Minutes
CHINO BASIN WATERMASTER
AGRICULTURAL POOL MEETING
August 11, 2011

The Agricultural Pool Meeting was held at the offices of Chino Basin Watermaster, 9841 San Bernardo Road, Rancho Cucamonga, CA, on August 11, 2011 at 1:00 p.m.

Agricultural Pool Members Present Who Signed In
Bob Feenstra, Chair
John Hulsing
Gene Koopman
Rob Vandenberghe
Ken Dunfegton
Jeff Pilson
Pete Hall
Jennifer Novak

Watermaster Board Member Present
Paul Hofer

Watermaster Staff Present
Deel Alvarez
Joe Joswick
Shari Malino

Watermaster Consultant Present
Michael File

Others Present Who Signed In
Tracy Egoscue
Dave Crosley
Richard Rees
Paul Deutsch
Bob Gluck
Martha Westropp
Gil Aldaco

Dairy
Milk Producers Council
Cropl State of California, CIM
State of California, Dept. of Justice, CIM

Chair Feenstra called the Agricultural Pool meeting to order at 1:10 p.m.

Chair Feenstra apologized to the committee members, Watermaster staff, and parties present for the late start on the meeting.

AGENDA - ADDITIONS/REORDER
Mr. Alvarez noted the State of the Basin Report will be given at the September meeting. Chair Feenstra stated there will be a closed session today.

Chair Feenstra welcomed Ms. Egoscue to her first official Agricultural Pool meeting.

I. CONSENT CALENDAR
   A. MINUTES
      1. Minutes of the Agricultural Pool Meeting held July 14, 2011
Minutes Agricultural Pool Meeting

August 11, 2011

B. FINANCIAL REPORTS
1. Cash Disbursements for the month of June 2011
2. Watermaster VISA Check Detail for the month of June 2011
3. Combining Schedule for the Period July 1, 2010 through June 30, 2011
5. Budget vs. Actual July 2010 through June 2011

C. SEMI-ANNUAL STATUS REPORT 2011-1

Motion by Durning, second by Novak, and by unanimous vote
Moved to approve Consent Calendar Items A through C with one change provided by
Ms. Novak to the Recording Secretary on the July 14, 2011 minutes, as presented

II. BUSINESS ITEMS

A. RESOLUTION 11-06 RESOLUTION TO TAX DEFER MEMBER PAID CONTRIBUTIONS AND
RESOLUTION 11-06 RESOLUTION FOR PAYING AND REPORTING THE VALUE OF
EMPLOYER PAID MEMBER CONTRIBUTIONS

Mr. Alvarez stated this item is to clarify the tax status of certain benefits. The tax code allows
employers to designate certain contributions as being picked up by the employer and treated as
employer contributions for tax purposes. Mr. Alvarez stated the item before this Committee has
to do with those types of issues. Currently, the Watermaster reports to CalPERS all of the
member contributions on a tax defferable basis, and in order to comply with both the internal
revenue code and CalPERS regulations, staff needs to have a resolution adopted by the
Watermaster Board that recognizes that. The two resolutions that are before you address those
issues. Mr. Alvarez stated CalPERS originally contacted Watermaster in 2008 asking for such
resolutions. That was not done at that time and this action would take care of this matter. Staff
is recommending this Committee adopt them to move them forward to the Advisory Committee,
and ultimately the Watermaster Board.

Motion by Pearson, second by Vanden Heuvel, and by unanimous vote
Moved to approve Resolution 11-06 to tax defer member paid contributions and
Resolution 11-06 for paying and reporting the value of employer paid member
contributions, as presented

B. LOAN AGREEMENT WITH CHINO BASIN WATER CONSERVATION DISTRICT, CITY OF
ONTARIO, AND JURUPA COMMUNITY SERVICES DISTRICT

Mr. Alvarez stated this item has to do with the financing of the replenishment water. Mr. Alvarez
stated since Watermaster was not set up for this purchase, one alternative is that Watermaster
could acquire funds through a loan arrangement. Mr. Alvarez stated the Chino Basin Water
Conservation District (CBWCD) had stepped forward and stated they wanted to help in any way
they could and informed Watermaster they had money available to loan. Mr. Alvarez stated the
CBWCD board adopted specific terms for a loan for Watermaster, and there have also been
discussions with other parties who expressed their interest in purchasing the water now through
a special assessment. Mr. Alvarez stated for those parties that would like to take care of their
obligation now, they would loan the money equivalent to the anticipated amount that they are
going to be approximately assessed in three years, and then that would protect them in the
event of having to pay additional costs for this water. Mr. Alvarez stated the item before this
Committee is to approve the general terms of a Loan Agreement. This Loan Agreement would
be the one Watermaster would enter into with the CBWCD, JCSO, and the City of Ontario,
which are the parties that expressed interest in loaning the money. Mr. Alvarez stated the terms
of the Loan Agreement are that those parties are entitled to interest at a variable rate equal to
LAIF plus 1.5%, and that interest payments would be made on a monthly basis. Mr. Alvarez
stated funding for the interest would come out of the unrestricted reserves that Watermaster
has and would be recovered at the time of assessments to pay the loans; all is dependent on
the direction given to Watermaster. Mr. Alvarez stated staff is looking for direction whether to
move forward with the Loan Agreements or not. Mr. Alvarez stated another condition in these

CBWMD135

239-02
Minutes Agricultural Pool Meeting

August 11, 2011

Loan Agreements is that once these Loan Agreements are approved through the Watermaster process, they will then be taken to the Judge for his approval and acknowledgment that there will be a special assessment for the repayment of these loans. Mr. Alvarez stated the last caveat has to do with the priority of repayment of the loans which is still in negotiations. However, CBWCD has placed a condition on their loan by stating they would have a priority in the repayment; meaning having added a priority clause in the agreement with CBWCD that may not be in the other agreements. Mr. Durham inquired about CBWCD having excess funds to loan Watermaster the money for this particular transaction and why banks have not come forward to loan Watermaster money. A discussion regarding the CBWCD available funds and potential bank ability to loan Watermaster money ensued. Mr. Koopman inquired about Niagara's purchase of the replenishment water. Mr. Alvarez stated both Niagara and Fontana Water Company have true replenishment requirements each year. Mr. Koopman inquired about losses. Mr. Alvarez stated they are not subject to losses and the reason is the water that is being purchased by Watermaster is basin augmentation, which is recharged just as storm water is and that is not subject to any losses directly. However, indirectly it is because it is accounted every four or five years when the safe yield is calculated. Mr. Koopman offered comment on losses. Mr. Pierson inquired if the $5M agreement was rolling. Mr. Alvarez stated the amount of money that is required to buy all the water that was committed in taking the full 50,000 acre-feet is approximately $10M, and this request is for approximately half of the full amount needed. Mr. Alvarez offered further comment on the loan Watermaster is looking at. Chair Peanda offered comment on the vast snow melt for this year, and encouraged staff to set up some financing mechanism for Watermaster to purchase water in the future. A discussion regarding Inland Empire Utilities Agency’s (IEUA) offer to loan Watermaster money ensued. Mr. Koopman offered comment on IEUA’s position on loaning Watermaster money for the purchase of the replenishment water.

Motion by Koopman, second by Pierson, and by unanimous vote

to approve the Loan Agreement with Chino Basin Water Conservation District, City of Ontario, and Jurupa Community Services District, as presented

C. STORAGE AGREEMENT WITH INLAND EMPIRE UTILITIES AGENCY AND THREE VALLEYS MUNICIPAL WATER DISTRICT

Mr. Alvarez stated this item is regarding the replenishment water this year which Watermaster began taking in on May 16, 2011. Mr. Alvarez stated the availability of the replenishment water was unplanned, so it was not a previously budgeted item. Mr. Alvarez stated approximately 50% of the water has been paid for through prepayment replenishment purchases that are being done by Appropriators who need replenishment water, and the water is being put into storage accounts that are limited to replenishment purposes only. Mr. Alvarez stated starting in September, Watermaster needs to start making provisions for how the remainder is going to be paid for. Mr. Alvarez stated there are two options available to accomplish that task; 1) For Watermaster to obtain financing and pay for the water directly through loans, or 2) The water would be acquired by other regional agencies and be put into a storage account. Mr. Alvarez stated the proposal before this Committee is for extending potential storage agreements to the regional agencies, and that the water put into storage would be for prepayment replenishment of the dealltor obligations which start accruing in 2013. Mr. Alvarez stated the cost of the water would be $409, plus $12 an acre-foot for an IEUA surcharge, for delivering water to the basin and then an additional cost of $42 an acre-foot for that water that’s being recharged through direct injection. Actual acquisition cost is approximately $420.34 per acre-foot. Mr. Alvarez stated once the storage agreements are entered there would be a condition that the water would be called for dealltor replenishment at such time as necessary, and the storage agreements would be subject to not only the limitation that the water is there for prepayment replenishment, but that Watermaster would pay for the acquisition costs plus the carrying costs. The carrying costs would be the finance costs for the agencies as well as the annual losses and storage losses at 2%. The anticipated base price for the water in 2014 is $473.82. Mr. Alvarez stated staff is suggesting that Watermaster would pay no more than the anticipated MWD replenishment rate at that point in time. Mr. Alvarez stated staff is recommending storage
agreements with respective agencies that are interested, and to authorize negotiations with those agencies. Mr. Alvarez stated in the event that Watermaster pays more for actual cost of the water, staff's recommendation is that a condition be put in to the agreement that the difference in revenue between the actual cost and the actual amount paid, be reserved solely for investments in the Chico Basin to be mutually agreed to between the agency and Watermaster. Mr. Koopman stated there may not be a replenishment rate from MWD at the time of the call, and offered comment on the costs outlined by Mr. Alvarez. Mr. Alvarez stated the intent is that the base rate that water would be purchased at the time of the call would be to cover all the expenses, and the number in the report is an estimate based on what the projected finance costs may be. A discussion regarding the rate, costs, and this matter ensued. Mr. Pierson offered comment on all the extra charges being put upon the IEUA loan, and noted he was uncomfortable with them seemingly making some sort of a profit on this transaction. A lengthy discussion regarding IEUA's loan, loan concerns, future mechanism for Watermaster to make water purchase in the future, and future replenishment needs ensued. Mr. Alvarez stated Watermaster put together a Recharge Master Plan (RMP) and there must be implementation of that plan, and part of the issue identified in the RMP is to acquire some water and do some recharge to take care of the Desalter obligations. Chair Feenstra asked if the agreement could be reviewed by this Committee prior to it being finalized. Mr. Pierson inquired if the Chino Desalter Authority (CDA) has ever been looked at as a purchaser. Mr. Alvarez stated the CDA made a commitment to invest in the facilities with a condition that they would not be responsible for the actual replenishment, and noted this was not a worthwhile endeavor for them. A lengthy discussion regarding the CDA and this matter ensued. Mr. Alvarez stated there is an agreement that part of Peace II states the desalter replenishment obligation is going to be paid for by a special assessment.

Motion by Durington, second by Pierson, and by unanimous vote

Moved to approve authorizing Watermaster CEO to execute a Storage Agreement with Inland Empire Utilities Agency and with Three Valleys Municipal Water District, and to waive the thirty day notice period and the twenty-one day consideration period for applications for Local Storage Agreements with IEUA and TVMWD to store desalter replenishment water, as presented

D. PRESENTATION ON THE STATE OF THE BASIN REPORT (For Information Only)

It was noted the State of the Basin Report will be given at the September meeting.

Added item:

Chair Feenstra asked that Watermaster staff provide a place in the reports section for their new general counsel, Tracey Esques, to give a report on Agricultural Pool legal issues. Mr. Alvarez stated that would not be a problem to add that to the agenda.

III. REPORTS/UPDATES

A. WATERMASTER GENERAL LEGAL COUNSEL REPORT

1. September 30, 2011 Hearing

Counsel File stated this hearing is still on calendar; however, there has been talk about the need to possibly push back the date. The main subject of the hearing will be the CDA Resolution, which was adopted by the Watermaster Board in October, 2010. A meeting took place recently with the CDA parties in order to begin the process of preparing for the hearing. A pleading is being drafted and there will be witnesses called at the hearing. The hearing will be similar, in format, to the ones in front of Judge Wade in order to give Judge Reichert more Watermaster educational background during the hearing, as requested. For a while each hearing will offer the Judge more educational information until he is up to speed on issues, instead of holding separate informational hearings as Judge Wade had requested. Counsel File stated when the preparation is done for the hearing it will be done in an open process where parties can come and see what is going to be presented to the Judge and offer comment. Counsel File stated one of the issues for the Agricultural Pool is
that in the Watermaster Resolution there are some issues that affect some individual Agricultural Pool parties. Counsel Fife stated during the Desalter expansion it had been identified what is being called the Zone of Influence, which is the new Chino Creek Well field, and it is anticipated to impact some agricultural wells. These wells have been identified and the well owners have been contacted at some level. However, they are not aware if this was ever told what the plan was, and noted it is certainly not in front of this Committee today for consideration. Ms. Novak stated it is about 48 days until the hearing, which is not a lot of time for consideration of plans, or for contacting individual well owners. Ms. Novak stated she also recalls the Zone of Influence being established at that time, which may or may not be the true amount of people who are going to be adversely affected by this situation. Ms. Novak offered comment on state wells which were considered to be outside the Zone of Influence, even though the state wells are being affected across the street from the Desalter, and arguably the state's water would be affected in the future by the Desalter dewatered. Ms. Novak stated she has some real concerns, not only because of the situation, but because there is not a clear recognition of who was contacted, if all who needed to be contacted were, and on what level they were contacted. Ms. Novak stated she clearly rembers being told the owners who were believed to be affected were being contacted, and her concern is if the owners knew what was coming, so that they could or should speak out, or whether they were just inadvertently waiving their rights while not even knowing their rights were affected. Ms. Novak stated she believes she was assured at that time that those affected well owners were indeed contacted. However, nothing has been discussed or no information has been provided since that time. Ms. Novak stated she does not have a problem with counsel and/or staff keeping this Committee notified in advance of what is going on. The problem is it appears the people who are going to be adversely affected are not being given the opportunity to be educated as to what is going on, what the history is, or even why they should be concerned, nor do they attend these meetings to be able to give their opinions or ask questions. All of this is anticipated to be done by September 30th – this raises a number of concerns. Chair Feenstra offered comment on the history of Desalter dewatered and the various situations it caused. Counsel Fife stated the entire purpose of bringing this information today to this Committee was to request the assistance of the Agricultural Pool, and to get aid in contacting the individual well owners. Counsel Fife stated he wanted to reiterate, if he was not clear in his report, that if the timing of the scheduled hearing did not work for this undertaking, then the hearing can and will be rescheduled. Ms. Novak stated she cannot stress enough it is almost mandated to reschedule the hearing to allow adequate time for this process to be properly completed.
Minutes Agricultural Pool Meeting

August 11, 2011

Chair Feenstra dismissed the Agricultural Pool Committee meeting at 8:25 p.m.

Secretary: ____________________________

Minutes Approved: September 8, 2011