

EMPLOYMENT AGREEMENT

CHIEF EXECUTIVE OFFICER

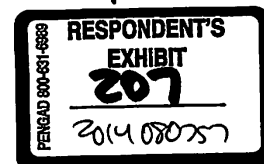
This Employment Agreement ("Agreement") is effective as of 5/3, 2011 (the "Effective Date"), by and between Chino Basin Watermaster ("Watermaster") and Desj Alvarez ("Executive") with reference to the following facts and intentions:

WHEREAS, the Watermaster desires to employ the Executive as its Chief Executive Officer ("CEO"); and

WHEREAS, the Watermaster and the Executive have reached agreement concerning the terms and conditions of his employment and wish to formalize that Agreement;

NOW, THEREFORE, in consideration of the mutual terms, covenants and conditions stated in this Agreement, the Watermaster and Executive hereby agree as follows:

1. **Employment:** The Watermaster hereby employs the Executive and the Executive hereby accepts employment with the Watermaster as CEO. During the Employment Term (as hereinafter defined), Executive will have the title, status, and duties of CEO and will report directly to the Watermaster Board of Directors ("Board").
2. **Term of Employment:** The term of employment ("Employment Term") will commence on the Effective Date, and will continue thereafter until two years from the Effective Date, or unless otherwise terminated pursuant to Section 9 below.
 - a. **General:** As Chief Executive Officer, Executive serves at the pleasure of the Board. Subject to the provisions of Section 9 below, although Watermaster may choose to terminate Executive's employment for cause, Executive's employment is at-will and cause is not required. No one other than the Board has the authority to alter this arrangement, to enter into an agreement for employment for a specified period of time, or to make any agreement contrary to the terms of this section. Furthermore, any such agreement or arrangement must be in writing and must be signed by the Chairman of the Board.
 - b. **Annual Review:** The Board shall arrange for an annual review of Executive's work performance, using such forms and procedures as the Board determines appropriate.
3. **Scope of Duties:** During the Employment Term:
 - a. The Executive will perform duties assigned by the Board and will be responsible for the administration and oversight of Watermaster functions, including implementation of the Judgment and the OBMP. Subject to the control and direction of the Board, the CEO provides day-to-day leadership for Watermaster and is directly responsible to the Board on all matters pertaining to the administration and operations of the Chino Groundwater Basin ("Basin") under the provisions of the Judgment and the Optimum Basin Management Program. The CEO is responsible for



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overseeing the operating budget and the other employees of Watermaster. The CEO must keep the Board, through the Advisory Committee process, apprised of all applicable federal, state, regional and local policies regulating Watermaster activities.

- b. The Executive will devote his full time and best efforts, talents, knowledge and experience to serving as the Watermaster's CEO. However, the Executive may, and is in fact encouraged to, devote reasonable time to activities involving professional, educational, and similar types of activities, speaking engagements and membership on other boards for the purposes of raising the profile of Executive and Watermaster both locally, regionally and nationally, provided such activities do not interfere in any material way with the business of the Watermaster. Notwithstanding the foregoing, the Executive may not serve on the board of directors of another organization without the Board's written consent, which consent may not be unreasonably withheld by the Board.

- c. Executive will perform his duties diligently and competently and shall act in conformity with Watermaster's written and oral policies and within the limits, budgets and business plans set by the Board of Directors. The executive will at all times during the Employment Term strictly adhere to and obey all of the rules and regulations in effect from time to time relating to the conduct of executives of Watermaster. Except as provided in this paragraph and in (b) above, Executive shall not engage in consulting work or any trade or business for his own account or for on or behalf of any other person, firm or company that competes, conflicts or interferes with the performance of his duties hereunder in any material way. Executive shall be permitted to continue existing consulting activities as an expert witness for Yorba Linda Water District to the extent these activities do not conflict with Executive's express duties to Watermaster.

4. **Hours of Work:** Executive's hours of work will vary depending on the duties to be performed and depending on what is necessary to competently perform the job of CEO. As general guidance, normal work hours will begin at 8:00 a.m. Monday through Friday.

5. **Compensation and Benefits:** During Executive's employment hereunder, Watermaster shall provide to Executive, and Executive shall accept from Watermaster as full compensation for Executive's services hereunder, compensation and benefits as follows:

- a. **Base Salary:** , Watermaster shall pay Executive an annual Base Salary of Two Hundred Twenty-Eight Thousand Dollars (\$228,000.00) per annum. Salary is inclusive of a car allowance, a PERS contribution and upgrade in medical coverage. The Board, or such committee of the Board as is responsible for setting the compensation of Watermaster employees, may review the Executive's performance and Base Salary, and determine whether to adjust the Executive's Base Salary on a prospective basis. Such review, in the sole discretion of the Board, would occur at least one year after the Effective Date. The Watermaster shall pay the Executive's

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Base Salary according to the applicable payroll practices in effect for all Watermaster employees.

- b. **Incentive Compensation:** On an annual basis, at the time of Executive's annual performance review, the Board will consider whether to provide Executive additional compensation in the form of incentive pay to recognize and encourage superior work performance by Executive, which additional compensation is in the sole discretion of the Board.
- c. **Insurance:** Following any required wait period, Watermaster shall provide Executive medical, dental and vision insurance coverage benefits in the total amount and manner as provided other Watermaster employees. Watermaster shall also provide Executive short-term disability and long-term disability insurance.
- d. **Vacation:** Upon execution of this Agreement, Executive shall have vested 20 days of vacation. In addition, Executive will earn four weeks (i.e., 20) days of vacation per year, accrued pro rata on each bi-weekly paycheck. Unused vacation time may accrue to the following year, provided however, that at no time shall the Executive accrue more than eight weeks total of vacation time. When the total accrued vacation time totals eight weeks, vacation time may be relinquished and instead the Executive shall be paid the equivalent amount of Base Salary for that period of time.
- e. **Administrative Leave:** Executive shall be allowed twelve days per year of administrative leave ("Administrative Leave"), to be used at the Executive's discretion. Unused Administrative Leave shall not accrue to the following year.
- f. **Sick Leave:** Executive shall be allowed sick leave in accordance with Watermaster policy and as provided to other Watermaster employees.

6. **Personnel Policies:** Except as otherwise provided herein, Executive shall be subject to the personnel policies of Watermaster, and any amendments or revisions thereto, including but not limited to those relating to sick leave, holidays, retirement and leaves of absence. In the event of the conflict between this Agreement and the personnel policies of Watermaster, this Agreement shall control.

7. **Vehicle Use:** Executive acknowledges that he will utilize his personal vehicle in connection with the performance of his duties under the terms of this agreement. Executive shall procure and maintain in full force and effect during his employment with Watermaster automobile liability insurance covering all personal vehicles that are operated by Executive in connection with the performance of services under this Agreement in a reasonable amount acceptable to Watermaster. Executive shall provide Watermaster with a certificate of insurance evidencing the above coverage and listing Watermaster as an additional insured under the insurance policy or policies. Such vehicle insurance policy or policies shall provide 30 days advance written notice to Watermaster of any change or cancellation of such insurance. Executive shall

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operate any vehicle used in connection with services provided under this Agreement in a safe manner, and shall maintain a valid California automobile driver's license during the term of this Agreement. Failure to maintain the insurance coverage or driver's license required under this Section shall constitute a material breach of this Agreement.

8. **Reimbursable Expenses:** Expenses incurred by Executive in the performance of his duties under the terms of this Agreement shall be reimbursed to Executive by Watermaster, but these shall be limited to those reasonable and necessary for the performance of Executive's duties under this Agreement, and shall be submitted for approval and reimbursement to the Board upon such forms and with receipts and other evidence as may be reasonably required by the Board.

9. **Severance:**

a. **Termination without Cause:** In the event Executive's employment is terminated without cause prior to the end of the first year of the Employment Term, Watermaster will pay Executive the full salary amount for the first year of the Employment Term plus provide for the health and other benefits that were being provided to Executive for the remaining portion of such first year of the Employment Term, minus the amount of any salary already paid during that first year of the Employment Term. After the first year of the Employment Term, Executive shall not be entitled to any other payment of salary under this Agreement for a termination without cause, except for payments owed through the date of termination.

b. **Termination for Cause:** No severance or any further salary will be paid in the event Executive's employment is terminated for cause. For purposes of this Agreement, cause for termination includes, without limitation, the following: Theft or attempted theft; material dishonesty; willful or persistent material breach of duties; engaging in unlawful discrimination or harassment of employees or any third party while on Watermaster premises or time; conviction of a felony; and unauthorized absence for more than three consecutive days.

10. **Conflict of Interest:** Executive represents and warrants to Watermaster that he presently has no interest, and covenants that he will not acquire any interests, direct or indirect, financial or otherwise, which would conflict in any manner or interfere with the performance of service required to be performed under this Agreement.

11. **General Provisions:**

a. **Notices:** All notices, requests, demands and other communications under this Agreement shall be in writing and shall be deemed to have been duly given on the date of service if personally served, or on the first day after mailing if mailed by Federal Express or a similar overnight delivery service, or on the second day after mailing if mailed by first-class mail, registered or certified, return receipt requested, postage prepaid and properly addressed as follow:

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Watermaster: Chairman
Chino Basin Watermaster
9841 San Bernardino Road
Rancho Cucamonga, CA 91730

With Copy to: Brownstein Hyatt Farber Schreck, LLP
21 East Carrillo Street
Santa Barbara, CA 93101
Attn: Michael T. Fife

Executive: Desi Alvarez

Either party may change their address for the purpose of this paragraph by giving the other party written notice of the new address in the above manner.

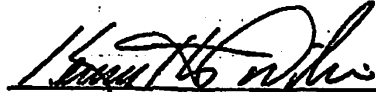
- b. **Waiver:** No waiver of a provision of this Agreement shall constitute a waiver of any other provision, whether or not similar. No waiver shall constitute a continuing waiver. No waiver shall be binding unless executed in writing by the party making the waiver.
- c. **Construction of Terms:** All parts of this Agreement shall in all cases be construed according to their plain meaning and shall not be construed in favor or against either of the parties. If any term, provision, covenant or condition of this Agreement is held by a court of competent jurisdiction to be invalid, void or unenforceable, in whole or in part, the remainder of this Agreement shall remain in full force and effect and shall not be affected, impaired or invalidated hereby. In the event of such invalidity, voidness or unenforceability, the parties hereto agree to enter in to supplement agreements to effectuate the intent of the parties and the purposes of this Agreement.
- d. **Controlling Law:** This Agreement shall be construed in accordance with the governed by the laws of the State of California, with venue proper only in San Bernardino County, State of California.
- e. **Entire Agreement and Amendment:** In conjunction with the matters considered herein, this Agreement contains the entire understanding and agreement of the parties and there have been no promises, representations, agreements, warranties or undertaking by any of the parties, either oral or written, of any character or nature hereafter binding except as set forth herein. This Agreement may be altered, amended or modified only by an instrument in writing, executed by the parties to this Agreement and by no other means. Each party waives their future right to claim, contest or assert that this Agreement was

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modified, cancelled, superseded or changed by any oral agreement,
course or conduct, waiver or estoppel.

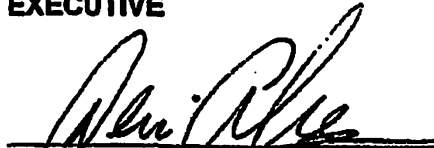
**IN WITNESS WHEREOF, The parties hereto have executed this Agreement on the date
first written above.**

**WATERMASTER
CHINO BASIN WATERMASTER**



By: Kenneth Willis
Chairman of the Watermaster Board

EXECUTIVE



Desi Alvarez