PERS00271

Minutes
CHINO BASIN WATERMASTER
WATERMASTER BOARD MEETING
July 28, 2011

The Watermaster Board Meeting was held at the offices of the Chino Basin Watermaster, 9641 San Bernardino Road, Rancho Cucamonga, CA, on July 28, 2011 at 11:00 a.m.

WATERMASTER BOARD MEMBERS PRESENT

Ken Willis, Chair	West End Consolidated Water Company
Bob Kuhn	Three Valleys Municipal Water District
Steve Elie	Inland Empire Utilities Agency
Ken Jeske	California Steel Industries
Paula Lantz	City of Pomona
Tom Haughey	City of Chino
Charles Field	Western Municipal Water District
Geoffrey Vanden Heuvel	Agricultural Pool
Paul Hofer/Jeff Pierson 1st 8 minutes	Agricultural Pool

Watermaster Staff Present

Desi Alvarez	Chief Executive Officer
Danielle Maurizio	Senior Engineer
Joe Joswiak	Chief Financial Officer
Sherri Molino	Recording Secretary

Watermaster Consultants Present

Scott Slater	Brownstein, Hyatt, Farber & Schreck
Mark Wildermuth	Wildermuth Environmental, Inc.

Others Present Who Signed In

Marty Zvirbulis	Cucamonga Valley Water District
Jo Lynne Russo-Pereyra	Cucamonga Valley Water District
John Bosler	Cucamonga Valley Water District
Mohamed El-Amamy	City of Ontario
Bob Gluck	City of Ontario
Dave Crosley	City of Chino
Ron Craig	City o f Chino Hills
John Mura	City of Chino Hills
Ben Lewis	Golden State Water Company
Tom Love	Inland Empire Utilities Agency
Terry Catlin	Inland Empire Utilities Agency
Craig Miller	Inland Empire Utilities Agency
Chris Berch	Inland Empire Utilities Agency
Ryan Shaw	Inland Empire Utilities Agency
Robert Tock	Jurupa Community Services District
Raul Garibay	City of Pomona
Curtis Paxton	Chino Desalter Authority
Bob Feenstra	Agricultural Pool - Dairy
Pete Hall	State of California, CIM
Jennifer Novak	State of California, Dept. of Justice, CIM
Mark Kinsey	Monte Vista Water District
Jack Safely	Western Municipal Water District
Eunice Ulloa	Chino Basin Water Conservation District
David De Jesus	Three Valleys Municipal Water District

Minutes Watermaster Board Meeting July 28, 2011

Josh Swift	Fontana Water Company
Seth Zielke	Fontana Union Water Company
Sheri Rojo	Consultant for Fontana Water Company
Dave Penrice	Aqua Capital Management
Jim Erickson	Law Offices of Jimmy Gutierrez
Todd Robbins	Sheriff/City of Pomona

Chair Willis called the Watermaster Board meeting to order at 11:01 a.m.

PLEDGE OF ALLEGIANCE

AGENDA - ADDITIONS/REORDER
There were no additions or deletions made to the agenda.

I. CONSENT CALENDAR
A. MINUTES
1. Minutes of the Watermaster Board Meeting held May 26, 2011
2. Minutes of the Watermaster Board Meeting held June 23, 2011

B. FINANCIAL REPORTS
1. Cash Disbursements for the month of May 2011
2. Watermaster VISA Check Detail for the month of May 2011
3. Combining Schedule for the Period July 1, 2010 through May 31, 2011
4. Treasurer's Report of Financial Affairs for the Period May 1, 2011 through May 31, 2011
5. Budget vs. Actual July through May 2011

Motion by Field, second by Haughey, and by unanimous vote
Moved to approve Consent Calendar items A and B, as presented

II. PUBLIC HEARING ON WATERMASTER 2011-2012 BUDGET
A. PROPOSED FISCAL YEAR 2011-2012 BUDGET
Chair Willis asked that a staff presentation be given on this item. Mr. Alvarez stated the item before the Board today is the Watermaster 2011-2012 Budget for your consideration which is by recommendation of the Advisory Committee in the amount of $8,780,187.00; that budget is less than the current fiscal year's budget. Mr. Alvarez stated there was a lot of effort put into the process this year in keeping the budget and cost of operations down. Mr. Alvarez stated the Advisory Committee considered this item at their June 16, 2011 meeting and it was that committee's recommendation, by a vote of 57 to 43, that this budget be approved. Mr. Alvarez stated subsequent to that meeting, the Agricultural Pool submitted a request for reconsideration of inclusion in the budget an item to cover their special counsel expenses. They have provided justification for those numbers; an increase to the proposed budget of $84,000 which was reviewed by the Advisory Committee meeting on July 21, 2011, although, no action was taken. Mr. Alvarez stated staff recommendation from June remains the same and noted Mr. Joswiak is going to give the latest budget presentation. Mr. Joswiak gave the Chino Basin Watermaster FY 2011-2012 Proposed Budget presentation in detail.

Chair Willis stated this is the official opening of the Public Hearing at 11:22 a.m.

Chair Willis inquired if any Watermaster Board members had comments and/or questions. No comments were received. Chair Willis inquired if there were any public comments and/or questions. Chair Willis acknowledged Ms. Jennifer Novak. Ms. Novak stated she is with the California Department of Justice, representing the State of California's water rights. Ms. Novak offered comment on a slide in the presentation regarding the Brownstein legal expenses to attend Agricultural Pool meetings and inquired if this was still the correct dollar amount. At a recent Agricultural Pool meeting the committee voted in favor of consolidating meeting dates

with the other two Pools; meaning the cost of Brownstein attending meetings should go down. Ms. Novak requested clarification on this matter. Ms. Alvarez stated he can respond now or wait until the Public Hearing has concluded its comments. Chair Willis stated it appears best to provide information now while it is still fresh in peoples' minds, and asked Mr. Alvarez to respond. Mr. Alvarez stated at the time the budget was approved it did include separate legal representation for the Pool meetings because they were on different days. Subsequent to that, the consolidation of all of the Pool meetings to a one day meeting day will reduce the overall expenses; however, the budget as presented reflects the numbers before the consolidation. Mr. Alvarez stated those savings are approximately $16,000 in the aggregate between all three Pools. Mr. Feenstra stated the members of the Agricultural Pool still believe that the $100,000 budget item, which was approved at its Pool meeting, will be included in this budget proposal today. Mr. Feenstra stated it has been estimated by reviewing the costs in detail with legal counsel that this dollar amount should be less than the $100,000. However, the Agricultural Pool is asking for the inclusion of the $100,000 for special counsel with regard to the Restated Judgment. Mr. Kuhn inquired if the special counsel is reviewing the work as it is being prepared or will review it after the work is complete. Mr. Feenstra stated it is his understanding from Dan McKinney, who has worked on the Judgment and Peace Agreement in the past, that this is an ongoing process in which he will be participating, attending meetings, and will be reviewing what the finished product looks like. Mr. Kuhn inquired why Mr. McKinney would attend the meetings, and if his input is needed. Mr. Feenstra stated the Pool feels there is a lot more involved than what may be seen on the surface, and asked that he be involved in the actual process. Counsel Slater stated this is being directed by staff and counsel and there is a report item from legal counsel on this matter. Counsel Slater stated staff is following a previously proved and successful pathway of moving documents through the process to clear out issues in advance. Counsel Slater stated by making this exercise collaborative, there is joint participation from all stake holders as the product is being created, and QA/QC is done before it finds its way to you, at which point there will be no opposition. Counsel Slater stated by using a process by which teams of people will be assigned from diverse interests to review and cross check each other's work, then when the document comes through the process, there will be recommendations from each of the sub-groups in addition to Watermaster counsels'. Counsel Slater stated it is his opinion having participation from the Agricultural Pool at that level will actually result in a far less legal bill than if the product was produced by Watermaster, sent out, and then sent back and forth for any needed changes. Counsel Slater stated in his opinion, if the process goes in accordance with the goodwill that was demonstrated at the initial meeting which some of the Board members attended, the best guess would be the expense will be a fraction of what the budget range would otherwise be. Chair Willis asked for other public comments or questions. Chair Willis stated with no further public comments, he is going to close the public comment portion and noted this matter is now before the Watermaster Board.

Ms. Lantz stated this question is for Counsel Slater. Ms. Lantz stated she is going to assume each of the Pools will have participants in the process that was just described and inquired if they are going to be legal participants as well as Pool representatives. Counsel Slater stated that is correct, and for the benefit of the Board, and in taking the Restated Judgment item out of order, he would like to describe what is being done. Counsel Slater stated the origin of the concern that was expressed by the parties was over the breadth of the assignment associated with a Restated Judgment. Watermaster has collectively met with all of the stake holders, management, Board members, council members, and their lawyers and described the following process. First, Watermaster counsel will act as the scrivener for purposes of taking all of the preexisting amendments to the Judgment that have already been approved, and all of the changes that are pertinent pursuant to court order, and they would be copied onto an ftp site. We would allow people to review it, no blindsiding, so they would be able to see that the changes were faithfully carried forward – that is assignment 1. Counsel Slater stated there appeared to be no opposition to the ability to cross check and in that way, there is not really a meeting burden that Mr. McKinney or any other counsel will be assuming beyond a meeting or a conference call to review the action of the scrivener. It's not going to be an active negotiation at level 1. The second item that was agreed to was to acknowledge the fact that some of the

nomenclature in the Judgment, some of the materials, the court orders, which are all arcane and are difficult to locate without cross references. What was proposed, and what we think the court is looking for, is something more than the scriveners exercise of trying to carry forward all the amendments, to create an annotated version of the Judgment. A version that sits before a party, so that one could read a provision in the Judgment and it would have a citation to all other pertinent provisions related to that section, so that the parties could see that section and clearly see there might be several other applicable provisions that need to be read in order to fully understand. There is a consensus that this needs to be accomplished and that is a great benefit to everyone. The process that was proposed to do that version was to remove the confrontation from the room and to establish teams to huddle around various provisions, equitably assign the work across the full spectrum of the stake holders, and allow them to collaborate and then make a recommendation on each segment of the Judgment. Effectively receiving party QA/QC before it comes to the Watermaster Board; this is the second phase. Counsel Slater stated in that segment, the participation from all of the lawyers and principals is welcome. Counsel Slater stated he believes this is what Mr. McKinney's budget reflects, not so much the first segment but the second segment, which is what we believe what the court is looking towards, and of which we believe there will be fair participation across the board. Ms. Lantz stated that answers her question about the process. However, at some point, possibly in the second phase, there will be legal participation by all the Pools in some way, and inquired if that is allocated in the other Pool's budgets. Counsel Slater stated this illustrates and is representative of an agreement that the Agricultural Pool has with the Appropriators with regard to the recovery of their legal fees. The Appropriators have the ability to collectively come together and hire a single a lawyer to represent their interest, if they choose to, or as customary in past practice suggests that the interest among the Appropriators are so divergent that each entity prefers to hire its own counsel. Each agency will make a decision dependent on their interest, in a specific segment of the restatement, and each entity will fund at their own level of interest. Ms. Lantz stated, as looking at it by the hours broken down by the Agricultural Pool, they are proposing close to two hundred and fifty hours worth of legal work regarding this matter which seems dramatically excessive even though their needs are understood. Ms. Lantz inquired if there is some guess estimate for billable hours that would be expected or reasonable for the kind of process they are looking at. Counsel Slater stated he has had conversations with Mr. McKinney, who is the appointed special counsel for the Agricultural Pool and was one of the lawyers who were instrumental in the original Peace Agreement, and in his and other opinions he competently represented the Agricultural Pool through the Peace process. Counsel Slater stated Mr. McKinney has a good understanding of the dynamics and is competent counsel and he came up with good recommendations and, with that history, it is his belief the costs will be less. Counsel Slater stated Mr. McKinney took into account the process may not go as smoothly as hoped and therefore left open a budgeted amount to cover what could happen; this is all dependent on the participants. Counsel Slater stated he has not reviewed his work plan but he knows that Dan is a competent lawyer. Ms. Lantz inquired as to who actually pays for the Agricultural Pool legal expenses. Counsel Slater stated the representation is that the Agricultural Pool made an agreement with the Watermaster Appropriative Pool with regard to the coverage of Watermaster expenses that would be incurred by the Pool, and that their expectation is that coverage of expenses includes reasonable legal expenses. There has always been discussions on the reasonableness of expenses and the budget, but the Agricultural Pool is putting forth their legal expense as a quick pro quo for value previously given, and saying we made a bargain with you and you agreed to cover these legal expenses.

Mr. Elie inquired about the $250,000+ figure that was shown for the Agricultural Pool in Watermaster's presentation and inquired if that figure includes non-Brownstein legal fees. Mr. Joswiak stated the $258,000 includes the Brownstein fees for attending meetings; however, it does not show Agricultural Pool legal fees. Mr. Elie stated then the only legal fees included are for Brownstein. Mr. Alvarez stated no, the $258,000 includes their general legal fees which are $118,000. Mr. Elie inquired if general legal counsel submitted a budget for that or is that just a number. Mr. Alvarez stated that is a number based on last year's expenditure projection.

Mr. Elle inquired if there is a budget. Mr. Alvarez stated there is not a detailed breakdown like was provided for the special counsel.

Mr. Kuhn stated he was more confused after attending the workshop. Mr. Kuhn stated he remembers it being stated that Brownstein was rewriting to put errors back in and make it as it stood in the original concept with all the errors included. Counsel Slater stated no. Mr. Kuhn stated counsel just clarified it is not being rewritten and now there is even more confusion; what are we really doing? Counsel Slater reiterated the entire process that was described for Ms. Lantz's questions. Counsel Slater stated what is being done are two things – we are doing the first thing because we know we can do it, and we hope to accomplish the second. The first is, we want to have a perfect widely accepted Restated Judgment and then we want to come up with an annotated Judgment which would be useful for the court, which the court desires, and for everyone who has asked for it. Mr. Kuhn stated he was originally not in sympathy with the $100,000; however, after attending the workshop and hearing the details; he is now in complete sympathy of the $100,000.

Mr. Elle inquired as to being tied to one or the other, or is there something else the Board can do since this is a Public Hearing in determining whether zero is allocated to the Restated Judgment, or $100,000, or something in between. Mr. Alvarez stated it is basically up to your discretion. Counsel Slater stated the matter comes to this Board with a recommendation from the Advisory Committee, so you are required pursuant to the Judgment to explain your decision so that there be a basis for your decision, this is not a mandated action and you may do what you wish, but you must explain and report the rationale for your decision.

Mr. Bowcock inquired if that is the only requirement. Counsel Slater stated it is not a mandated action and you have discretion; however, this Board must articulate the reasons for its decision prior to making the decision, or in connection with the motion. Mr. Bowcock stated as a minority Pool representative, he is not going to interfere in any other Pool's budgeting process; that is their process and how they present it and how it gets paid for is a different set of circumstances. We asked them to budget it and they budgeted it and it is their business how they do it. Mr. Bowcock stated he is not a fan of last minute budget ultimatums and this thing has gone on for the last six weeks. Mr. Bowcock inquired if there are all these cash strapped agencies out there, can we kick the can here, and inquired what's the affect of doing that - we have all heard the rumblings about Peace III, and if we are going to go into Peace III, why should any of us pay for any other of us to draw up battle plans? Our Pool has not budgeted for any participation and so for us to be asked to go through this exercise is going to cost our Pool additional time and resources. Mr. Bowcock stated he heard specifically that the Appropriative Pool has not budgeted any special money for legal counsel to do anything and they indicated they may participate on an individual level; that sounds like Peace III. Mr. Bowcock stated do we just kick the can and save not only the $84,000 from the Agricultural Pool but possibly the $84,000 from Watermaster. Chair Willis asked for a staff response. Counsel Slater stated the question of whether to go forward is a policy question and the judge has asked for it; the judge has said it's complicated and it's voluminous. If the position was that you wish to tell the judge you want to wait and you want to defer it for financial reasons, that could be a position you could take; however, as your counsel, I would ask that you consider the following: if you stick to the directive that you are not going to renegotiate and that you are going to annotate and act scholarly and you can find a process to do that, when we get the legal counsel portion, you can confine the discussion and thereby control the legal fees that will be expended. Counsel Slater stated you have things that come in front a judge and as a lawyer I am sympathetic to this judge and the motions that are made. The context in which he must issue a decision can be improved by having a document which is user friendly and more likely to get the right result. You have the ability to limit scope, and I think the judge has asked for it and he asked for it by a date and we have extended the date, and now we are going to make a further report; the intention was to give him the actual Restated Judgment with the promise on the annotation to follow and to accomplish this in September.

Chair Willis stated Mr. Geoffrey Vanden Heuvel has some comments. Mr. Vanden Heuvel stated the decision to proceed on the Restated Judgment was made by the Board, as Counsel Slater just stated, and it has been included in the budget. It is important to note that this Judgment has served us all very well for 35 years, although some things can be not understood fully. Mr. Vanden Heuvel stated he wants to take a moment to explain about the unique and hugely beneficial position that the Chino Basin Judgment exists under. Mr. Vanden Heuvel offered comment on a friend in the Barstow area, which is now an adjudicated basin. This friend has been able to market some of his extra water for hundreds of thousands of dollars over that few years when water has been really tight. Mr. Vanden Heuvel stated he also owns some water in the Palos Verdes and Blythe areas, and he has also been able to market some of his water collectively with the other farmers for very nice returns. Mr. Vanden Heuvel stated when the Chino Basin Judgment was negotiated in the 1970's the decision was made that individual agricultural farmers would not be given rights to this water, that the farmers would own this water collectively and no one could personally profit from marketing this water; that was a huge concession. Mr. Vanden Heuvel stated in my colleague Paul Hofer's family there is history that goes back generations, and they would have been entitled under a Mojave-type Judgment to huge amounts of water that they would have had a right to, and they gave that up because what the farmers wanted was the ability to make a living farming, not marketing water. Mr. Vanden Heuvel stated hardwired into the original Judgment was a transfer mechanism to transfer water from the agricultural users to the appropriative users, where all that water agencies and cities do is pump water and sell it for revenue for their agencies. Mr. Vanden Heuvel stated there was an efficient mechanism to do that and there was also a provision that there would be a five year rolling because we did not know in the 70's what was going to happen in the future, so agricultural held its water. It's a five year rolling average and not just every-year movement. Mr. Vanden Heuvel stated as part of the Peace Agreement negotiations there was an acceleration of moving water from agricultural uses to appropriative uses and, negotiated as part of the Peace Agreement in 2000, was a provision that said during the term of this agreement which is a thirty year agreement that all assessments and expenses of the Agricultural Pool including those of the Agricultural Pool Committee shall be paid by the Appropriative Pool. This includes but is not limited to OBMP assessments, assessments pursuant to all paragraphs and these citations – both general administrative expenses and special project expenses. Mr. Vanden Heuvel stated the other thing that is important to remember is on page 50 of the Peace Agreement, is the independent right to extend this agreement. Mr. Vanden Heuvel stated it reads, "The term of this agreement may be extended for a period of an additional thirty years upon the unilateral election of either the Appropriative or Agricultural Pool" – meaning that this deal that was done in 2000 was meant to be a permanent deal because it is extendable out for sixty years. Mr. Vanden Heuvel stated we will talk later about some water that MWD has available that we are going to try and find money to buy; $409 is what MWD is going to charge, $2 to Orange County Water District for a tolling charge to use their valve, and $11 or $13 to IEUA – this Restated Judgment is hugely important to the Agricultural Pool. Mr. Vanden Heuvel stated there are still farmers in this area that still depend on this water for operations, and what is in these documents is extremely important. Mr. Vanden Heuvel stated chairman Feenstra brought in Dan McKinney, the best attorney offered to the Watermaster for this project, and head Counsel Slater validated that. There is a budget number which is $84,000, plus a $9,000 legal contingency, which amounts to about $1 an acre-foot or less, which is less than half of what Orange County is going to charge just to open the valve. Mr. Vanden Heuvel stated this is a relatively modest investment and is extremely important to the Agricultural Pool. Mr. Vanden Heuvel inquired about what the purpose of the budget is; the purpose is to look at what money is going to be spent for the next year so enough can be raised through assessments to have enough money to operate. Mr. Vanden Heuvel stated the Agricultural Pool was presented with the reality that Watermaster was moving ahead on a Restated Judgment, and the Pool looked at that reality and developed the staff support internally so that the Pool could be a constructive member of that. It's absolutely a legitimate expense, there shouldn't be any question about it, and it seems only prudent to budget for what looks like a legitimate expense. Mr. Vanden Heuvel stated with all

that being said, I am making a motion that the $93,000 be added to the Watermaster budget, and then to approve the rest of the budge as is.

Mr. Kuhn stated then the motion is to approve the budget with the additional $93,000 added into it. Mr. Vanden Heuvel stated yes.

Chair Willis asked if that was clear to everyone. Mr. Bowcock stated $100,000, not $94,000 right? Mr. Vanden Heuvel stated $93,000 which is the $84,000 plus the $9,000 of the contingency.

Chair Willis stated there is a motion and asked for a second. Mr. Field seconded the motion. Chair Willis called for any questions.

Mr. Elle stated a discussion is needed. Mr. Elle stated he has the utmost respect for Mr. Vanden Heuvel, but he is looking at the issue from a different perspective. Mr. Elle stated that he represents the public and the public is the one who is going to be paying for this. Mr. Elle stated he is also a practicing lawyer, who submits budgets, and he is not one to have budgets nitpicked and cut to the bone etc., but this has to be looked at realistically and everything needs to be taken into account. Mr. Elle stated it basically comes out to a penny per thousand for this legal budget for the extra assessment, and my opinion is that the number should be a little bit lower, and that we should all respect the budgeting process that all the public agencies are a part of. Mr. Elle stated 250 hours is a significant amount of time on a single project, especially in light of the way counsel has described it, and we have also heard from Mr. Alvarez that approximately $16,000 in total will be saved in all the Pools. Mr. Elle stated what he is suggesting is that he would prefer that the number be lower to take that into account. Mr. Elle stated he prefers that the number be lowered to recognize the burden it is, and all parties have to work in good faith, and that the burden is being put on the Appropriators. Mr. Elle stated he doesn't have a specific number in mind other than $16,000 less. Mr. Elle stated he is not in favor of the motion as it is presently presented. Chair Willis acknowledged Mr. Field. Mr. Field stated there are a lot of positions here. Mr. Field stated he has a real concern about not responding in good faith to a judge's request, as the judge's role in this has been essentially pretty collegial with this group. Mr. Field stated he thinks it is vitally important to maintain that relationship with whatever judge gets assigned to this process. As we know, judges get sick, retire, or whatever, and as a new judge is appointed we have a new educational process. Mr. Field stated the process of obtaining the Restated Judgment as requested is extremely important to maintain Watermaster's relationship with the court. Mr. Field questioned, in terms of it being done, are all of these budgetary allocations correct? Mr. Field stated is not confirmed that these people must expend them. Mr. Field stated that he has known Mr. McKinney a long time, he has also known Mr. Slater for quite some time, and he doesn't view either of them as people who overbill for the work done. Mr. Field stated that he doesn't think there is a serious problem with that respect, and urged that Watermaster proceed with the motion at its set present posture.

Mr. Haughey stated he believes the Restated Judgment is very important, and doesn't think giving $93,000 and a check book for expenses that are possible or not is a good idea. Mr. Haughey stated he agrees with Mr. Elle that a lesser number, or having the Agricultural Pool come back to the Appropriators for more additional funding at a later date, would be better.

Mr. Elle stated judges don't have to spend the money, but whatever the number is, the Appropriators will have to pay it as an assessment if its budgeted. Mr. Bowcock stated that we are in a budget process, and it is something we are doing pre-a-fact. Mr. Bowcock stated that if he was in the Agricultural Pool he would spend the money and leave them the bills because he believes that is what they are entitled to do. Mr. Bowcock stated that he thinks it's the wrong way to go about it, but also stated that the Agricultural Pool is entitled to spend what they deem necessary to spend as a prudent minority body of this larger group. Mr. Bowcock stated if they spend it without a budget, Watermaster will just be back here amending the budget, and stated

he doesn't think that's prudent. Mr. Bowcock stated that he would rather see them come in under the $93,000 – that is where he is at on the budgeting process.

Mr. Vanden Heuvel stated he appreciates the comments Mr. Haughey and Mr. Elie have made but, whether it is an advantage or disadvantage, the Agricultural Pool membership has been pretty constant for quite a few years, and has memories of spending money that wasn't budgeted, needing to come back to the Appropriative Pool and getting absolutely stonewalled, having to actually file legal papers to take this thing to the court, and then the Appropriators finally relenting on approximately $20,000. Mr. Vanden Heuvel stated that it is burned into the memory of the Agricultural Pool, so the lesson learned from that, now that we are in the budget process, is the Ag Pool is not going to be in that position that we are coming back asking for more money. Mr. Vanden Heuvel stated he doesn't think there is any doubt that as long as it is a legitimate expense, and it can be demonstrated that it is legitimate, the obligation there is that the Appropriative Pool is to pay those bills, and the budget is to make sure there are sufficient assessments to cover that. Mr. Vanden Heuvel stated whatever is not spent, of course, gets rolled over to the next year, and starts as a fund balance and gets taken into account in the next budgeting process; it's not like the money is lost. Mr. Vanden Heuvel stated he appreciates the concern that the tax payers are not wasting any money, but this is a very important matter to the Agricultural Pool, and so would urge a yes vote.

Ms. Lantz inquired that the estimates received, given the explanation of our counsel about the process that is envisioned, were they received because they were not fully understanding of that process? Ms Lantz further inquired can the amount be reduced as Mr. Elie has implied, given the way the process is to take place, the budgeting for court appearances and the various meetings and so forth, if those don't take place, is there any way you can reduce it given the explanations we have heard?

Mr. Vanden Heuvel stated $16,000 could be cut out of Brownstein's budget for meeting attendance, and stated that things need to be kept in perspective. Mr. Vanden Heuvel stated we are talking about producing 114,000 acre-feet of water in the next year, and whatever budget number we come up with gets divided by that production number and we are literally talking about pennies. Mr. Vanden Heuvel stated we are talking about less than a dollar per acre-foot of difference. Mr. Vanden Heuvel stated what is difficult for him to understand is we are going to pump about 33,000 acre-feet in the Agricultural Pool, we have 82,880 of right, we are going to transfer 49,000 acre-feet of water to the Appropriative Pool, and the only thing you have to do is pay our Watermaster expenses. Mr. Vanden Heuvel stated you are going to pay willingly, or unwillingly, $400 or $500 to MWD, maybe even $600 or $700 an acre-foot for replenishment water – but we get a little irritated when we get nickel and dimed. Mr. Vanden Heuvel stated you are getting the Agricultural Pool water for $55 and normally we charge $54 but we've got a big project coming up that's important to us and we need this money, and we think this is legitimate. Mr. Vanden Heuvel stated with all due respect we need to close this budget off and move on my motion as stated for $93,000, and I appreciate everyone's support.

Chair Willis stated we are talking about a $93,000 request, which the Agricultural Pool has worked pretty hard to justify. We have a $6.7M budget; however, we seem to be uncertain, there are those who would like to reduce the $93,000 but have not given us a number that they can justify, or any number for that matter. Chair Willis stated the Agricultural Pool has been working hard to justify their request, and he, for one, plans to vote for it. Chair Willis stated with that he believes there has been plenty of discussion, and stated let's go ahead and arrange a vote and called for the question. Chair Willis asked for a raise of the right hand and counted the vote; the vote is 3 no to 6 yes – the budget passes with an additional $93,000.00.

Mr. Elie inquired if it is needed to give the basis for the $93,000. Counsel Slater stated that it would be to record the action on the basis of those parties, who spoke in favor of the motion, and to record those and include those in the minutes as the stated reasons; however, if the wish

is to go on and actually articulate the reason, it will be taken as well. The intention would be to use the minutes as to what occurred.

Mr. Kuhn stated he has stated his objection to the motion but would be more than happy to change his vote to a yes vote if it helps the cause in court. Mr. Kuhn stated he would ask for a unanimous vote once it is known what it's going to be – does that help our position. Counsel Slater stated that is a matter of policy, and stated it's not essential for the court; an action of the Board is an action of the Board. Mr. Kuhn stated his vote stands and is not voting no against the budget, but still does not have an understanding for the $93,000.

Counsel Slater stated what he intends to do is articulate the Board's rationale and findings related to the approval of the motion as made by those Board members who spoke in favor of the motion; those will be prepared and included in the minutes, and notice of the action is in the distribution of the minutes related to the action. Counsel Slater stated if it is your wish to go on the record now and articulate that, your comments will be taken but the proposition is to save you time in doing it the other way. Chair Willis stated the votes are recorded and the testimony given during the course of the hearing shall be recorded as recommended by legal counsel.

Chair Willis officially closed the Public Hearing at 12:15 p.m.

Motion by Vanden Heuvel, second by Field, and by a majority vote: 6 Yes (Willis, Bowcock, Vanden Heuvel, Hofer, Lantz, and Field) to 3 No (Haughey, Elie, and Kuhn)

Moved to approve the Watermaster FY 2011-2012 Budget including increasing the amount by $93,000 for the Agricultural Pool's Special Counsel to perform work on the Watermaster Restated Judgment and to use the July 28, 2011 minutes as verification of this additional monies being added to the presented Budget, as presented

III. BUSINESS ITEMS

A. ACQUISITION OF RIGHT OF ENTRY AGREEMENT FOR HORIZONTAL EXTENSOMETER

Mr. Alvarez stated this is a Right of Entry Agreement that is being presented today for your approval and authorization for Watermaster to enter into the agreement. The purpose of the agreement is to obtain access to a property for the installation of a horizontal extensometer which will be to collect data as part of the study that is being done in conjunction with looking at land subsidence in the MZ1 area. Mr. Alvarez stated at that site there will be controlled aquifer tests which will induce some drawdown and will provide valuable data on settlement as part of this comprehensive study. Mr. Alvarez stated the agreement is for a period of 21 months and there is a fee of $1,000, which will to go the property owner associated with the agreement. Mr. Alvarez stated staff recommends approval of the agreement, including the fee to the land owner.

Motion by Bowcock, second by Haughey, and by a unanimous vote

Moved to approve the Right of Entry Agreement for the horizontal extensometer, as presented

B. AGREEMENT TO PROVIDE LOAN BETWEEN CHINO BASIN WATERMASTER AND CHINO BASIN WATER CONSERVATION DISTRICT - (Information Item Only)

Mr. Alvarez stated this is an informational item to update the parties on the status of obtaining financing for purchase of the replenishment water. Mr. Alvarez stated the Chino Basin Water Conservation District (CBWCD) has been one of the parties interested in assisting Watermaster in financing the purchase of that water. Mr. Alvarez stated on July 11, 2011 the CBWCD board of directors approved an agreement to loan Watermaster up to $5M for purchase of the water. Mr. Alvarez stated the terms of the agreement would be for CBWCD to carry the interest rate of LAIF plus 1 1/2%, that interest would be paid monthly to CBWCD and then the principle would be due and payable in January 2015, which will be when all of that water has been called for and assessments would have taken place. Mr. Alvarez stated the CBWCD also requested that

Watermaster counsel provide an opinion that it could enter into such an agreement, and that has been developed and is available. Mr. Alvarez stated in addition to the legal opinion, CBWCD has the condition that it would also be taken to the court to recognize that Watermaster has entered into such an agreement and also recognizes that Watermaster has an obligation to prepare assessments to prepay that loan. Mr. Alvarez stated this agreement has recently been completed and was presented to the Advisory Committee at their meeting last week. That Committee discussed the agreement and requested it be put back through the Watermaster process for further review. Mr. Alvarez stated the reason it had not gone through the Pool process is because of the timing of the Pool meeting. Mr. Love offered comment on Inland Empire Utilities Agency (IEUA) providing a loan to Watermaster for a portion of the needed financing, and noted time is of the essence on getting the loan started as well as how much is needed in order for IEUA to begin the proper paperwork. A discussion regarding financing, the quantity of water, and storage agreements ensued. Mr. Alvarez stated to-date MWD member agencies have not had storage agreements so this would be precedent setting. Counsel Slater stated that no one can store water in the basin without a Storage Agreement with Watermaster. A lengthy discussion regarding storage agreements, precedent issues, and financing ensued. Counsel Slater stated there are notice issues, and in counsels' opinion a Storage Agreement is needed. Mr. Alvarez stated getting together a Storage Agreement will not take that long to accomplish.

C. **UPDATE OF CHINO BASIN GROUNDWATER MODEL - (Information Item Only)**
It was noted this presentation will be given at the next Watermaster Board meeting.

IV. REPORTS/UPDATES

A. WATERMASTER GENERAL LEGAL COUNSEL REPORT

1. Paragraph 31 Appeal
Counsel Slater stated the Appropriative Pool has filed their responsive pleadings and there have been no results of settlement to report. Counsel Slater stated he received a request from counsel for an extension of time from the Overlying Non-Agricultural Pool due to a vacation, and they would also like an extension of time to file their responsive pleadings. Watermaster has no opposition or concern regarding this extension. Chair Willis stated Watermaster recognizes the need for taking a vacation and there is no objection to that request.

2. Restated Watermaster Judgment
Counsel Slater stated that a workshop was held and the materials are on the Watermaster ftp site for all to review. Counsel Slater stated the workshop went well and was very well attended and it is still anticipated to have this ready to present to the court on September 30, 2011.

3. September 30, 2011 Hearing
Counsel Slater stated there is a hearing scheduled for September 30, 2011 at 10:30 a.m., and the main subject will be to consider the CDA issues and the Restated Judgment issue. Counsel Fife stated with the discussions that have taken place over the loan agreement, one of the conditions in that agreement that Watermaster gets court approval.

4. Analysis of Brown Act Applicability
Counsel Slater stated Ms. Lantz asked for an articulation on why Watermaster is not subject to the Brown Act to be presented at a future meeting. Counsel Slater stated a memo has been prepared with this regard. Counsel Slater stated, even though counsel has made the case of why Watermaster is not subject to the Brown act, Watermaster, as a matter of policy, attempts to comply with the Brown Act and other rules of order. Counsel Slater stated even though the Watermaster, by law, is not required to comply with the Brown Act, an effort is made to try and comply with Brown Act procedures.

Mr. Hofer offered comment regarding Mr. Vanden Heuvel and himself who sits on the Chino Basin Water Conservation District's board, and noted he was advised by their counsel that it would be prudent for them to abstain from voting on the item regarding the loan between Watermaster and CBWCD. Mr. Elie stated he will also abstain when the loan between Watermaster and IEUA comes before this Board. Counsel Slater commented on the Rules & Regulations section regarding Conflict of Interest. A brief discussion regarding this matter ensued.

B. ENGINEERING REPORT

1. Progress Report on the State of the Basin Report
Mr. Wildermuth stated Wildermuth Environmental has been working really hard to get the State of the Basin report done and it will posted next week on the Wildermuth and Watermaster ftp sites. A limited run will be done on the actual report. Mr. Wildermuth stated next month reports will be given on the State of the Basin report and the Groundwater Modeling work.

C. CEO/STAFF REPORT

1. Recharge Update
Mr. Alvarez stated to date 15,600 acre-feet of water has been recharged of the purchased replenishment water; this represents approximately 80% of the estimated amount of 50,000 acre-feet goal. Mr. Alvarez stated with this amount it appears we will not meet the goal unless recharge can be made up.

2. 85/15 Rule Review
Mr. Alvarez stated this item was on the agenda from a request from the Appropriative Pool members and it will be brought back with a detailed presentation in September.

3. Water Activity Report Update
Mr. Alvarez stated Watermaster staff is in the process of preparing the Water Activity Reports (WAR) which will go out shortly. Mr. Alvarez stated this will begin the next step towards the Assessments process. Mr. Alvarez stated those reports are due back to Watermaster as quickly as the parties can get them back; this will speed up the process and allow the Assessment Package to be developed in a timely manner.

V. INFORMATION

1. Cash Disbursements for June 2011
No comment was made regarding this item.

2. Newspaper Articles
No comment was made regarding this item.

VI. COMMITTEE MEMBER COMMENTS
No comment was made regarding this item.

VII. OTHER BUSINESS
No comment was made regarding this item.

The regular open Watermaster Board meeting was convened to hold its confidential session at 12:42 p.m. It was noted the Watermaster Board took a 10 minute break before beginning the confidential session.

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

1. South Archibald Plume 2. Paragraph 31 Motion 3. Perchlorate Contamination
3. Chino Airport Plume

A short second break was taken at 1:36 p.m.

The confidential session concluded at 2:40 p.m.

There was no reportable action from the confidential session.

IX. FUTURE MEETINGS

Tuesday, July 26, 2011	9:00 a.m.	GRCC Meeting @ CBWM
Thursday, July 28, 2011	11:00 a.m.	Watermaster Public Hearing @ CBWM
Thursday, July 28, 2011	11:00 a.m.	Watermaster Board Meeting @ CBWM
Thursday, August 11, 2011	9:00 a.m.	Appropriative Pool Meeting @ CBWM
Thursday, August 11, 2011	11:00 a.m.	Non-Agricultural Pool Conference Call Meeting
Thursday, August 11, 2011	1:00 p.m.	Agricultural Pool Meeting @ CBWM
Thursday, August 18, 2011	8:00 a.m.	IEUA Dry Year Yield Meeting @ CBWM
Thursday, August 18, 2011	9:00 a.m.	Advisory Committee Meeting @ CBWM
Thursday, August 18, 2011	10:30 a.m.	Land Subsidence Committee Meeting @ CBWM
Thursday, August 25, 2011	11:00 a.m.	Watermaster Board Meeting @ CBWM

The Watermaster Board meeting was dismissed by Chair Willis at 2:41 p.m.

Secretary: _____

Minutes Approved: August 25, 2011