

PERS00417

Minutes
CHINO BASIN WATERMASTER
ADVISORY COMMITTEE MEETING
August 18, 2011

The Advisory Committee meeting was held at the offices of the Chino Basin Watermaster, 8841 San Bernardino Road, Rancho Cucamonga CA, on August 18, 2011 at 9:00 a.m.

ADVISORY COMMITTEE MEMBERS PRESENT WHO SIGNED IN

Non-Agricultural Pool

Ken Jeske, Chair

Brian Gey

Scott Burton

Agricultural Pool

Jeff Pierson

Bob Feenstra

Pete Hall

Appropriative Pool

Mark Kinsey

Marty Zvirbulis

Tom Harder

Raul Garibay

Dave Crosley

Mike Maestas

Mohamed El-Amamy

J. Arnold Rodriguez

Sheri Rojo

Josh Swift

Shaun Stone

California Steel Industries

Auto Club Speedway

City of Ontario

Ag Pool - Crops

Ag Pool - Dairy

Ag Pool - State of California - CIM

Monte Vista Water District

Cucamonga Valley Water District

Jurupa Community Services District

City of Pomona

City of Chino

City of Chino Hills

City of Ontario

Santa Ana River Water Company

Fontana Water Company

Fontana Union Water Company

City of Upland

BOARD MEMBERS PRESENT WHO SIGNED IN

Bob Kuhn

Bob Bowcock

Three Valleys Municipal Water District

Vulcan Materials Company (Calmat Division)

Watermaster Staff Present

Desi Alvarez

Joe Joswiak

Sheri Molino

Chief Executive Officer

Chief Financial Officer

Recording Secretary

Watermaster Consultants Present

Michael Fife

Brownstein, Hyatt, Farber & Schreck

Others Present Who Signed In

Jo Lynne Russo-Pereyra

Curtis Paxton

Bob Gluck

Van Jew

Justin Scott-Coe

Tom Love

Craig Miller

Terry Callin

Ryan Shaw

Eunice Uiloa

Cucamonga Valley Water District

Chino Desalter Authority

City of Ontario

Monte Vista Water District

Monte Vista Water District

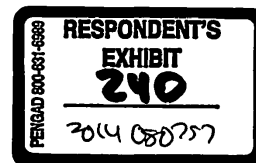
Inland Empire Utilities Agency

Inland Empire Utilities Agency

Inland Empire Utilities Agency

Inland Empire Utilities Agency

Chino Basin Water Conservation District



CBWM0145

PERS00407

Minutes Advisory Committee Meeting

August 18, 2011

V. POOL MEMBER COMMENTS

No comment was made.

VI. OTHER BUSINESS

No comment was made.

VII. CONFIDENTIAL SESSION - POSSIBLE ACTION

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

No confidential session was called.

VIII. FUTURE MEETINGS

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
Thursday, September 8, 2011	9:00 a.m.	Appropriative Pool Meeting @ CBWM
Thursday, September 8, 2011	11:00 a.m.	Non-Agricultural Pool Conference Call Meeting
Thursday, September 8, 2011	1:00 p.m.	Agricultural Pool Meeting @ CBWM
Thursday, September 15, 2011	8:00 a.m.	IEUA Dry Year Yield Meeting @ CBWM
Thursday, September 15, 2011	9:00 a.m.	Advisory Committee Meeting @ CBWM
Thursday, September 15, 2011	10:30 a.m.	Land Subsidence Committee Meeting @ CBWM
Thursday, September 22, 2011	11:00 a.m.	Watermaster Board Meeting @ CBWM
Friday, September 30, 2011	10:30 a.m.	Watermaster Court Hearing @ Chino Court

The Advisory Committee meeting was dismissed by Chair Jeske at 11:30 a.m.

Secretary: _____

Minutes Approved: October 20, 2011

PERS00408

Minutes Advisory Committee Meeting

August 18, 2011

vote was not even asked for so why is this even part of the record. Mr. Alvarez stated because the issue has been raised. A lengthy discussion regarding this matter ensued. Mr. Alvarez stated the Board will be notified it was a majority vote with an explanation.

III. REPORTS/UPDATES

A. WATERMASTER GENERAL LEGAL COUNSEL REPORT

1. September 30, 2011 Hearing

Counsel Fife stated the September 30th hearing, after speaking with the Pools that hearing is going to be moved out to give people more time to review the pleadings that will be filing for that hearing.

2. Restated Judgment

Counsel Fife stated items have been posted regarding this item on the Watermaster ftp site and no comments have been received. Counsel Fife stated Watermaster will organize some sort of meeting or conference call to make sure all parties have submitted any changes and/or concerns and if none are heard then that will be part of the pleading that is submitted for this hearing to whatever date that is scheduled.

B. CEO/STAFF REPORT

1. Recharge Update

Mr. Alvarez stated 21,000 acre-feet of replenishment water has been recharged to date.

2. Water Activity Reports (WAR) Reminder

Mr. Alvarez reminded the parties that have not turned in their Water Activity Reports to please do so as soon as possible.

C. INLAND EMPIRE UTILITIES AGENCY

1. MWD Update

No comment was made on this item.

2. State and Federal Legislative Reports

No comment was made on this item.

3. Community Outreach/Public Relations Report

No comment was made on this item.

4. IEUA Monthly Water Newsletter

No comment was made on this item.

D. OTHER METROPOLITAN MEMBER AGENCY REPORTS

Mr. Hansen stated in the first two and a half months of the Replenishment Program being made available, MWD member agencies have taken 125,000 acre-feet of water. Mr. Hansen offered further comment on replenishment water provided by MWD and noted it appears the 225,000 acre-feet is going to be met by the end of October. Mr. Hansen encouraged the parties to get in as much water in the ground as they can before the 225,000 acre-feet which was made available is met. Mr. Hansen also encouraged the In Lieu Program to get as much water as possible into the Chino Basin. A discussion regarding this matter ensued.

IV. INFORMATION

1. Cash Disbursements for July 2011

No comment was made.

2. Newspaper Articles

No comment was made.

PERS00409

Minutes Advisory Committee Meeting

August 18, 2011

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

Chair Jeske stated this item deals with the Storage Agreements with IEUA and TVMWD and he noted it was his understanding that the IEUA Agreement is the one on the table now and inquired if further discussion is needed on this item. Mr. Alvarez stated this item will be with IEUA and other parties. Mr. Alvarez stated there is an outline of a Storage Agreement being presented for approval and also authorizing Watermaster to enter into it with IEUA or other parties. Mr. Alvarez offered further comment regarding the Storage Agreement. Mr. Crosley stated he would like to acknowledge the Chino Basin Water Conservation District's offer of assistance; it did appear that Watermaster would have need for some kind of financial assistance and perhaps now we don't, which is a good thing, if the help is really not needed. Mr. Crosley stated it is hard to choose a potentially more expensive option to purchase the remainder of the water that may be available rather than a Loan Agreement based on the information presented. Mr. Kinsey stated he also appreciates the CBWCD's offer and gave further comment on the loan process matter. Mr. Kinsey encouraged Ms. Ulloa to go back to her board and encourage them to purchase the water. Ms. Ulloa offered commentary regarding Mr. Kinsey's comments including the 2% loss on the water if CBWCD went in that direction. A discussion regarding a loss free storage ensued. Chair Jeske stated a potential motion would be to authorize the agreement with IEUA and/or other parties subject to the parameters in the draft. Mr. Kinsey stated if IEUA was comfortable with those terms then he would make that motion and Mr. Zvirbulis seconded the motion. Mr. Garibay asked for clarification on this motion with regard to the other motion that was made on the previous item. Chair Jeske stated this is not for a Loan Agreement; it authorizes Storage Agreements with IEUA and other parties for the purposes of Desalter Replenishment. Chair Jeske stated if the 50,000 acre-feet goal is not met and nobody can agree on a loan, then Watermaster does not end up purchasing all the available water. Mr. Kinsey offered further comments regarding Mr. Garibay's comments and on the two avenues of Desalter Replenishment. Chair Jeske stated he agrees with Mr. Kinsey's comments and noted with the closeness of the recent vote, discussions, and different interests, maybe he could including in his motion forming a committee quickly to work on the parameters to go beyond the amount of water that is being discussed on this purchase, unless it is to be left open-ended. A lengthy discussion regarding this matter, Desalter Replenishment, and the potential amended motion ensued. Mr. Crosley stated what really distinguishes this motion from the motion that the parties just took action on, is that the previous motion gives parties with an existing Storage Agreement an ability to go out and pre-purchase this water; this motion now includes the approval of a Storage Agreement for parties that do not presently have one. Mr. Bowcock stated the executive officer asked for a template approval of a Storage Agreement period; just keep it simple. Mr. Kinsey stated he moved staff recommendation. Chair Jeske stated it was for IEUA and other parties, instead of IEUA and TVMWD that was the change. Mr. Hanson stated TVMWD is still in it and still wants to help out; however, the terms and conditions that are on the table right now are going to make it not possible for TVMWD to participate. Chair Jeske asked for any further comments or questions and then called for the questions.

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

Moved to authorize storage agreements for the Desalter Replenishment water with IEUA and other parties subject to the final number of acre-feet and the final word editing, as presented

Added Comment:

A discussion regarding if Business Item B. was a volume vote or not ensued, and it was noted a volume vote was not called for; however, if a volume vote was called for, the item would not have passed and would have failed. Ms. Rojo inquired how this item will be brought forward to the Watermaster Board. Chair Jeske stated that nobody asked for a volume vote and it is being brought forward on majority vote. Mr. Alvarez stated it will go the Board with a majority vote with the explanation that if it was a volume vote, the motion would have failed. Mr. Zvirbulis stated a volume

CBWM016:

PERS00410

Minutes Advisory Committee Meeting

August 18, 2011

willing to purchase the remainder 19,000 acre-feet. Mr. Love stated yes and that timing is of the essence. Mr. Kinsey stated MWD is planning on doing in lieu replenishment which doesn't require the Storage Agreement process but accomplishes the same goal by putting additional water into its carry over storage account which could be used for Desalter Replenishment; the actual amount of water is going to be less than 19,000 acre-feet. Mr. El-Amamy stated he wants to make sure Watermaster has a flexibility to acquire the water. Ms. Rojo offered her concerns over the potential motion. Mr. Crosley inquired after action is taken on the motion, is idea of first come, first served the idea that we are going to operate under. Mr. Alvarez stated it is not Watermaster's intent nor would it be wise policy to let one party come in and purchase all of the water; what will be done is to go ahead and make sure all of the parties that want to avail themselves of it and then on kind of a pro-rata basis, make sure that everybody gets an opportunity to do that, so that no one party is favored at the expense of all. Mr. Alvarez offered further comment on this matter. A discussion regarding the possibility of having to pay ensued. Mr. Bowcock stated what was brought before us by the executive officer was there was 50,000 acre-feet of water and that 25,000 acre-feet was allowed to be bid on, on a first come, first served basis for bidding, but if had been oversubscribed it would be allocated out based on your percentage and Fontana Water Company stepped up to the plate and purchased 20,000 acre-feet and then Niagara Bottling Company stepped up and purchased 6,000 acre-feet which was a little over and that was alright because Watermaster was fishing for more money because no one else stepped up. Mr. Bowcock stated the other 25,000 acre-feet was for the Desalter Program and that is what Watermaster has approved and the parties are now completely changing what the parameters of what Watermaster has already approved; if the loan program is off the table now, the Watermaster Board will deal with that next week at its meeting. Mr. Bowcock offered further comment on this matter. Chair Jeske stated the motion he heard restricts it to Desalter Replenishment and if the two parties think it's something different the Chair wants to make sure the minutes are clear what the motion was. Mr. Zvirbulis stated this is not a water grab, this is a one-time purchase of water and there were parameters established on how this water would be used but the whole process of financing it has really been the issue all along. Mr. Zvirbulis offered further comment on this matter and noted the purpose is to not have Watermaster borrow money. Chair Jeske stated it appears there is need, particularly in the Appropriative Pool, in putting together a small working committee to identify a process in the future for the next time water is available. Counsel Fife stated given the length of this discussion could there be a restatement of motion before the vote. Mr. Zvirbulis stated for Watermaster to provide the opportunity for the City of Ontario, Junupa Community Services District, or other parties to pre-purchase available water for Desalter Replenishment purposes subject to existing Storage Agreements. Mr. Kinsey acknowledged his second to the motion. Mr. Alvarez inquired if it is the Storage Agreements that are being presented in the meeting package. Mr. Zvirbulis stated no, it is subject to existing Storage Agreements that the parties already have or hold within the basin. Mr. Alvarez inquired about the parties not having an agreement. Mr. Zvirbulis stated then they wouldn't be able to purchase the water and store it. Mr. El-Amamy inquired if that does not exclude the action on Business Item C. and Mr. Zvirbulis stated this does not exclude the ones that are in the process or the ones before us now. A discussion regarding this matter ensued. Mr. Alvarez stated it would simplify things to just say, subject to a Storage Agreement, because there is a template agreement vehicle before you today. Mr. Zvirbulis stated that is a separate issue and there is probably discussion that needs to occur related to that agreement. Mr. Zvirbulis offered further comment on this matter.

Note: A volume vote was not asked for on this item.

Motion by Zvirbulis, second by Kinsey, and by majority vote 7 to 5—Pierson, Rojo, Swift, Tock, and Jeske voted no

Moved to approve for Watermaster to provide the opportunity for City of Ontario, Junupa Community Services District, or other parties to pre-purchase available water for Desalter Replenishment purposes subject to existing storage agreements, as presented

PERS00411

Minutes Advisory Committee Meeting

August 18, 2011

District, or other parties to pre-purchase, for purposes of future Desalter Replenishment, water that is currently available subject to existing storage agreements. Mr. Kinsey seconded the motion again. Mr. Zvirbulis stated this motion is for Business Item B, only. Ms. Ulloa stated she needs clarification because CBWCD does not want to purchase water and does not want to be in the water business; the CBWCD board only approved a loan. Ms. Ulloa inquired if the motion made would then cancel any opportunity for Watermaster to avail themselves of the \$5M dollars. Mr. Zvirbulis stated his desire would be that Watermaster doesn't borrow money to purchase this water. Ms. Ulloa stated if this motion passes, she will take it back to her board that Watermaster is no longer interested in CBWCD's assistance. Chair Jeske stated that is not correct because the Watermaster Board has not taken an action on this; however, if it passes by an 80% vote or even a majority vote and the Board agrees, it ends the Loan Agreement but it does not end the purchase of water through Storage Agreements. Ms. Ulloa offered further comment on this matter and noted this motion takes away any ability for the Conservation District to help. Mr. Crosley asked for clarification that if this motion passes and if the parties opt to purchase water now and put it in their storage account, it seems then that water is subject to losses, and it does sound like the original idea which was a special assessment, with the only difference being, that its now with the discretion of each of the parties rather than the discretion of Watermaster as a whole. Mr. Zvirbulis stated Mr. Crosley was correct. Ms. Rojo offered her concerns with this direction and noted it does seem like we are moving backwards. A lengthy discussion regarding this matter ensued. Ms. Rojo stated the loans are a better cost option for our constituents who need the water. Mr. Garibay offered comment on agencies purchasing the full amount of the water and on the flexibility of the payment terms as sort of a hybrid option. Mr. Crosley stated Mr. Garibay's comments do suggest a deadline is needed; a date that Watermaster staff needs to hear back from the parties about what they are going to opt to do should this motion made move forward. Mr. Crosley noted his question regarding losses has not been addressed. Chair Jeske stated Watermaster staff should hear back well in advance of the Conservation District's board meeting and the motion to approve some agreement doesn't take the loans off the table forever, it just does not approve them today if he is understanding the motions correctly. Mr. Zvirbulis stated what he is suggesting is in lieu of any loans. Chair Jeske stated then that is the motion. Mr. El-Amamy stated there still needs to be a deadline. Mr. Zvirbulis stated the end of the month is sufficient time. Mr. Alvarez stated staff needs something for the Board to approve next week; if the Storage Agreements are the way to go then approve the Storage Agreement and give staff the terms of what the parties want to see. Chair Jeske stated the Storage Agreements will be next and this motion is for the loans. Mr. Kinsey stated there is no action on the loans. Mr. Alvarez stated for his clarification this action is to make the Storage Agreements available to all the parties and that the water is going to be in storage for future Desalter Replenishment. Chair Jeske stated that was the motion. Ms. Rojo inquired if she could make a different motion now or does she need to wait and Chair Jeske stated the vote needs to be taken for the motion and second that has been given unless the maker of the motion wants to amend it. Chair Jeske stated the motion was, in lieu of the Loan Agreements to offer the water through Storage Agreements to all of the parties for purposes of Desalter Replenishment. Ms. Rojo stated she will be making a motion after this provided it has the opportunity that staff's recommendations are accepted for the loan conditions as well. Mr. Crosley stated Mr. Zvirbulis indicated that early in this process agencies offered to purchase this water but were told they could not; if the Loan Agreements do get approved, could a party step forward and purchase water and put that water in their storage account - are they precluded from doing that? Mr. Alvarez stated up to this point that was not an option on the table; the option that the Advisory Committee is considering now is that the parties all be afforded Storage Agreements for future Desalter Replenishment. Mr. Alvarez stated the option will be that individual parties can step forward and enter into a Storage Agreement for future Desalter obligation today as opposed to not doing it at all. Chair Jeske stated that was essentially the motion; it had that restriction in it and those have been approved on a one-by-one basis, such as the ones for Fontana Water Company and Niagara Bottling Company and it was determined to reserve the rest of the water for Desalter Replenishment and that is what the motion is all about; if it passes Watermaster staff is obligated to follow up on that. Mr. El-Amamy inquired if the City of Ontario purchases 5,000 acre-feet, will IEUA be

CBWA0151

PERS00412

Minutes Advisory Committee Meeting

August 18, 2011

noted TVMWD is now only interested in doing a Loan Agreement and not a Storage Agreement. Mr. Hansen stated TVMWD is here to help and offered further comment. A discussion regarding the maturity of the loans ensued. Mr. Alvarez stated the Chino Basin Water Conservation District's (CBWCD) board took formal action on the terms of the agreement so that is a done deal. However, with respect to the other parties, there may be flexibility on the dates and that can still be negotiated. Ms. Ulloa stated the CBWCD board is meeting in September and she will approach them with the possibility of the flexibility on the dates. Chair Jeske inquired if that would work time-wise for notifying MWD and the continuance to purchase the water. Mr. Alvarez stated yes, it does, and right now Watermaster needs to have some mechanism in place by September to continue. A discussion regarding the time frame, the possible Loan Agreements and possible Storage Agreements ensued. Mr. Alvarez stated both the Loan Agreement and Storage Agreements need to be put in place today so that staff can move forward and finalize these agreements as they need Board approval. Chair Jeske stated it was noted at the beginning of this item that separate motions would be made for the Loan Agreements and the Storage Agreements. Mr. Zvirbulis stated his suggestion for a motion would be to approve the Loan Agreement with IEUA, subject to negotiating terms that are satisfactory to both IEUA and Watermaster parties, and move forward with the process of them acquiring water and storing it in the basin for future use, whether it be for replenishment or for Desalter Replenishment, to be determined specifically for priorities and so forth. Mr. Zvirbulis suggested a motion on the Storage Agreements be made that would be in lieu of the Loan Agreements, that Watermaster just provide the City of Ontario, Jurupa Community Services District, or other parties the ability to pre-purchase water for replenishment purposes and have that water be subject to existing Storage Agreements. Mr. Zvirbulis stated this keeps it simple; it keeps those who have the money putting it into the pot to pay for the water, and keeps Watermaster out of the borrowing business and it solves a lot of long-term problems. Chair Jeske asked for comments. Mr. Love stated from a timing standpoint as of August 11, 2011 there is 21,000 acre-feet of replenishment water in the ground. A discussion regarding Mr. Zvirbulis' motions ensued. Mr. Kinsey asked that Mr. Zvirbulis re-read his motion. Mr. Zvirbulis stated the motion for Business Item 2B for the Loan Agreements is in lieu of the Loan Agreements that Watermaster provide the City of Ontario, Jurupa Community Services District, or other Watermaster parties the opportunity to pre-purchase water for replenishment purposes subject to existing Storage Agreements. Mr. Zvirbulis offered comment on CVWD asking several months ago to purchase this water, and was told unequivocally they were not allowed to buy it on a pre-purchase basis - CVWD was interested in purchasing this water and are still interested and committed to purchasing this water should this recommendation get supported. Mr. Kinsey inquired if that is the recommendation for the Loan Agreements. Mr. Zvirbulis stated that is his motion and Mr. Kinsey stated he seconds that motion. Mr. Harder stated he needs to take this back to their General Manager and he does not know if that takes Watermaster to the 25,000 acre-feet, which is the Storage Agreement portion of this discussion. Counsel Fife stated it would be helpful to have a time limit so that Watermaster knows whether parties are taking that option. Mr. Alvarez stated the action taken today will be taken to the Watermaster Board next week to get final authorization. Mr. Alvarez stated he needs some clarification on the motion that may be on the table for the other parties that have indicated an interest in helping with the financing of the purchase of this water and that they have available to them in a storage account, and inquired if that is correct that it would be the same storage account that is on the table now for preemptive Replenishment for the Desalters. Chair Jeske stated he has heard that parties said no that and they just want to put it in their existing storage accounts without limits on what the supplemental water could be used for. Mr. Alvarez offered further comments on the presented Storage Agreements. A discussion regarding the motions and storage accounts ensued. Mr. Alvarez stated all discussions and motions previously made have been for the purpose of replenishment for the Desalter and that has already been set in motion. Mr. Alvarez offered further comment on the discussions. Chair Jeske stated there is already a motion and a second made, and the Chair wants to make sure it accurately reflects the option that is consistent with the notice, the waiver of notice, and consistent with what the parties are willing to do. Mr. Zvirbulis stated as the maker of the motion, he recommends that Watermaster provide the opportunities for the City of Ontario, Jurupa Community Services

CBWM0150

240-07

PERS00413

Minutes Advisory Committee Meeting

August 18, 2011

are done, if one can substitute other water instead of this water and over how many years does one consume this water, and does that match to the Loan Agreements. Chair Jeske stated if you take the sum total of everyone's storage accounts, parties are going to run out before the end of the Peace Agreement and parties are going to still have to buy water somewhere. Chair Jeske stated there is the issue of flexibility, and there are several other issues which need to be worked out. A discussion regarding comments made on this subject ensued. Mr. Kinsey stated Monte Vista Water District (MVWD) has significant concerns about Watermaster borrowing money to purchase water when there are agencies which appear to be better positioned to take the lead in doing that. Mr. Kinsey offered further comment on the issues the Appropriative Pool is dealing with, including having the right to choose how parties meet their replenishment obligations, which is clearly built into the Peace Agreement. Mr. Kinsey stated there are a whole myriad of issues, including if Watermaster is even permitted to borrow money for an extended period of time. Mr. Kinsey restated what is written in Paragraph 24 of the Watermaster Judgment and then offered further comments on this matter. Mr. Kinsey stated taking Metropolitan Water District (MWD) water by in lieu replenishment is by far the lowest cost option of acquiring water, and then offered further comments on this matter including the potential issues with Hydraulic Control. Mr. Alvarez stated if Watermaster continues with this endeavor, a method needs to be drawn up on how the water is going to be paid for with consensus. A discussion regarding Mr. Kinsey's comments, payment options, and future replenishment issues ensued. Counsel Fife stated the Loan Agreements have a specific repayment schedule where, according to all the documents which were discussed, if water has not been assessed by November of 2014, then a special assessment would be levied. Mr. Alvarez stated there is a formula in place and that formula is identified in Article 6 of the Peace II Agreement for making up the Desalter Replenishment obligations. Ms. Rojo offered comment on Fontana Water Company's (FWC) position, the discussions which took place regarding this matter during the Peace II negotiations, and on what could take place regarding this endeavor in the future. A lengthy discussion regarding Ms. Rojo's comments, possible options, and losses ensued. Chair Jeske stated the question is: do the parties want Watermaster to borrow money with the obligation to repay while not knowing exactly who is going to need the water and what the assessment plan will be to pay for it? Mr. Alvarez stated the water will be used for Desalter Replenishment and is basically being put into the ground to augment the overdraft account, and when Watermaster assesses for the water, it will use the formula in Article 6 of Peace II for Desalter Replenishment. A discussion regarding Mr. Alvarez's comments ensued. Mr. Zvirbulis explained his concerns and noted this approach puts too many restrictions on parties to choose how they meet their future obligation and/or supplemental water supplies. Mr. Zvirbulis stated he wants to hear Inland Empire Utilities Agency's (IEUA) position on this matter. Mr. Love stated IEUA is willing to purchase the replenishment water and put it in the basin to meet future needs. Mr. Love stated Watermaster and IEUA are currently working out the issues on this agreement. Mr. Love stated IEUA's only concern is that there are some assurances that if it is restricted or utilized for a certain purpose that we have assurances that it will be sold for those purposes within a short time frame; in concept we have agreed to 2016 as a possible date. Mr. Love stated in addition that if whatever it is sold for exceeds our costs to acquire and store that water that amount of money will be set aside for investments in the basin during the term through 2016. A discussion regarding Mr. Love's comments ensued. Mr. Garibay stated in many ways the City of Pomona is similar to MVWD and CVWD in that Pomona has various options available for supply, and wants the lowest cost alternative to meet their obligation. Mr. Garibay stated the City of Pomona would want more of an unrestrictive use and offered further comment on IEUA and Three Valleys Municipal Water District's (TVMWD) investment in this endeavor. Mr. El-Amamy stated the City of Ontario also wants flexibility and offered further comment on this matter. Mr. El-Amamy inquired what would happen with regard to IEUA if the water was not purchased by 2016. Mr. Love stated there are certain parameters in the draft Term Sheet that have been agreed to if water is not purchased by 2016, essentially the terms of the Term Sheet expire and that water remains in storage and available for IEUA to meet other needs within the Chino Basin after 2016. Mr. Alvarez offered comment on the default of the agreement and other conditions in the agreement; there is an incentive for Watermaster to comply with the acquisition of that water for Desalter Replenishment purposes. Mr. Alvarez

CBWMD146

PERS00414

Minutes Advisory Committee Meeting

August 18, 2011

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

Chair Jeske stated Items B and C will be discussed together. However, separate motions will be recorded for clarity purposes. Mr. Alvarez stated Watermaster has gone ahead and moved forward with the purchase of approximately 50,000 acre-feet of replenishment water. Mr. Alvarez offered further history regarding the financing options and discussions on this matter. Mr. Alvarez gave the Preemptive Replenishment Program presentation. Mr. Alvarez reviewed the costs of the replenishment water in detail. Mr. Alvarez stated this water will be basically split 50/50 - 50% to the parties that purchased this water previously preemptively and 50% to storage accounts that would be restricted for preemptive replenishment. Mr. Alvarez stated when looking at the Desalter Replenishment and in discussions which took place at the recent workshop, the parties wanted to finance this water through the most cost effective method. The most cost effective alternative would be for Watermaster to take out a loan and then repay that loan through a future assessment. Mr. Alvarez stated another alternative would be that one of the municipals would step forward and purchase the water through a storage account. Mr. Alvarez stated if this water is put into a storage account there will be additional 2% storage losses, which will be put on the water if it is done through a storage account versus Watermaster, on its own behalf, putting the water into the basin. Mr. Alvarez stated the preferred alternative was to take as much water as possible through the Loan Agreements and whatever amount was left over that was not covered financially would be acquired through one of the municipals through a storage account. That storage account then would be called on beginning in 2014 or 2015 for purposes of Desalter Replenishment. Mr. Alvarez stated the items before this Committee today are to seek authorization in moving forward with the Loan Agreements with the Water Conservation District up to \$6M, and possibly a few other parties who have stepped up to loan Watermaster additional funds, which include the City of Ontario and Jurupa Community Services District. Mr. Alvarez stated Three Valleys Municipal Water District (TVMWD) has also offered to loan monies instead of entering into a Storage Agreement with the same terms that the other parties have offered. This will allot for the other 50% of the monies needed. Mr. Alvarez stated whatever water cannot be purchased through the Loan Agreements would then fall into another option through Storage Agreements. Those agreements would have their own set of criteria. Mr. Alvarez noted Inland Empire Utilities Agency (IEUA) has stated they are interested in a Storage Agreement. Mr. Alvarez stated Watermaster is seeking approval from the Advisory Committee and Watermaster Board to enter into a Storage Agreement with IEUA for purposes of acquiring replenishment water that would be used for future Desalter Replenishment. Chair Jeske inquired about the 2% loss factor. Mr. Alvarez stated it is not waiving a 2% loss and noted the 2% loss applies to the water in the Storage Agreements. A discussion regarding the 2% losses and how that applies to the loans ensued. Mr. Alvarez stated the Loan Agreements are straight financial transactions and the storage accounts are not a financial transaction. A discussion regarding financing options and costs ensued. Chair Jeske inquired about paying an agency for their carrying costs and then still allowing them to reap the full future market value. Mr. Alvarez stated he agrees it would be in the best interest of Watermaster to negotiate a fixed price that would cover their costs. A discussion regarding the cost recovery price, market values, and this matter ensued. Mr. Zvirbulis stated Cucamonga Valley Water District (CVWD) opposes the proposal for Watermaster to finance the purchase of this water, solely based on the fact it is poor public policy for an arm of the court to go out and borrow large sums of money to purchase water preemptively under which Watermaster will then, in the future, assess parties. That will, in fact, limit our ability to choose how we meet our replenishment obligation. Mr. Zvirbulis stated he believes this is not the most cost effective alternative, and noted CVWD has been proactive over the years in purchasing the water which was to be used to meet future replenishment obligations. Mr. Zvirbulis stated this is a decision that's being made without any consideration on the impact to the customer at the time these assessments are levied. From CVWD's perspective, we oppose these agreements as they are presented today. Chair Jeske offered comment regarding customers paying the lowest costs possible and noted it is clear the Appropriative Pool has a lot of discussion to carry out. These are just some of the questions that need to be discussed - who gets the water, who pays for the water, how the assessments

CBWWD148

240-09

PERS00415

Minutes Advisory Committee Meeting

August 18, 2011

that was correct. Mr. Alvarez stated that is incorrect, these resolutions do not address whether it is 3% or not. Mr. Alvarez stated these resolutions basically recognize the tax deferred contributions that are already being made. A separate item is the issue that was raised, and that is the issue of the 3%, which has nothing to do with these resolutions. These are administrative tasks and for IRS purposes and CalPERS requested they be formally recognized by an adopted resolution. Mr. Kinsey inquired if these resolutions state that Watermaster will pick up the entire employees contribution of 6%. Mr. Alvarez stated he does not believe that is the case. Chair Jeske inquired if the contract with the employees prevails in this matter. Mr. Alvarez stated separate from the contract if you read the resolutions they just recognize that these contributions are being made. Mr. Joswiak further explained the resolution states that Watermaster, as an entity, is providing a payment of 6% and does not address the employee's portion or Watermaster's portion, just that Watermaster will be sending an amount to CalPERS, those amounts will be 6%, and those percentages are tax deferred. Mr. Kinsey inquired if the employees are currently paying the 3%. Mr. Joswiak stated no they are not. Mr. Kinsey inquired when that began. Mr. Joswiak stated July 1, 2011. Mr. Kinsey offered further comment on the discussions and understandings of the resolutions that took place at the Appropriative Pool meeting and noted there needs to be a clear understanding as to exactly what is taking place with these resolutions. Mr. Kinsey stated he recollects this discussion during the budget process that Watermaster was budgeting to fund the employees share. However, it appears no one connected the dots at that time that it constituted a change in employee benefits. Mr. Kinsey stated there has been no action by the Watermaster Board changing their original direction, which is that employees pick up the additional share. Mr. Kuhn stated this was a handshake deal and it was the Watermaster Personnel Committee that made this commitment to the employees two years ago with several Board members and Pool chairs in attendance. Mr. Kuhn stated the CEO at that time stated he would not accept a CPI increase because one was not being given to the employees, and it was agreed to that in two years from then Watermaster would like to do what is being presented here today. Mr. Kuhn stated the Committee at that time accepted that deal, so all that is being done today is keeping that promise which was made two years ago. Chair Jeske stated he recalls that meeting and he recalls the discussion of going to 2.5% if the employees picked it up. However, he believed the deal was just with the CEO and did not recall a revision for the employees that would be revisited in a couple of years. Mr. Kuhn stated it was not to revisit, it was to pick up that cost; a deal is a deal. A discussion regarding this matter ensued. Chair Jeske inquired if the 3% was included in the budget and Mr. Joswiak stated yes, it was. A discussion regarding the health care plans ensued. Mr. Zvirbulis offered comment on this matter and noted this issue was not brought back to the Watermaster Board or validated by any public process. Mr. Crosley offered comment on this matter and noted there seems to be a lot of confusion regarding this item. Mr. Crosley stated with all that is taking place regarding this item, it seems best to put this item off for another month to allow more time for discussions. Mr. Alvarez stated one of the items being presented is a housekeeping matter, and it needs to be addressed and moved forward. Mr. Alvarez stated the second item is a compensation issue and is a valid issue to raise, and staff will start the Personnel Committee process for review. Mr. Alvarez offered final comments regarding this matter. A discussion regarding this matter and how to word the motion ensued. Mr. Joswiak stated these resolutions are due by CalPERS and if they are not submitted in a timely fashion, there is a risk of having Watermaster's retirement fund unraveled. Staff is requesting action today. Chair Jeske asked if the maker of the motion wants to change the original motion and to repeat the motion on the floor. Mr. Crosley stated the motion would be to postpone taking action for a month and in the meantime, have meaningful discussions regarding the other issue that has been raised, and noted the motion stands as presented. A discussion regarding the motion and this matter ensued.

*Motion by Crosley, second by Kinsey, and by majority vote
Moved to not pass this item and to review the item for discussion after possible
review by the Personnel Committee, as presented*

CSWM0147

240-010

PERS00416

Minutes Advisory Committee Meeting

August 18, 2011

John Bosler
David DeJesus
Rick Hansen
Seth Ziefke
Rick Reas

Cucamonga Valley Water District
Three Valleys Municipal Water District
Three Valleys Municipal Water District
Fontana Union Water Company
Geomatrix Consultants, Inc.

Chair Jeske called the Advisory Committee meeting to order at 9:04 a.m.

AGENDA - ADDITIONS/REORDER

Mr. Zvirbulis stated he would like to make a recommendation to consider Business Items B and C together for discussion purposes, and for making decisions or recommendations on those items. Also, that the Loan Agreements be looked at individually, and that there be consideration given to considering the Storage Agreements with IEUA and TVMWD separately.

I. CONSENT CALENDAR

A. MINUTES

1. Minutes of the Advisory Committee Meeting held July 21, 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
4. Treasurer's Report of Financial Affairs for the Period June 1, 2011 through June 30, 2011
5. Budget vs. Actual July 2010 through June 2011

C. WATER TRANSACTIONS

1. Consider Approval for Notice of Sale or Transfer - Fontana Water Company ("Company") has agreed to purchase from The Nicholson Trust annual production right in the amount of 7,000 acre-feet to satisfy a portion of the Company's anticipated Chino Basin Replenishment obligation for Fiscal Year 2010/2011. Date of Application: June 21, 2011, Date of Notice: July 7, 2011

D. SEMI-ANNUAL STATUS REPORT 2011-1

*Motion by El-Amamy, second by Pierson, and by unanimous vote
Moved to approve Consent Calendar items A through D, as presented*

II. BUSINESS ITEMS

A. RESOLUTION 11-05 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 these are two resolutions requested by CalPERS in order to align ourselves with current practice. Mr. Alvarez stated Watermaster makes certain employee compensation contributions that are tax deferred, and CalPERS needs these resolutions for consistency to recognize that these are part of the total compensation package for the employees. Mr. Kinsey stated it is his understanding, based on conversations which took place at the Appropriative Pool meeting, that in 2009 Watermaster staff came to the Watermaster Board indicating that Watermaster's current CalPERS benefit plan was no longer competitive with the majority of the Watermaster member agencies. Mr. Kinsey stated at that time Watermaster moved forward with a plan amendment that modified the retirement plan to 2.5% at 65, subject to the employees picking up that additional program cost which was 3%. It was agreed to by all the employees. Mr. Kinsey asked Mr. Joswiak to correct him if he was wrong and noted it was his understanding the employees have been making that 3% contribution as part of the share of their retirement plan contribution. Mr. Kinsey stated it is his understanding these resolutions not only allow the employees contribution to be made tax exempt, they propose a change that the employee will no longer be making the 3% contribution to their retirement plan, and inquired if