 822-2201 Facsimile: (909) 823-5046

IS THIS AN AMENDMENT TO A PREVIOUSLY APPROVED APPLICATION? [] YES [X] NO IF YES, ATTACH APPLICATION TO BE AMENDED

IDENTITY OF PERSON THAT STORED THE WATER: West Valley Water District

PURPOSE OF RECAPTURE

- [] Pump when other sources of supply are curtailed [X] Pump to meet current or future demand over and above production right [] Pump as necessary to stabilize future assessment amounts [] Other, explain

METHOD OF RECAPTURE (if by other than pumping) (e.g. exchange)

N/A

PLACE OF USE OF WATER TO BE RECAPTURED

Within Fontana Water Company's Service Area

LOCATION OF RECAPTURE FACILITIES (IF DIFFERENT FROM REGULAR PRODUCTION FACILITIES).

N/A

WATER QUALITY AND WATER LEVELS

What is the existing water quality and what are the existing water levels in the areas that are likely to be affected?

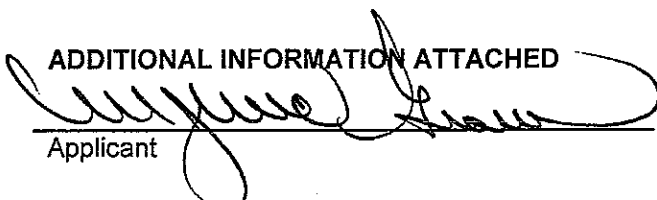
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If yes, what are the proposed mitigation measures, if any, that might reasonably be imposed to ensure that the action does not result in Material Physical Injury to a party to the Judgment or the Basin?

ADDITIONAL INFORMATION ATTACHED Yes [] No [X]


Applicant

TO BE COMPLETED BY WATERMASTER:

DATE OF APPROVAL FROM NON-AGRICULTURAL POOL: _____

DATE OF APPROVAL FROM AGRICULTURAL POOL: _____

DATE OF APPROVAL FROM APPROPRIATIVE POOL: _____

HEARING DATE, IF ANY: _____

DATE OF ADVISORY COMMITTEE APPROVAL: _____

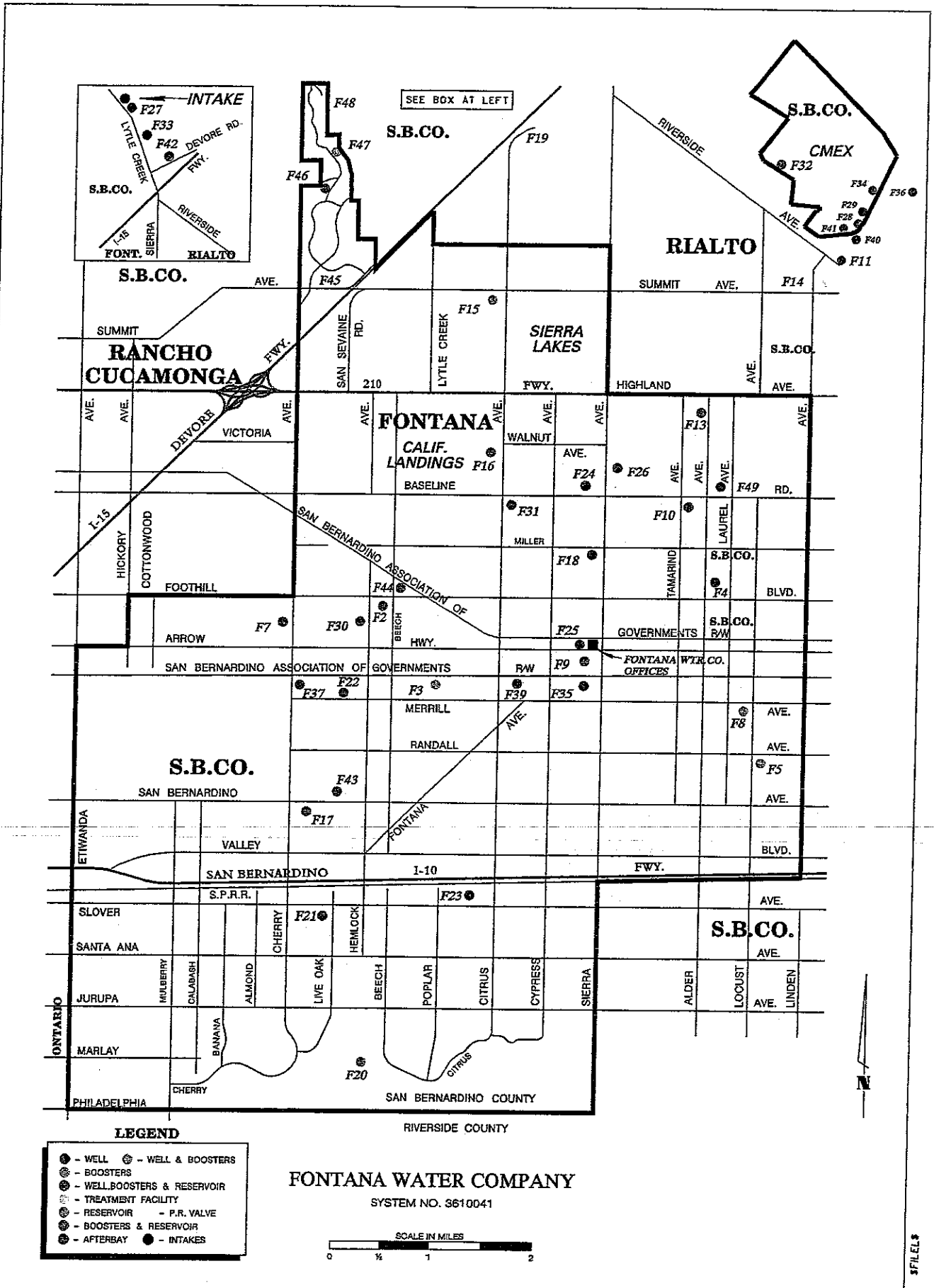
DATE OF BOARD APPROVAL: _____ Agreement # _____

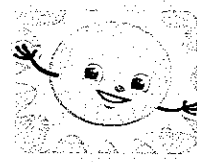
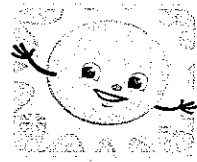
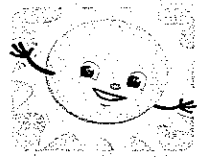
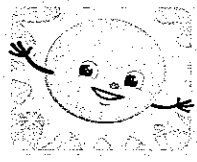
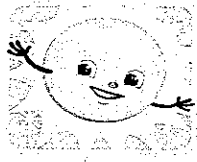
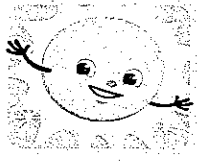
FONTANA WATER COMPANY
Recapture Plan

The subject water is a transfer of stored groundwater from West Valley Water District to Fontana Water Company (FWC) of 2000 acre-feet to satisfy a portion of FWC's replenishment obligation for FY 2005/2006. Recapture of the stored water is accomplished by the production of any or all of the 15 wells owned and operated by FWC within Management Zone 3 of the Chino Groundwater Basin. The approximate daily production capacity of these wells is as follows:

<u>Well</u>	<u>Production</u> <u>Acre-Feet/Day</u>
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F21A	5.7
F37A	5.7
F7A	11.0
F22A	8.2
F24A	8.4
F26A	8.6
F31A	7.3
F2A	10.6
F30A	5.1
F44A	11.0
F44B	10.6
F44C	10.6
F17B	5.7
F17C	7.1
Daily Total	126.2

The attached map shows the location of these wells within FWC's service area. Prior to 1992, water produced from the majority of these wells was pumped within Management Zone 3 by Fontana Union Water Company with safe yield rights in the Chino Groundwater Basin. However, as a result of a bankruptcy settlement agreement dated February 7, 1992 all of Fontana Union's Chino Groundwater Basin water, including overlying (agricultural) pool reallocation, is annually transferred to Cucamonga Valley Water District's storage account. Pursuant to the same 1992 bankruptcy settlement agreement, Fontana Water Company acquired Fontana Union's water production wells and continues to produce water from Management Zone 3, in the same manner and for the same purpose as had been done prior to 1992.

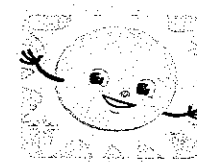
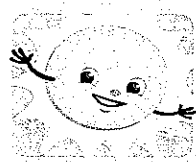
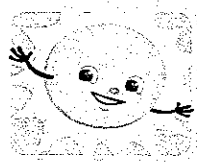
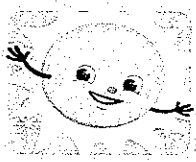




CHINO BASIN WATERMASTER

III. BUSINESS ITEMS

A. Peace II Term Sheet





CHINO BASIN WATERMASTER

9641 San Bernardino Road, Rancho Cucamonga, Ca 91730
Tel: 909.484.3888 Fax: 909.484.3890 www.cbwm.org

KENNETH R. MANNING
Chief Executive Officer

STAFF REPORT

DATE: June 8, 2006
June 20, 2006
June 22, 2006

TO: Committee Members
Watermaster Board Members

SUBJECT: Non-Binding Term Sheet

RECOMMENDATION

Staff and General Counsel recommend that the Advisory Committee and Board approve the enclosed Stakeholder Non-Binding Term Sheet as a template approach for the development of final agreements.

BACKGROUND

The Judgment requires Watermaster to prepare an Optimum Basin Management Plan ("OBMP"). Under Court Supervision, the Peace Agreement and the OBMP Implementation Plan were approved by the Watermaster Board in June of 2000. Court approval of the Peace Agreement and the OBMP Implementation Plan followed in September of 2000.

Within the Peace Agreement there are specific items that require Watermaster to consider and exercise its discretion in the 2005/2006 time frame. Other sections of the Peace Agreement authorize Watermaster to take certain action that may have significant financial and water supply consequences on the parties to the Judgment.

In February of 2004, Watermaster convened a process among the parties to the Judgment to address these issues. This effort resulted in several months of meetings. The meetings were suspended in July of 2004 and then resumed again in March of 2005 to allow a thorough technical review of the management strategies being considered by the parties.

Several issues were under consideration by the parties through this process:

- In its effort to further refine the OBMP Implementation Plan, Watermaster Staff and stakeholders have become aware of the significance of implementing a new groundwater management goal, commonly referred to as "Hydraulic Control." Properly implemented through

- a strategy referred to as Basin Re-Operation, achievement of this goal will allow Watermaster to enjoy beneficial coverage under the Maximum Benefit objectives of the RWQCB's Basin Plan and will further created long-term reliable yield improvements for the benefits of the parties.
- As production from the new Desalters begins and sources of replenishment water, such as the Kaiser account, as exhausted, it has become necessary for the parties to address the question of replenishment for the existing Desalter production.
 - Under the OBMP, there is still a need to construct additional Desalter capacity beyond that achieved with Desalter I, the Desalter I Expansion, and Desalter II. Because of this, it is necessary for the parties to address such questions as potential configurations for the next desalting project, cost strategies, and replenishment obligations.
 - Under the Rules and Regulations, the method of accounting for a shortfall in the quantity of water available to meet the cumulative obligations of Land Use Conversions and the Early Transfer was due to be reconsidered.
 - A range of storage issues were due to be addressed, such as the imposition of losses, and the limitations on the further accrual of water in local storage accounts.
 - The question of how to implement the credits provisions of the Peace Agreement have been a source of conflict among the stakeholders in need of resolution.
 - The completion of the Supplemental Water recharge in MZ1 required Watermaster to evaluate the need to consider whether it is necessary to continue to specially purchase 6,500 AFY of Supplemental Water for MZ1 recharge purposes.
 - Under the Peace Agreement, the members of the Non-Agricultural Pool were given the ability to transfer water among the members of the Pool or to Watermaster for certain purposes. Since the time of the Peace Agreement, the question has arisen as to whether further transfer options should be available to this Pool.
 - As Watermaster has improved its information collection and processing abilities, past errors have and will become manifest. Watermaster requested the parties to agree upon a uniform approach to addressing past errors in order to guide staff when such situations arise.
 - The Long-Term Plan for the Management of Subsidence is under development and needs to be incorporated into the overall management strategies for the Basin.

COMPLETION OF STAKEHOLDERS NON-BINDING TERM SHEET

In August of 2005 an initial consensus on these issues among the parties to the Judgment concerning a "Peace II Term Sheet" resulted in the Watermaster Board scheduling public workshops where numerous comments were received from stakeholders.

Further technical analysis and written responses to questions presented at these workshops were completed in April of 2006. In response to issues raised in these workshops, the Watermaster Board authorized Watermaster Staff and General Counsel to prepare a "Facilitator Proposal" and distribute it for discussion among a new, broader group of stakeholders for evaluation.

On March 18, 2006, this process formally concluded with the Stakeholder Non-Binding Term Sheet enclosed here. This term sheet has been unanimously supported by all stakeholders in attendance at the sessions.

However, Watermaster has received correspondence from the City of Chino Hills that they remain concerned about the implementation of Article IX regarding management of Management Zone 1 issues. They have declared their right to oppose any and all measures in the Stakeholder Proposal if the MZ#1 issues are not resolved to their satisfaction. Watermaster Staff and General Counsel do not believe the approval of the Stakeholder Proposal precludes any proposal on MZ#1. Nor does it pre-determine any specific outcome. Rather, Article IX constitutes a vessel capable of receiving whatever reasonable approach is developed by the parties.

As is clearly indicated by the Stakeholder Non-Binding Term Sheet, the term sheet is non-binding. No party has executed the term sheet and no party is asked to execute the term sheet. The purpose of the term sheet is rather to form the basis for a generalized "project description" so that further technical analysis, including CEQA analysis, can commence. It will also form the starting point for further discussions which will lead to a binding agreement, Judgment and Rules and Regulations amendments, and whatever other documentation is required in order to implement the approach described by the term sheet.

On this basis, staff and general counsel recommend that the Advisory Committee and Board approve the enclosed Stakeholder Non-Binding Term Sheet as a template approach for the development of final agreements.

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**STAKEHOLDER
NON-BINDING TERM SHEET**

- I. PRE-CONDITIONS TO A BINDING AGREEMENT IN PROPOSED ORDER OF SATISFACTION
- A. Watermaster Completion of Technical Evaluation
1. Staff / Wildermuth Evaluation.
 2. Cost / Benefit Analysis. Watermaster will retain the services of an independent competent economist with experience in evaluating water markets and water projects to provide an evaluation of the macro costs and benefits to the parties as a whole that are attributable to Hydraulic Control, Basin Re-Operation and Desalter elements of the Non-Binding Term Sheet. The macro analysis will provide general consideration to the relative costs of implementing Hydraulic Control as compared to the no-action alternative and be completed no later than July 1, 2006. The macro analysis will not evaluate the individual costs and benefits to be assumed or received by any individual party or interest. The study will be sponsored by Watermaster, and the cost of the study will be undertaken for not more than \$20,000 and will be paid for as an OBMP assessment. Watermaster will take comments on the scope of the macro analysis at an informal workshop to be scheduled in June.
- B. Watermaster Approval of this Non-Binding Term Sheet By:
1. Distribution to and consideration by each of the Three Pools.
 2. Approval by the Advisory Committee.
 3. Approval by the Watermaster Board.
- C. Court Direction to Proceed in Accordance with the Non-Binding Term Sheet.
1. Court Workshop July 26, 2006, including but not limited to the completion of a thorough professional review of the technical work compiled by Watermaster in support of this Non-Binding Term Sheet.
 2. Court Hearing September 2006.
- D. This Non-Binding Term Sheet will Form the Basis for a Project Description and ensuing CEQA Review.
1. The characterization of the Term Sheet as “non-binding” reflects the intention of the stakeholders that the Non-Binding Term Sheet is not to constitute a binding agreement. The Non-Binding Term Sheet will serve

as the basis for completing a binding agreement, Judgment Amendments and implementing rules and regulations that will contain the terms set forth in this Non-Binding Term Sheet as well as other terms and conditions that may be determined to be essential. Accordingly, Watermaster's approval of this Non-Binding Term Sheet may not be relied upon by any Party to the Judgment to compel action by any other or support a claim of estoppel against any other.

2. No party may be compelled to take any action under any final agreement, Judgment Amendment and rules and regulations unless and until there has been compliance with all applicable laws, including the satisfaction of the California Environmental Quality Act ("CEQA").
 3. No Party to the Judgment may allege reliance upon this Non-Binding Term Sheet to support a claim of estoppel against any other.
 4. It is understood and agreed among the Parties to the Judgment that this Non-Binding Term Sheet does not contain all the essential terms that are to be included in a final binding agreement, judgment amendments and rules and regulations. Further analysis, negotiation and documentation are required before binding commitments are intended to be effectuated by or among the Parties to the Judgment.
 5. No Party to the Judgment is bound to continue participation in further meetings or to continue negotiations. No party will be bound to implement any of the measures set forth herein.
 6. No action by any party following Watermaster approval of this Non-Binding Term Sheet will be construed as an "intent to be bound" under the terms set forth herein.
-
- E. Watermaster will update earlier analysis of socioeconomic impacts conducted pursuant to the Judgment prior to requesting Court approval of the final agreement and Judgment Amendments. The analysis of socioeconomic impacts will consider the impacts (positive and negative) of implementing the OBMP and the Peace Agreement as well as those that may arise from Watermaster pursuing the suite of actions set forth in this Non-Binding Term Sheet, including but not limited to Watermaster assessments. The analysis will specifically address the potential distribution of costs and benefits among the parties that were initiated with the approval of the Peace Agreement in 2000. This socioeconomic impact study will be considered by Watermaster as it discharges its continuing duties under Exhibits "H" and "I" of the Judgment. The study will be completed by March 1, 2007. Accordingly, each party and Watermaster will have the benefit of socioeconomic analysis prior to executing a binding agreement. The scope of this analysis will be set in a public Watermaster workshop among stakeholders.

- F. Concurrent Documentation and approvals of Final Binding Agreement Among the Parties to the Judgment, Amendments to the Judgment and the Rules and Regulations.
- G. Court Approval of Judgment Amendments and the Issuance of Direction to Proceed in Accordance with the Proposed Final Form of the Documents, Subject to Execution of Agreements and the Adoption of CEQA Findings.
- H. Final Execution by the:
 - 1. Principals.
 - 2. The Three Pools, the Advisory Committee, and the Watermaster Board.

II. REFINED BASIN MANAGEMENT STRATEGY

A. Adopt (“Reconfirm”) the Management Goal of Hydraulic Control.

1. The Optimum Basin Management Program (“OBMP”) will be amended to reflect that obtaining and maintaining Hydraulic Control is an essential goal that is critical to prudent Basin management in accordance with Watermaster’s obligation to prepare and implement an OBMP. (See Judgment Paragraph 39 and 40, Judgment Exhibit “I”, paragraph 1(b).) Benefits include but are not limited to meeting objectives established by the Regional Water Quality Control Board. This will require an amendment to the OBMP Implementation Plan attached to the Peace Agreement. (“OBMP Implementation Plan”)
2. Watermaster will develop a Hydraulic Control Operation Plan (“HCOP”) as a supplement to the OBMP. The HCOP supplement will be prepared in a form approved by Watermaster and will describe the projected actions to be taken by Watermaster relative to achieving and maintaining of Hydraulic Control of the Chino Basin. These actions include, but are not limited to: implementation of the Hydraulic Control Monitoring Program (“HCMP”), the sizing and location of Desalter groundwater extraction facilities for the purpose of achieving and maintaining Hydraulic Control, and the managed lowering of water levels in strategic locations of the Chino Basin (“Basin Re-Operation”). This will require a supplement to the OBMP Implementation Plan.
3. Hydraulic Control is defined herein as the reduction of groundwater discharge from the Chino North Management Zone to the Santa Ana River to de minimus quantities. The Chino North Management Zone is defined in the 2004 Basin Plan amendment (RWQCB resolution R8-2004-001). ~~Hydraulic Control insures that the water management activities in the Chino North Management Zone do not materially impact the beneficial uses of the Santa Ana River downstream of Prado Dam.~~
4. Re-Operation is defined herein as the increase in controlled overdraft as defined in the Judgment from 200,000 acre-feet over the period 1978 through 2017 to 600,000 acre-feet through 2030 with the 400,000 acre-feet increase allocated specifically to meet the replenishment obligation of the Desalters. A cumulative change in storage of up to 400,000 acre-feet greater than initially authorized by the original Judgment will result.

B. Adopt the Management Strategy of Basin Re-Operation to Obtain and Maintain Hydraulic Control.

1. The managed withdrawal of quantities of water from existing storage from the Basin is required for achieving and maintaining Hydraulic Control. Therefore, it is a prudent and efficient use of Basin resources *to the extent*

it is required for achieving and maintaining Hydraulic Control. However, the production of quantities of groundwater from storage in excess of that quantity which is required to secure Hydraulic Control is not authorized under this management goal.

2. The parties will jointly authorize Basin Re-Operation through the method of forgiving replenishment of groundwater production from the Desalters as follows:
 - a. A target for achieving and maintaining Hydraulic Control by de-watering the Basin by a cumulative quantity of 400,000 acre-feet of un-replenished production from the Existing Desalters *and* Future Desalters (all authorized Desalters) will be used for *planning purposes*. In order to qualify for replenishment forgiveness as provided in this Non-Binding Term Sheet there must be new groundwater production facilities for the Future Desalters, and the new Desalter groundwater extraction facilities must be located in the southern end of the Basin. A map depicting the "southern end" is attached hereto as Exhibit "A." The southern end includes much of the OBMP-proposed Desalter III well-field and the shallow aquifer system among Desalter I wells No. 1 through 4 and west of Desalter I that are likely to increase yield benefits under the Basin Re-Operation.
 - b. Watermaster will prepare a summary of the cumulative total of groundwater production and desalting from all authorized Desalters and other activities authorized by the OBMP as provided in the Peace Agreement in a schedule that: (i) identifies the total change in groundwater storage that *will* result from the proposed Basin Re-Operation to obtain Hydraulic Control, and (ii) characterizes and accounts for all water that is projected to be produced by all authorized Desalters for the initial Term of the Peace Agreement. This schedule shall be prepared prior to the adoption of the final agreement. Watermaster will modify its projections from time to time, as may be prudent under the circumstances. "All authorized Desalters" is intended to encompass the Existing Desalters and Future Desalters.
 - c. An evaluation of Watermaster's achievement of Basin outflow conditions and compliance with Regional Board orders will be completed annually by Watermaster. In the event that Hydraulic Control is secured in any year *before* the full 400,000 acre-feet has been utilized, the further forgiveness of replenishment will be suspended beginning in the next fiscal year, unless and until Watermaster approves a revised schedule for un-replenished production, subject to the continuing cap of 400,000 acre-feet. In the alternative, Watermaster may prepare and adopt a contingency

plan that establishes conditions and protective measures to avoid Material Physical Injury and equitably address the contingency, if and when it should occur. The Watermaster approval of any revised schedule must be supported by a technical report demonstrating the need to continue some level of un-replenished production from the Desalters.

- d. There are material yield benefits to the parties through Basin Re-Operation. The extent of these benefits is somewhat dependent upon the final location of new production facilities within the southerly end. Accordingly, Watermaster should require the location of Future Desalter groundwater production facilities to achieve both Hydraulic Control and maximize yield enhancement.
 - e. Basin Re-Operation should be phased over a reasonable period of time to secure the physical condition of Hydraulic Control and to achieve the identified yield benefits while at the same time avoiding Material Physical Injury or an inefficient use of basin resources. Watermaster will have discretion to apportion the forgiveness under a schedule that reflects the needs of the parties and the need for economic certainty. Watermaster may elect to establish a schedule for Basin Re-Operation that best meets the needs of the parties and the conditions of the Basin, including but not limited to “ramping up,” “ramping down,” or “straight-lining.”
 - f. To ameliorate any long-term risks attributable to reliance upon un-replenished groundwater production by the Desalters, the annual availability of any portion of the 400,000 acre-feet set aside for forgiveness, is expressly subject to Watermaster making an annual finding it is in substantial compliance with the revised Watermaster Recharge Master Plan.
- C. Basin Management Assistance. Three Valleys shall assist in the management of the Basin through a financial contribution in an amount of up to \$300,000 to study the feasibility of developing a water supply program within Management Zone 1 of the Basin that would assist Watermaster in meeting its Hydraulic Control and Management Zone 1 subsidence management goals. The key elements and Three Valleys’ participation in this program and/or future financial assistance in the management of the Basin will be set forth in a non-binding Memorandum of Understanding between Watermaster and Three Valleys and subsequently incorporated into the final binding agreement among the parties.
- D. Reservation of Rights. As stated further below, none of the approvals referenced herein will preclude any party from seeking judicial review of any Watermaster action to the extent those rights exist under the Judgment. Nothing herein shall be construed as limiting the rights of Watermaster to manage the Basin in accordance with the parameters set forth in Exhibit “F” to the Judgment.

- E. Judgment Amendment. Implementation of Basin Re-Operation Strategy at the projected levels will require a Judgment Amendment. An amendment to the OBMP Implementation Plan and implementing Rules and Regulations are also required.

III. REPLENISHMENT OBLIGATIONS FOR DESALTER PUMPING

- A. The replenishment obligation for Desalter production in any year will be determined by Watermaster as follows: First, Watermaster will apply any applicable replenishment credits to the total quantity of groundwater production for the preceding year. Second, to the extent available credits are insufficient to fully offset the quantity of groundwater production attributable to the Desalters, Watermaster will levy a Replenishment Assessment among the members of the Overlying (Non-Agricultural) Pool and the Appropriative Pool.
1. Replenishment credits will be provided against cumulative groundwater production from the Desalters from (a) the Kaiser account (Peace Agreement Section 7.5(a).); (b) dedication of water from the Overlying (Non-Agricultural) Pool Storage Account; (c) New Yield (other than Stormwater (Peace Agreement Section 7.5(b))); (d) any declared losses from storage; (e) Safe Yield that may be contributed by the parties (Peace Agreement Section 7.5(c)); and (f) any forgiveness that is authorized as a part of the Basin Re-Operation strategy pursuant to paragraph II.B.1 above.
 2. Watermaster will make an annual finding as to the quantity of New Yield that is made available by Basin Re-Operation. Any subsequent recalculation of New Yield as Safe Yield by Watermaster will not change the priorities set forth above for off-setting Desalter production. However, the express crediting of New Yield for this purpose will be for the initial term of the Peace Agreement.
 3. After applying any of the credits provided in A.1 above, any unmet replenishment obligation that is attributable to the production of groundwater from the Desalters will be satisfied by Watermaster levying:
 - a. A Special OBMP Assessment against the Overlying (Non-Agricultural) Pool equivalent to a Replenishment Assessment as more specifically described in Article IX below. The Replenishment Assessment will be assessed pro-rata on each member's share of Safe Yield, followed by
 - b. A Replenishment Assessment against the Appropriative Pool, pro rata based on each Producer's combined total share of Operating Safe Yield and the previous year's actual production. Desalter Production is excluded from this calculation. However, if there is a material reduction in the net cost of Desalter product water to the purchasers of product water, Watermaster may re-evaluate whether to continue the exclusion of Desalter Production but only after giving due regard to the contractual commitment of the parties. The quantification of any Party's share of Operating Safe Yield does not include the result of any land use conversions.

- B. The obligations of the parties, whatever they may be, regarding Replenishment Assessments attributable to all Desalters and Future Desalters in any renewal term of the Peace Agreement are not altered by this Agreement.
- C. A Judgment Amendment and an amendment to the Peace Agreement and implementing Rules and Regulations are required to implement this provision.

IV. FUTURE DESALTERS

A. Plan for Future Desalters. The physical capacity and potable water use of water from the existing desalters will be supplemented as required to ensure the legal and physical ability to produce approximately 42,000 acre-feet of groundwater from All Authorized Desalters by 2012.

1. Western Municipal Water District ("Western") is the best qualified party to implement the expansion. However, the definition of the "project" *may* depend on whether it is able to purchase excess capacity from the Chino Basin Desalter Authority ("CDA") or it is required to build stand-alone facilities. Accordingly, within six months of Watermaster's receipt of direction to proceed in accordance with the Non-Binding Term Sheet, CDA and any member of the Appropriative Pool *may* present a proposal to Watermaster for evaluation as an alternative to the proposed Western Expansion. The proposal for an alternative *may* include Western's acquisition of some portion of the existing CDA facilities or a joint venture between Western and another party. Any potential arrangement between CDA and Western and/or any other party is completely discretionary among all parties involved. Nothing herein shall be construed as committing CDA to take any specific action to accommodate the needs or requests of Watermaster, Western or any Party to the Judgment, whatever the request may be.

2. Failing Watermaster's adoption of a proposed alternative, Western has proposed that it be responsible for the planning, designing, financing, constructing and operating of up to 9 mgd from new desalter facilities and the purchase of product water from existing and expanded facilities. Western will prepare a proposed project description for Watermaster's tentative approval.

a. The Western project will be designed so as to minimize the export of groundwater from the Basin. Any plan presented by Western will address how this will be accomplished.

(i) Watermaster will account for water imported and exported by Western in connection to the proposed project.

(ii) Watermaster will prepare an initial reconciliation of Western imports and exports at the end of the first ten years of operation and every year thereafter to determine whether a "net export" occurred.

(iii) Western will pay an assessment on all "net exports" in accordance with Judgment Exhibit "H," paragraph 7(b).

b. If Western's operation of a Future Desalter should result in an export, it will pay the applicable assessment for export.

- c. Other expected key elements of proposed terms to be incorporated into a final binding agreement with Western will be set forth in a non-binding Memorandum of Understanding between Watermaster and Western and will address the following terms:
 - (i) Western's status as a purchaser of product water from CDA;
 - (ii) Western's arrangements with CDA, Jurupa and other Chino Basin parties for the common use of existing facilities;
 - (iii) Western's arrangement with the owners of the SARI line;
 - (iv) Western's arrangements with the Appropriative Pool regarding the forgiveness of replenishment associated with expanded groundwater production for the Future Desalters;
 - (v) Western's "make-whole payment" if any;
 - (vi) The schedule for approvals and project completion.
- d. A price cap governing Western's rights and obligations to proceed prior to execution of a binding purchase agreement.
 - (i) The full acre-foot cost to Western for Capital and O&M (assuming a waiver of replenishment costs), including delivery of the desalted water to its Mockingbird Reservoir or directly to the City of Norco, any applicable ongoing Watermaster assessments, payments to CDA and Jurupa and for SARI utilization, shall not exceed the sum of the following: (1) the MWD Tier II Rate; (2) the MWD Treatment Surcharge calculated in terms of an annual average acre-foot charge; and (3) \$150 per acre-foot of water delivered to account for water supply reliability. If the full acre-foot cost should exceed this cap, Western may withdraw, and would have no further obligations under this Term Sheet.
 - (ii) If grants and the MWD subsidy should reduce Western's costs to an amount which is \$75 below the cap described in paragraph (i), Western will equally share all additional savings with Watermaster on a 50-50 basis.
 - (iii) Western may elect to exercise its right of withdrawal under paragraph (i) above within 120 days following the later of (1) completion of preliminary design; or (2) the certification of whatever CEQA document is prepared for the project, but not later than 60 days thereafter and in no

event after a binding water purchase agreement has been executed.

3. If physically and economically feasible, new groundwater production facilities will be located in the southern end of the Basin to achieve the dual purpose of obtaining Hydraulic Control and increasing Basin yield. To the extent Western commits to the construction of new wells in the shallow aquifer system among Desalter I wells No. 1 through 4 and west of Desalter I for the production of at least one-half of its groundwater, it shall be entitled to first priority for the allocation of the any remaining portion of the 400,000 acre-feet of forgiven replenishment required to secure Hydraulic Control. (See II.B.1 above.)
4. Within twelve months of the final approval and no later than July 1, 2008, with facilitation by Watermaster, Western and the Appropriative Pool will negotiate which portion of the 400,000 acre-feet of Desalter replenishment forgiveness should be applied to Future Desalters. Relevant considerations in the negotiations will include, but are not limited to the nexus between the proposed expansion and achieving Hydraulic Control, the nexus between the project and obtaining increased yield, the identified capital costs, operating and maintenance expenses, and the availability of third-party funding. Upon completion of their negotiations, the parties will present the proposed agreement to Watermaster.
5. If Western and the Appropriative Pool do not reach agreement on the appropriate level of Desalter replenishment forgiveness that should be allocated to the Western Expansion, then no later than July 2009, the members of the Appropriative Pool will submit an alternate plan to Watermaster that achieves the identified goals of increasing the physical capacity of the Desalters and potable water use of approximately 42,000 acre-feet of groundwater production from All Authorized Desalters from the Basin no later than 2012.
6. Responsibility for compliance with Future Desalter obligations, whatever they may be after receiving further Watermaster and Court direction, will be shared jointly and severally among the members of the Appropriative Pool.
7. Watermaster will promptly seek the execution of a non-binding MOU between Watermaster and Western that more specifically articulates the proposed terms and processes for Western to proceed in the interim period between Watermaster's approval of a non-binding term sheet with the terms set forth herein and the execution of binding agreements.
8. In coordination and consultation with CDA and other affected producers, Watermaster will have discretion to secure and dedicate compensation obtained from third parties, including but not limited to groundwater

clean-up, to off-set the capital and operations and maintenance costs of All-Authorized Desalters, in whole or in part.

- B. Quantification of New Yield Benefits. Watermaster will quantify the amount of New Yield that is specifically attributable to the existing Desalters and the Future Desalters (Western Expansion) as it may be proposed in its Final Form.
- C. Satisfaction of Peace Agreement Obligations. Upon completion of the implementation of a 10,000 AFY (9 mgd) expansion of groundwater production and desalting from Desalter II, and all other measures concerning Hydraulic Control as provided herein and in the OBMP, the Parties will be deemed to have satisfied all obligations, whatever they may be, with regard to Future Desalters as described in Part VII of the Peace Agreement. The OBMP Implementation Plan and the Peace Agreement will be formally reconciled from 40 mgd of “product water” to approximately 42,000 acre-feet of desalter groundwater production.
- D. An amendment to the Peace Agreement and implementing Rules and Regulations are required to implement this provision.

V. AGRICULTURAL POOL REALLOCATION

- A. Effective FY 2006-2007, Section 6.3(c) of the Watermaster Rules and Regulations shall be amended to read:

“(c) In the event actual Production from the Agricultural Pool does not exceed 82,800 acre-feet in any one year or 414,000 acre-feet in any five years but total allocation from all the uses set forth in section 6.3(a) above exceeds 82,800 acre-feet in any year, the amount of water made available to the members of the Appropriative Pool under section 6.3(a) shall be reduced pro rata in proportion to the benefits received by each member of the Appropriative Pool through such allocation. This reduction shall be accomplished according to the following procedure:

1. All of the amounts to be made available under 6.3(a) shall be added together. This amount shall be the “Potential Acre-Feet Available” for Reallocation.
2. Each Appropriative Pool member’s potential share of the Potential Acre-Feet Available for Reallocation shall be determined. This potential share shall be expressed as a percentage share of the Potential Acre-Feet Available for Reallocation.
3. Each Appropriative Pool member’s potential share of the Potential Acre-Feet Available for Reallocation shall be reduced pro rata according to the percentage determined in 2. above.”

- B. Effective FY 2006-2007, a Section 6.3(d) shall be added to the Watermaster Rules and Regulations which shall read:

“(d) In the event actual Production from the Agricultural Pool does not exceed 82,800 acre-feet in any one year or 414,000 acre-feet in any five years and total Production from all the uses set forth in section 6.3(a) above does not exceed 82,800 acre-feet in any year, the amount of surplus water made available to the members of the Appropriative Pool shall be allocated according to the formula described in 6.3(c).”

- C. Consistent with the OBMP goal of maintaining production in the Southern end of the Basin, Watermaster shall acknowledge that all existing voluntary agreements and agricultural land use conversions shall continue to remain in effect. Future voluntary agreements described in Peace Agreement section 5.3(i) and Rules and Regulations section 9.6 shall be permitted only to the extent that such voluntary agreements occur within areas eligible for conversion as described in Attachment 1 to the Judgment which was added to the Judgment as an amendment by Order of the Court dated November 17, 1995.

- D. Except as described above, all current Watermaster accounting practices with regard to Land Use Conversions, Assignments, voluntary agreements, Early Transfer, and reallocation of surplus Agricultural Pool water are hereby ratified and shall continue as currently implemented.

VI. STORAGE

A. Uniform Losses

1. In accordance with paragraph 5.2(b)(xii) of the Peace Agreement, Watermaster will establish uniform losses for all water held in storage based upon two baseline conditions:
 - a. pre-implementation of the OBMP and Hydraulic Control; and
 - b. post-implementation of the OBMP for achieving and maintaining Hydraulic Control.
2. Watermaster shall develop conforming Rules and Regulations concerning the implementation of the respective loss factors.

B. Reduction in the Loss Percentage for Individual Storage Accounts to de minimus (less than 1 percent).

1. Any Party to the Judgment (agency, entity or person) may reduce the uniform loss percentage applied to its storage account from the applicable percentage to less than one percent if they are:
 - a. in compliance with their continuing covenants under the Peace Agreement or they have paid Watermaster a "financial equivalent" (fee/charge) special assessment to off-set the cost of past performance; and
 - b. promised future compliance.
2. Any special assessment (fee) to obtain "financial equivalency" will be established by Watermaster for the purpose of equitably distributing the cost of implementing the OBMP among the parties benefiting therefrom and may take into account the fact that one or more parties are not similarly situated.

C. Allocation of Losses

1. Any water lost from storage shall be deemed to have been salvaged and recaptured by Watermaster by its achieving and maintaining Hydraulic Control.
2. The water lost from storage, salvaged and recaptured will be credited against any desalter replenishment obligation that may exist in the year of the recovery.
3. Any water recovered from loss pursuant to the OBMP and Hydraulic Control that is not required to offset any desalter replenishment obligation

in the year in which it is salvaged and recaptured will be dedicated to the members of the Appropriative Pool, pro rata based on each Producer's combined total share of Operating Safe Yield and the previous year's actual production. However, before any appropriator is entitled to receive a distribution of any such losses, they must have been a full participant in the implementation of the OBMP and paid all their applicable Watermaster assessments.

D. Local Storage

1. The terms of all Local Storage Agreements as provided in the Peace Agreement and as previously authorized pursuant to the Rules and Regulations shall be extended for an additional five-year term from the date of a Court Order approving a binding agreement.
2. The current cap of 50,000 acre-feet of Storage of Supplemental Water described in section 5.2(b) of the Peace Agreement shall be raised to 100,000 acre-feet. Any Party to the Judgment may make Application to Watermaster to store Supplemental Water pursuant to the terms of section 5.2(b) of the Peace Agreement except that the rebuttable presumption applicable to Local Storage Agreements described in Peace Agreement section 5.2(b)(v) shall no longer be in effect.

E. Hydraulic Control and Storage

1. Watermaster will continue to monitor the cumulative quantity of water held in storage under all accounts. If the total quantity of water held in storage threatens a loss of Hydraulic Control, Watermaster, in its reasonable discretion for the purpose of avoiding waste and unreasonable use may:
 - a. Adopt a revised uniform loss percentage for storage to provide penalties for holding water in storage;
 - b. Place limitations on the future accrual of future storage.
2. Watermaster may authorize the forgiveness of replenishment if its approval of a Storage and Recovery Agreement is in accordance with the Judgment and the Peace Agreement and is otherwise reasonable under the circumstances, if the storage of water will cause the loss of Hydraulic Control. In evaluating any potential forgiveness of replenishment in connection with a proposed Storage and Recovery Agreement, Watermaster will give due consideration and preference to proposals that reasonably sequence a "take" from storage in advance of a "put" to storage.
3. Prior to authorizing any additional action under E.1 or E.2 above, Watermaster will first prepare a cost/benefit analysis that compares the

additional quantity of over-production that is proposed to be forgiven against available alternatives, using an imputed value for the proposed over-production at two times the then prevailing rate of replenishment water made available by the Metropolitan Water District.

F. Overlying (Non-Agricultural) Pool

1. Watermaster will purchase all of the Non-Agricultural Pool water held in storage as of July 1, 2006 in accordance with the following terms.
 - a. The quantity is presently estimated between 40,000 acre-feet and 50,000 acre-feet.
 - b. Delivery of the water to Watermaster will be conditioned upon the "final approval."
 - c. 10 (ten) percent of the cumulative quantity of the water initially designated for transfer by the Overlying (Non-Agricultural) Pool will be dedicated to desalter replenishment obligations without compensation by Watermaster. Payment for the balance of water delivered will be made in four annual installments over a four-year period commencing upon the effective date of this Agreement.
 - d. The price per acre-foot will escalate each year with the price in the initial year being \$215, in Year Two \$220, in Year Three \$225, and in Year Four \$230.
 - e. The balance of the water obtained by Watermaster will be available for use in connection with a Storage and Recovery Project with third parties TBD; or in connection with Desalter Replenishment pursuant to the Judgment and the Peace Agreement. Watermaster will exercise reasonable best efforts to secure a purchaser of the Non-Agricultural Pool water as soon as practicable.
2. A Judgment Amendment, an amendment to the Peace Agreement and implementing Rules and Regulations would be required to implement this provision.

VII. CREDITS

- A. The Pomona Credit will continue for the duration set forth in the Peace Agreement. The financial responsibility for the "Pomona Credit" described in section 5.4(b) of the Peace Agreement will be the sole and exclusive financial responsibility of the Three Valleys Municipal Water District ("TVMWD"). Within 90 (ninety) days of each five-year period following the Effective Date of this Agreement, TVMWD shall make an election whether to continue or terminate its responsibilities under this paragraph. TVMWD shall provide written notice of such election to Watermaster. Watermaster will provide an annual invoice to TVMWD for the amount of the credit. In any renewal Term, TVMWD will continue to make an equivalent financial contribution which TVMWD consents to Watermaster's use for the benefit of MZI, subject to the same conditions set forth above with respect to TVMWD's payment of the "Pomona Credit."

- B. The Peace Agreement will be amended to eliminate credits and reimbursements as described in Peace Agreement § 5.4(d), other than the Pomona Credit as provided in A., above.

VIII. RECHARGE

A. 6,500 Acre-Foot Supplemental Recharge

1. A fundamental premise of the Physical Solution is that all water users dependent upon Chino Basin will be allowed to pump sufficient waters from the Basin to meet their requirements. To promote the goal of equal access to groundwater within all areas and sub-areas of the Chino Basin, Watermaster has committed to use its best efforts to direct recharge relative to production in each area and sub-area of the Basin and to achieve long-term balance between total recharge and discharge.
2. To assist Watermaster in providing for recharge, the Peace Agreement sets forth a requirement for Appropriative Pool purchase of 6,500 acre-feet per year of Supplemental Water for recharge in Management Zone 1 (MZ1). The purchases have been credited as an addition to Appropriative Pool storage accounts. The water recharged under this program has not been accounted for as replenishment water.
3. Watermaster is required to evaluate the continuance of this requirement in 2005 by taking into account provisions of the Judgment, Peace Agreement and OBMP, among all other relevant factors. It has been determined that other obligations in the Judgment and Peace Agreement, including the requirement of hydrologic balance and projected replenishment obligations, will provide for sufficient wet-water recharge to make the separate commitment of Appropriative Pool purchase of 6,500 acre-feet unnecessary. Therefore, because the recharge target as described in the Peace Agreement has been achieved, further purchases under the program will cease.
- ~~4. The parties acknowledge that, regardless of replenishment obligations, Watermaster will independently determine whether to require wet-water recharge within MZ1 to maintain hydrologic balance and to provide equal access to groundwater. Watermaster will conduct its recharge in a manner to provide hydrologic balance within, and will emphasize recharge in MZ1. Accordingly, the Parties acknowledge and agree that each year Watermaster shall be guided in the exercise of its discretion concerning recharge by the principles of hydrologic balance.~~

- B. Update the Recharge Master Plan. The Recharge Master Plan will be updated as frequently as necessary and not less than every five years, to reflect an appropriate schedule for planning, design, and physical improvements as may be required to offset the controlled mining at the end of the Peace Agreement and the end of forgiveness for Desalter replenishment.

- C. The members of the Appropriative Pool will coordinate the development of their respective Urban Water Management Plans and Water Supply Master Plans with Watermaster as follows.
 - 1. Each Appropriator that prepares an Urban Water Management Plan and Water Supply Plans will provide Watermaster with copies of their existing and proposed plans.
 - 2. Watermaster will use the Plans in evaluating the adequacy of the Recharge Master Plan and other OBMP Implementation Plan program elements.
- D. Each Appropriator will provide Watermaster with a draft in advance of adopting any proposed changes to their Urban Water Management Plans and in advance of adopting any material changes to their Master Water Plans respectively in accordance with the customary notification routinely provided to other third parties to offer Watermaster a reasonable opportunity to provide informal input and informal comment on the proposed changes.
- E. Any party that experiences the loss or the imminent threatened loss of a material water supply source will provide reasonable notice to Watermaster of the condition and the expected impact, if any, on the projected groundwater use.
- F. An amendment to the Peace Agreement and implementing Rules and Regulations would be required to implement this provision.

IX. TRANSFERS

- A. Any water un-produced by the Non-Agricultural Pool water will be made available to the Appropriators in accordance with the following process:
1. By December 31 of each year, the members of the Non-Agricultural Pool shall notify Watermaster of the amount of water each member shall make available for purchase by the Appropriators. By January 31, Watermaster shall provide a Notice of Availability of each Appropriator's pro-rata share of such water;
 2. Except as provided in paragraphs IX.A.4 and IX.C below, each member of the Appropriative Pool will have a right to purchase its pro-rata share of the supply made available from the Non-Agricultural Pool at the price established in IX.C below. Each member's pro rata share of the available supply will be based on each Producer's combined total share of Operating Safe Yield and the previous year's actual production;
 3. If any member of the Appropriative Pool fails to irrevocably commit to their allocated share within 30 days of the Notice of Availability, its share of the Non-Agricultural Pool water will be made available to all other members of the Appropriative Pool according to the same proportions as described in IX.A.2 above and at the price established in IX.C below. Each member of the Appropriative Pool shall make payment for its share by June 30.
 4. Parties shall only be eligible to purchase their pro rata share under this provision if the party is:
 - a. current on all their OBMP assessments; and
 - b. in compliance with the contractual covenant of the Peace I and this Non-Binding Term Sheet.
- B. The right of any member of the Overlying (Non-Agricultural) Pool to transfer water in accordance with this Article IX is dependent upon Watermaster making a finding that the transferor is using recycled water where it is both physically available and appropriate for the designated end use in lieu of pumping groundwater. This provision is not intended to have any effect on water presently held in and to be transferred from storage in accordance with Article VI.F.
- C. Watermaster guarantees the purchase of surplus Non-Agricultural Pool water on an annual basis at 92% of the then prevailing "MWD Replenishment Rate." The water obtained by Watermaster will be made available to the members of the Appropriative Pool in accordance with the procedures set forth in IX.A above.
- D. Watermaster will levy a Special Project OBMP Assessment against members of the Overlying (Non-Agricultural) Pool. The Special Project OBMP Assessment

will be levied on ten percent of the Overlying (Non-Agricultural) Pool member's share of Safe Yield in the preceding year in an amount equivalent to the MWD Replenishment Rate. As provided in Article III above, the first priority for the Special Project OBMP Assessment will be to purchase replenishment water to offset any over-production by the Desalters. In the event that there is no unmet replenishment obligation, Watermaster will still levy the Special Project OBMP Assessment and will distribute the revenue collected by the special OBMP Assessment to any member(s) of the Appropriative Pool that Watermaster may determine have received a disproportionately small portion of the benefits obtained from recycled water and other salt management strategies. Following the approval of this Non-Binding Term Sheet, Watermaster will convene a process among the members of the Appropriative Pool to develop a recommendation as to whether one or more parties should be expressly designated to receive a grant from Watermaster and on what conditions. In the event that no recommendation is forthcoming, in consultation with the Appropriative Pool, Watermaster will have discretion to establish a grant program to distribute available revenues to ensure an equitable distribution of recycled water benefits.

- E. Nothing herein shall be construed to affect or limit the rights of any Party to offer or accept an assignment as authorized by the Judgment Exhibit "G" paragraph 6, or to affect the rights of any Party under a valid assignment.
- F. A Judgment Amendment, an amendment to the Peace Agreement and implementing Rules and Regulations would be required to implement this provision.

X. ERROR CORRECTIONS

- A. A new section 3.3 shall be added to the Watermaster Rules and Regulations which shall read:

3.3 Error Corrections. All reports or other information submitted to Watermaster by the parties shall be subject to a four-year limitations period regarding the correction of errors contained in such submittals. In addition, all information generated by Watermaster shall be subject to the same four-year limitations period. All corrections to errors shall apply retroactively for no more than four years.

XI. MANAGEMENT ZONE 1: LONG-TERM PLAN FOR MANAGEMENT OF
SUBSIDENCE

- A. Watermaster shall issue guidance criteria which will specify the conditions under which Watermaster believes that groundwater can be produced in MZ1 so as to minimize the risk of subsidence in the southern subsidence area by no later than July 1, 2006. These guidance criteria will be informational only and will have no binding effect on any party.
- B. By December 31, 2006, Watermaster will develop a proposed long-term management plan for subsidence in the southern subsidence area of MZ1.

The guidance criteria and the long-term plan will be incorporated into the final binding agreement.

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