

SAN ANTONIO WATER COMPANY
MINUTES OF THE SAN ANTONIO WATER COMPANY
Tuesday, July 21, 2015

An open meeting of the Board of Directors of the San Antonio Water Company (SAWCo) was called to order at 5:05 p.m. on the above date at the Upland City Hall Council Chambers, 460 North Euclid Avenue, Upland, California. Directors present were Tom Thomas, Will Elliott, Sue Sundell, Bob Cable, Glenn Bozar and John Gerardi. Also in attendance were SAWCo's General Manager Charles Moorrees and Assistant Manager of Administration and Finance Teri Layton. Director Thomas presided.

- Salute to the Flag
- 1. Recognitions and Presentations: Mr. Moorrees recognized representatives from both the City of Upland and Monte Vista Water District (MVWD) were present at the meeting.

Mr. Moorrees also presented pictures of the annual Watershed Clean Up which took place on Saturday, July 11th.

- 2. Additions-Deletions to the Agenda: Mr. Moorrees added Depreciation and Obsolescence Checking Account as Item 6E.
- 3. Shareholder-Public Testimony: Ms. Rosemary Hoerning, Public Works Director for the City of Upland, spoke to the Board about the Chino Basin Safe Yield Reset issue that she had addressed a few months ago. At that time there was concern that the Safe Yield would be reset to 130,000 acre feet (AF) per year. There were some parties in the Chino Basin who felt that the Appropriative Pool should give back roughly 186,000 AF of water. The Chino Basin Watermaster Board requested a facilitated negotiation among the parties. The parties that joined the process were members of the Appropriative Pool and members of the Municipal Wholesale Water Districts. A confidentiality agreement was signed and the group was named the FANDA group. Over several months there were over 30 meetings to discuss key points and principles. Majority of membership agreed on May 27th with SAWCo pulling out of negotiations prior to conclusion and the City of Chino not in agreement with the final non-binding key principles. The set of terms was signed by the other members of the FANDA group. Those terms will be used to develop legal documents that ultimately would be considered by the respective parties to the Judgment for review and approval. No party is a winner in this process it was more about how to share the discomfort and avoid going to court. A copy of the terms agreed upon were given to SAWCo staff and the Board.

Ms. Hoerning then discussed the reasons for SAWCo's withdrawal from the facilitation process. She also reported that the FANDA group developed a safe storage account that sets aside 130,000 AF for emergencies with 30,000 AF for desalter replenishment and 100,000 AF for general storage. In regards to storm water, it was discussed by the FANDA group to let that be part of safe yield calculation until the new program is implemented. Any improvements that are constructed would allow the parties involved to benefit from any water captured. With regards to Santa Ana river underflow; those are included in safe yield. There is an opt out provision for members that do not want to invest in improvements for this. They would not receive any benefits received from these investments and their first 2,000 AF of water would be offered to the City of Fontana for first right of refusal.

Ms. Hoerning requested SAWCo review the terms as agreed upon by the FANDA group. She also advised she is available if there are any questions about the non-binding key principles.

Director Thomas clarified the principles involved a reduction from 140,000 AF Safe Yield to 135,000 AF. Each member takes the reduction in accordance with their operating safe yield percentage. He also confirmed that the City of Upland, the City of Ontario, and MVWD have all signed the non binding memorandum.

Director Elliott inquired about how the 1 year retroactive portion of the agreement was going to be implemented and how it was going to impact SAWCo. Ms. Hoerning stated it should only affect SAWCo's proportionate share of the desalter obligation for replenishment which is less under the provisions in the key principles of the agreement.

Mr. Justin Scott-Coe, Public Affairs Director for MVWD, spoke to the Board in regards to the Safe Yield in Chino Basin. He complimented Ms. Hoerning for her work as the Appropriative Pool Chair as well as Ms. Layton for her representation of SAWCo's interests at the meetings.

Mr. Scott-Coe agreed that there a no winners in this process; however, he did feel a very good compromise had been reached. He believes there is an importance to the partnership in the watermaster with a lot of common interest being participants in the more northern area of the basin. In the past MVWD has agreed with many of SAWCo's points that they have raised and have benefitted from their participation.

MVWD believes the long term benefits of moving forward with this compromise should be the focus now instead of the short term issues. There is some issue with implementing assessing in November for the previous production year. It was part of the compromise that MVWD feels was in exchange for greater benefit elsewhere in the agreement. There is concern that if there are separate filings it will lead to additional expenses through the watermaster process as well as for the individual parties whose legal counsel will need to review and possibly respond to the filings. Mr. Scott-Coe asked consideration in SAWCo looking at the compromise to see if there is any way of them coming to agree with it.

4. Consent Calendar Items:

- A. Approval of Board Meeting Minutes
Regular Meeting Minutes June 16, 2015.
- B. Planning, Resources, and Operations Committee (PROC) Meeting Minutes
No meeting to report.
- C. Administrative and Finance Committee (AFC) Meeting Minutes
Meeting minutes of April 28, 2015.
- D. Financial Statement
Comparative Income Statement and Balance Sheet for May 31, 2015 and year-to-date.
- E. Investment Activity Report
Monthly Report of Investments Activity
- F. Water Production
Bi-Monthly water production [Jan/Feb, Mar/Apr, May/June, July/Aug, Sept/Oct, Nov/Dec]
- G. Prominent Issues Update
Status summaries on certain on-going active issues.
- H. Projects and Operations Update
Status summaries on projects and operations matters.
- I. Groundwater Level patterns [Quarterly in April, July, October & January]
Tracking patterns of groundwater elevations relative to ground surface.
- J. Correspondence of Interest
 - Letter of appreciation from San Antonio Hospital Foundation
 - Letter from customer at 2418 Vista Drive and GM response letter
 - Water Saving Savvy Flyer – Forum with Q&A/July 24, 2015
 - Letter to Chino Basin regarding Subsidence Management Plan
 - Letter to Chino Basin regarding Ontario's proposal of use of Non-Agriculture water rights
 - Southern California Edison Forecast 2015-2016 [Anticipate 5% decrease]

Director Elliott moved and Director Gerardi seconded to approve the consent calendar as presented. Motion carried.

5. Board Committee – Delegate Report:

- A. **Pomona Valley Protective Association (PVPA) Representative's Report** – Director Thomas reported that the bee keeping project in the PVPA spreading grounds in Claremont has been

approved by the City of Claremont. Claremont did not want the bees too close to businesses or homes.

Finance committee has modernized the investment policy. It involves a little more flexibility with the portfolio. The committee also felt it a good time to go out to bid for a new auditing firm. PVPA has utilized the same auditing firm for five years and felt that though the firm has done a wonderful job it was time for a change.

There was a workshop facilitated by the United States Fish and Wildlife about the Santa Ana Sucker fish. Some board members from PVPA attended the workshop and found that there wasn't any opportunity for input there was just information provided about the fish and the reintroduction of it. Mr. Thomas will keep SAWCo updated on any new findings.

- B. Six Basins Representative Report** –Mr. Moorrees reported the Six Basins Advisory Committee meeting was held on Wednesday, June 24th. A guest speaker from Padova Sewer Collection Systems was to attend the meeting to bring about support from Six Basins for converting the Padua Hills area from septic to sewer. Sustainable Groundwater Management Act was discussed. Six Basins is responding to the State Water Resources Control Board with their corrected adjudicated boundaries and working with San Gabriel Main Basin in overlapping boundary correction.

The Six Basins had a special Board meeting with a confidential session in response to the California Fair Political Practices Commission (FPPC). The Board authorized the attorney to write a letter to the FPPC in response to their designation. It will go to the watermaster board to discuss the consequences associated with that.

SAWCo agreed to transfer 1,000 acre feet (AF) out of Six Basins to Three Valleys Municipal Water District (TVMWD) at \$222/AF. It will be approved at the September Six Basins Board meeting.

- C. Chino Basin Representative Report** –Ms. Layton informed the Board that a status report on the Safe Yield Recalculation in Chino Basin was filed with the court on July 10th with SAWCo and the City of Chino not in agreement. The court assigned a hearing date of August 21, 2015 at 1:30 p.m. for comments.

A letter in regards to the Subsidence Management Plan will be going to the Chino Basin Watermaster Board at their next meeting. A copy of it was placed on the dais. A previously sent response letter was included in the Board Meeting Packet. SAWCo is concerned with subsidence; who is causing it and who is paying for remediation.

Ms. Layton also reported that SAWCo's letter to the Advisory Committee in regards to non-agriculture water rights was included in the Board Meeting Packet as well. The Watermaster Board legal counsel was instructed to give a legal opinion and provide it to the Ad-HOC. SAWCo has the understanding that to date this has not been done.

- D. Administration and Finance Committee (AFC) Chairman's Report** – Items discussed at the PROC meeting are covered in the General Manager's Report.

- E. Planning, Resources, & Operations Committee (PROC) Chairman's Report** – Nothing to report.

6. General Manager's Report on Activities:

- A. Vision Day Report** – Mr. Moorrees reported that on June 18, 2015 the Water Company held its Vision Day Workshop at the Carnegie Library. The Genysys Group as a sub-consultant to the Water Master Plan Engineer, CivilTec Engineering, facilitated the workshop.

Participants included the Board, staff, and representatives from key entity shareholders, irrigation shareholders and representatives from the San Antonio Heights Board.

The event focused on developing shared vision for the Water Company and addressing questions from the online assessments. These questions stemmed from water supply issues, water quality to addressing the aging workforce

A copy of the Genysys report was included in the Board Meeting Packet. A “Planning Day” will follow this Vision Day event and is outlined in the agenda in the appendix of the report in the packet.

- B. Operational Concepts** – Mr. Moorrees reported that he feels SAWCo operates much more like a municipality than a mutual water company. He then reviewed some basics about the water company’s operations. He stated that the amount of water SAWCo is able to produce is prorated among shareholdings; there is no “excess” water available. A base rate for water delivery was established based on the cost to provide the water service. A tiered rate was established for those that used water in excess of their entitlements; the methodology used to determine this tiered rate is not known. Rates were adopted to finance operating and expenses with positive balances for Depreciation and Obsolescence Reserves for capital improvements and asset replacement. In the past, Capital Improvements were funded through shareholder assessments.

Mr. Moorrees stated that at one time, annual distribution of available water was divided equally per month/share with no monthly carry over. A second entitlement established a Winter and a Summer season with a lesser distribution allotted for the Winter months and a greater amount for the Summer months. A Spring and Fall season introduced a third entitlement element in entitlement distribution. Currently, SAWCo has 7 different monthly entitlements.

Mr. Moorrees explained that active shareholders served by a water meter pay a standby or readiness to serve charge based on the size of their meter. This charge is supposed to cover fixed expenses but does not. SAWCo’s commodity rate which is meant to generate revenue to cover the cost of delivering water is now covering the cost for delivery as well as subsidizing fixed costs with any remaining funds being used for capital improvements/replacements.

A conceptual change was proposed by Mr. Moorrees that involves the elimination of monthly entitlement and carry over restrictions. He proposes allowing shareholders annual water use based on water being available. Once the shareholder reaches their annual entitlement during the calendar year, the tiered rate will apply.

Another proposal involved eliminating the readiness to serve charge for water meters and instead assessing all shareholders the cost of the Water Company’s operating expenses. This would be done at the end of the calendar year once the actual Administrative and Operating Expenses minus the cost for actual delivery of water is determined.

In conclusion, Mr. Moorrees stated that conceptually the base and tiered water rate could drop respectively once the component to subsidize a portion of fixed expenses is taken out of the equation and replaced with shareholder assessments. If not, the funds could be used to either amplify revenues to fund depreciation or to provide a dividend to inactive shareholders.

Mr. Moorrees advised this is plan is conceptual and admitted there would be many challenges associated with making such a change. How it would be administered would be a task for the Strategic Plan consultant to work out with staff.

Director Thomas inquired whether or not any other mutual water companies have gone with this type of methodology. Mr. Moorrees has requested information from CalMutuals in regards to that and is awaiting a response.

- C. Failure of Server Hardware** – Mr. Moorrees explained that On June 3, staff observed the loss of access to data in the Inhance, Fixed Asset Program (FAS), DocuLex (This encompasses all of the

documents and plans that were scanned over the last 3 years), Solomon (accounting), AutoRead for meter reads and the BlackBerry as the SQL Server hardware failed.

Working with SAWCo's IT provider, Inland Productivity Solutions (IPS) was able to transmit the data drives to a DataMechanix in Orange County to try to retrieve the data at a cost of \$8,775 if recoverable. Staff was advised that the data has been recovered, but will not know how much until IPS has the drives up and running.

SAWCo budgeted for a Business Continuity System for this calendar year. Had it been in place this would not have been an issue. The proposed business continuity solution will enable operations to be up and running within hours of an emergency event depending on hardware set up.

IPS provided a proposal for the Business Continuity System Hardware and Installation at a cost of \$11,037 (Currently budgeted for CY2015 at \$10,000) which includes the first monthly recurring cost of \$972. This solution has capacity to back up all of SAWCo's servers as well as its telemetry server.

Staff authorized IPS to implement the Business Continuity System in concert with the data retrieval and associated hardware repairs and requests the Board ratify the associated monthly \$972 expense, which was not budgeted.

Director Gerardi moved and Director Cable seconded to ratify the expense in retrieving the data lost due to a server crashing and the additional monthly expense for monitoring and storage in moving forward with the budgeted Business Continuity System. Motion carried.

E. Depreciation & Obsolescence Reserve Checking Account – Mr. Moorrees explained that SAWCo currently has a Depreciation and Obsolescence Reserve Fund. When projects are underway staff makes withdrawals from the LAIF account to pay to complete these projects.

Staff now sees the need for a checking account for Depreciation and Obsolescence Reserves. It will allow for fewer transfers from LAIF and better tracking of D & O Funds.

Mr. Moorrees recommended the Board agree to open a D & O Reserve Funds checking account with Citizens Business Bank. Paperwork to open the account was available for signatures at the meeting.

Director Cable moved and Director Sundell seconded to approve opening a Depreciation and Obsolescence Reserves checking account with Citizens Business Bank. Motion carried.

D. Project Status Report -

- **Water Master Plan** – Vision Day event held on June 18th. A Planning Day event to follow. Consultant is currently collecting data and reports.
- **Urban Water Management Plan** - Guidelines for the Urban Water Management plan from the State of California are in draft form and have not yet been approved.
- **Alternative Energy Feasibility Study** – Canon Engineering is reviewing cogeneration engine manufacturers, Southern California Edison, and preparing a draft layout for solar panels at the Benson site.
- **City Treatment Plant Surface Water Delivery** – Dissolved Air Issue – Staff is finding it difficult acquiring a fabricator for the stand pipe.
- **Basin 6 Desilting** – Continued work on the environmental document. Staff hopes to begin the project prior to the forecasted El Nino.

- **Cucamonga Basin** – Desilting project at crosswalls –A public hearing will be held on August 11th. A few comments have been received but are believed to be resolved. The revised compensatory measures from the Department of Fish and Wildlife have been agreed to.
- **Water Rights Investigation** – Activity – A meeting with the State Water Resources Control Board has been requested by staff through Michael Gagan.
- **Chino Basin Recharge Pipeline** – Received the final plans from the city. Changes requested will be made.
- **Frankish Tunnel Pipeline** – Currently working on the contract documents and awaiting the final design. The plan is advertise the project in mid to late August.
- **Spring Terrace Waterline** – Project was recently completed just requires paving.
- **Wildrose Lane Waterline** – Currently under construction.

7. Closed Session: The Board recessed at 5:55 p.m. to closed session to consider the General Manager's Performance Review [subdivision 9b) of Section 54957, CGC).

The Board reconvened at 6:35 p.m. from closed session.

Director Thomas reported there was consensus on the Board to continue the General Manager's contract. The Board will look at personal time off/leave for transition to retirement at the next AFC meeting.

8. Director's Comments and Future Agenda Items: Director Cable advised Mr. Moorrees that he'd received a letter from a shareholder regarding the Forebay. He asked that Mr. Moorrees attend to the issues presented in the letter. Mr. Moorrees agreed to address the shareholders concerns.

Adjournment: Seeing no further business the meeting was adjourned at 6:37 p.m.

Future Meetings:

- The next Board Meeting will be held on Tuesday, August 18, 2015 at 5:00 p.m.

Assistant Secretary
Charles Moorrees