

**MINUTES OF THE ANNUAL MEETING OF SHAREHOLDERS  
OF THE SAN ANTONIO WATER COMPANY**

The Annual Meeting of Shareholders of the San Antonio Water Company (SAWCo) was held as noticed on April 2, 2013 in the council chambers at the Upland City Hall, 460 North Euclid Ave, Upland, California.

Sign-In – Shareholders were requested to sign-in in order to document their presence at the Annual Meeting. All outstanding proxies submitted were verified for validity and effect.

Introductions – President Thomas introduced the current Directors on the Board, the General Manager, the Auditor’s representative Craig Miller, CPA, Water Company Staff, long-standing legal counsel Tom McPeters, special legal counsel Fred Fudacz, and the Inspectors of Election: Peter Cherbak, Betty Garrison, and Donna Hawthorne.

Validation of Annual Meeting Quorum – General Manager Charles Moorrees reported that the meeting has been properly noticed. Inspector of Election Donna Hawthorne reported that there is a quorum present.

Call to Order – President Thomas called the meeting to order at 6:06 pm.

2012 Annual Meeting Minutes –Director Thomas asked if there were any corrections needed to the 2012 Annual Meeting minutes. Director Cable moved and Mr. Elliott seconded to approve the minutes of the 2012 Annual Meeting as presented. Director Thomas asked for a voice vote and the motion carried.

Notice to Shareholders – Director Thomas advised the audience that new State legislation, Senate Bill 918 (SB 918), allows for staggered board terms. At this year’s Annual Meeting, service terms will be determined for SAWCo’s Board of Directors by drawing lots. Three Board members will be serving two-year terms and four Board members will be serving four-year terms. In November of 2012 the Board approved amending the bylaws to include the option to abide by SB 918 to allow four year staggered terms for the Board. Resolution Number 2012-12-02 signed in December of 2012 identifies that lots will be drawn at the Annual Shareholder meeting to determine which three directors will serve the initial two year terms and which four will serve the four-year terms. Director Thomas stated that lots would be drawn immediately following the election of Director’s.

Manager’s Report – Mr. Moorrees conducted a PowerPoint presentation highlighting the previous year’s events. Total local rainfall at the San Antonio Dam was at 11.36 inches which is 48.67% of the long term annual average of 23.54 inches going back to 1958. He pointed out that water levels in the Cucamonga Basin dropped four feet throughout the year causing Nitrates and DBCP levels to increase. Wells 15 and 16 in the Chino Basin produced 72% of the Company’s Operating Safe Yield. The water table level was down by 19 feet. The general trend is that water levels in these two basins have increased over time. Water levels in the Six Basins (Wells 26, 27A, and Well 25A) have increased 65 feet from the previous year; however, the general trend is that water levels in this basin are declining. SAWCo recharged a total of 329 acre-feet (AF) in the San Antonio Spread Grounds during the year with an ending storage balance of 1,776.9 AF. This storage balance helps the company reconcile their service agreements with local shareholder entities. In addition, only 1,512 AF was spread in the Cucamonga Basin compared to 3,313 AF the previous year.

Capital Projects for the water company included the drilling and equipping of replacement Well 25A. This well produces about 400 gallons per minute at a final cost of \$991,655. Additionally,

the interior and exterior of SAWCo's 1 million gallon Reservoir #6 was recoated, equipped with seismic retrofits and other structural and safety improvements at a final cost of \$392,250.

Operational Improvements in 2012 included safety improvements to the Holly Drive Booster Station, re-roofing of the office carport/shed and yard facility. Other operational improvements included raising the height of the main box to push more water through the flat portion of the pipeline between the main box and the v-screen; and the purchase of two new service trucks. Other operational updates included revamping of the company website to provide better customer service, and Board login for meeting packet retrieval; Purchase of a document imaging software to allow scanning documents into electronic format with retrieval through a search engine; and began the process of updating system maps and USGS maps.

Several Administrative Updates took place in 2012. The water company adopted a bylaw amendment to take effect in 2013 to allow 4-year staggered Board Terms; bylaw amendment to change service classifications of service to Domestic, Miscellaneous and Municipal; elimination of the Office of Chairman; and addition of General Manager as Chief Executive Officer.

A 3-year commodity rate increase of \$0.03 per year began in September 2012 for base [\$0.42 to \$0.45] and tiered rates [\$1.07 to \$1.10]. Staff developed a 25-year Asset Management Strategy and eliminated the existing reserves and combined them into a Depreciation and Obsolescence Reserve Fund.

Engineering Design for 2012 included Well 25A Site Improvements, Forebay Improvements, and Water Facilities Authority (WFA) Waterline Connection [allow water delivery to WFA to shareholder entities that are party to the WFA]. An application was submitted to Chino Basin for a Storage and Recovery Agreement in early 2012 to facilitate water recharge from the proposed construction of the Chino Basin Recharge Pipeline to direct water into the San Antonio Channel for recharge basins into Chino Basin. The Cucamonga Crosswalls, desilting and repair project planned for 2012 will hopefully begin construction in October.

SAWCo continues its water rights investigation in Mt. Baldy and have solicited assistance from the State Water Resources Control Board (SWRCB). The water company has also received a request for information from the United States Forest Service (USFS) under the Freedom of Information Act which identified unresolved issues dating back to the 1940's.

The water company maintains a Facebook page, a quarterly newsletter, and website to keep their shareholders informed. During the year SAWCo also participated in the Upland Lemon Festival, hosted a conservation table at the Annual San Antonio Heights Association Meeting as well as the Citizen's Patrol George Lee Pancake Breakfast. SAWCo also continues to be active in the San Antonio Creek Watershed Committee and participated in the 8<sup>th</sup> Annual Watershed Clean Up Day.

Mr. Moorrees then reported on the upcoming projects for the current year which included the continued Water Rights Claim in Mt. Baldy, on-site improvements to Well 25A in Six Basins, continued work on the final draft of the WFA Pipeline connection, and the Chino Basin Recharge Pipeline. The Forebay Improvement Project will most likely be completed by the end of the year. The Tunnel Pipeline Cleaning and Lining from Shaft 2 to the Forebay have already been completed. SAWCo hopes to begin work on the Cucamonga Crosswall repair and de-silt project during the year. A pressure reducing station is scheduled for installation at Thunder Mountain Road and Euclid Crescent East. The Irrigation Reservoir 4 Overflow Connection scheduled for this year has been completed. The water company is also looking into a design for the Frankish Tunnel to capture the water and deliver it to irrigators or spread for credit in the

Cucamonga Basin. An American's With Disabilities Act (ADA) Ramp is planned for construction at the company office later in the year.

#### Statement of General Counsel

Mr. McPeters spoke about the Chino Basin in which SAWCo has water rights. He detailed how the 1978 Judgment for Chino Basin created 20 to 25 years of peace but war broke out and has consumed everyone's time ever since. The 1978 Judgment was based on the concept that agriculture and dairies would be moving out of the area but this process didn't occur as soon as anticipated. There is pollution in Chino Basin from the dairy farms that affects the southern part of the basin. The Southern portion of the basin wants the Northern portion of the basin to contribute financially to the cleaning of the basin. The stipulated Judgment was very narrowly written so there are unresolved issues that involve very costly matters. There have been two add-ons to the Judgment; Peace I and Peace II. Of all of the water sources that SAWCo has, this basin has the highest cost associated with it. SAWCo's special counsel was the legal counsel for the Chino Basin Watermaster for a significant number of years and has historical knowledge of the basin.

Director Gerardi questioned what the inevitable outcome of the fighting would be. Mr. McPeters replied that the problem is that the Southern portion of the basin wants all of the members of the Judgment to contribute financially to alleviate the pollution problem in the southern end of the basin. Specifically, they want all parties to contribute money to build more desalters that are expensive. Also, there is very sizable damage in Chino due to subsidence and the general thought is that the deep wells in Chino Hills is the principle cause of the subsidence. Chino Hills has agreed to not pump those deep wells while a study on the subsidence is conducted but after five years, the problem has not been solved. Both problems continue and a resolution needs to be found whether it be by voluntarily agreeing to pay substantial amount of money to fix the problems or by sticking to the Judgment that does not require them to contribute any monies. Under the wording of the Judgment, payment from the other parties cannot be forced.

#### Statement of Special Counsel

Mr. Fudacz reiterated what Mr. McPeters spoke of in regards to Chino Basin. The Judgment was created at a time when a decision came out of the State Supreme Court on water issues that changed the way adjudications were handled at the time. The structure that was created by the decision was a "pool" structure. Certain areas such as Agriculture and overlying rights held by industrial firms were separated into "pools" or categories. It institutionalized the warfare by allowing for each pool to hire their own legal counsel and has created the proliferation of Peace Agreements.

Mr. Fudacz explained that over the last year his focus has been on SAWCo's water rights in the San Antonio Canyon. SAWCo's water rights can be traced back to Mexican Land Grants that the Chaffey's acquired. The water company's rights were obtained prior to most others including the United States Forest Service (USFS). This has led to some controversy. Last year special counsel filed a complaint for water diversions on USFS property that were feeding into private residences. Over the last year SAWCo has tried to encourage the State Water Resources Control Board (SWRCB) to take action on this matter. The chief counsel with the SWRCB has contact Mr. Fudacz and has opened dialogue on the topic. Mr. Fudacz is hopeful in 2014 there will be more positive happenings to report on the topic. SAWCo has also attempted to negotiate an understanding with the USFS about what they are doing with this recreational cabin program. These controversies date back to before the 1940's. SAWCo has a signed agreement from 1941 with the USFS but misleading information from USFS lawyers lead to them not adhering to it. SAWCo wishes to have negotiations with the USFS to set some parameters as to what is allowable on USFS property with regards to water diversions. Mr. Fudacz, Director Thomas, Director Sundell, and Mr. Moorrees met with local congresswoman Judy Chu to discuss the

issues SAWCo is having with regards to water rights and the USFS. The congresswoman's office sent a letter to the Department of Agriculture asking that the USFS explain itself in writing.

Presentation of Company's Nominees for Office of Director – Director Thomas noted that a slate of directors was not sent out with the notice of the Annual Meeting. At that point Director Thomas opened nominations for the offices of director.

Director Willis nominated the following individuals for the offices of director for the water company:

Tom Thomas  
Ken Willis

Sue Sundell  
Robert Cable  
John Gerardi

Glenn Bozar  
Will Elliott

Director Thomas then asked if there were any other nominations for the offices of director. Hearing none, Director Elliott moved and Director Cable seconded the City of Upland's slate of nominations for the San Antonio Water Company Board of Directors. Motion carried.

Election Inspector's Proxy Report – It was reported by Peter Cherbak, inspector of election, that there were 7.5 shares present and 4,410.90 represented by proxy.

Announcement of Directors serving the 2 and 4 year terms – The elected Directors drew lots at random to determine who would be serving the 2 year terms and the four year terms. Directors Will Elliott, Sue Sundell, and John Gerardi drew 2-year terms and Directors Tom Thomas, Ken Willis, Glenn Bozar, and Bob Cable drew 4-year terms.

Shareholders and Public Testimony – Director Thomas gave a brief statement as to how this process works [This is the time for any Shareholder or member of the public to address the board members on any topic under the jurisdiction of the Company, which is on or not on the agenda. For any testimony, speakers are requested to keep their comments to no more than four (4) minutes, including the use of any visual aids, and to do so in a focused and orderly manner. Anyone wishing to speak is requested to voluntarily fill out and submit a speaker's form to the manager prior to speaking].

Mr. Ken Petschow inquired what the topic was of the closed session portion of the meeting. Director Thomas replied it was about SAWCo's water rights in the San Antonio Canyon. Mr. Petschow also inquired about nitrate levels in the wells SAWCo pumps. Mr. Moorrees responded that it is just in the Cucamonga Basin wells that they are seeing a rise in the nitrate and dibromochloropropane (DBCP) levels but they are low enough levels to be blended out. SAWCo tries to spread as much water in the Cucamonga Basin as they can to keep the contaminant levels down.

Director Elliott moved and Director Sundell seconded to adjourn the meeting. Motion carried. The meeting was adjourned at 6:55 p.m.

For the record, it was noted that there were 10 shareholders signed in as attending the Annual Meeting.

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Assistant Secretary