

SAN ANTONIO WATER COMPANY
MINUTES OF THE SAN ANTONIO WATER COMPANY
Tuesday, September 16, 2014

An open meeting of the Board of Directors of the San Antonio Water Company (SAWCo) was called to order at 5:03 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, Glenn Bozar, Sue Sundell, Bob Cable, and John Gerardi. Also in attendance were the City of Upland's Public Works Director Rosemary Hoerning, SAWCo's General Manager Charles Moorrees and Accounting and Personnel Clerk Joni Ruggles. Director Thomas presided.

- Salute to the Flag
- 1. Recognitions & Presentations: Mr. Moorrees brought the Board's attention to the Inland Empire Utility Agency (IEUA) Leadership Breakfast (Item 4J). Director Thomas suggested an email reminder to all Board members to gather who wishes to attend. Mr. Moorrees agreed to send one out.

Mr. Moorrees also advised the Board of the Arthur Bridge Water Treatment Plant dedication for Cucamonga Valley Water District (CVWD). A flyer for the event was placed on the dais.

- 2. Additions-Deletions to the Agenda: None.
- 3. Shareholder-Public Testimony: None.
- 4. Consent Calendar Items:
 - A. Approval of Board Meeting Minutes
Regular Meeting Minutes August 19, 2014.
 - B. Planning, Resources, and Operations Committee (PROC) Meeting Minutes
No meeting to report.
 - C. Administrative & Finance Committee (AFC) Meeting Minutes
Approve June 24, 2014 meeting minutes.
 - D. Financial Statement
Comparative Income Statement and Balance Sheet for July 31, 2014 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
 - San Gabriel Mountains National Monument
 - Water Association Leadership Breakfast – Secretary John Laird
 - Legislature Passes Historic Groundwater Management Act
 - K. Annual Records Disposal
Approve records for disposal pursuant to adopted retention schedule

Item 4D was pulled by Mr. Moorrees to discuss. Director Cable requested Item 4J be pulled as well.

Director Gerardi moved and Director Bozar seconded to approve the consent calendar excluding Item 4D and Item 4J. Motion carried.

Mr. Moorrees advised there have been issues generating the report for Item 4D during the conversion from SAWCo's old billing system to the current one. An updated Income Statement was placed on the dais for each Board member. It is roughly \$100 off and will need to be reconciled prior to the next Board meeting.

Director Cable moved and Director Sundell seconded to approve Item 4D. Motion carried.

Director Cable pulled Item 4J to discuss the San Gabriel Mountains National Monument. He inquired as to whether there is language that protects shareholders water rights. Mr. Moorrees stated that the language in the NRA did include language that protected SAWCo's water rights. It was developed by Fred Fudacz, SAWCo's special counsel, who affirmed the language would be included in the National Monument.

Mr. Moorrees expressed his personal disapproval of the San Gabriel Mountains National Monument as there are still many unanswered questions that will not be answered until three years after the bill is approved. They are trying to rush this bill through with an executive order. Mr. Moorrees feels it may be more politically motivated than environmentally motivated.

Director Thomas stated there was a lot of discussion at the PVPA meeting on this topic. The territory only covers federally owned land which is much less than the NRA proposal included. The bill doesn't accomplish much other than moving control of the land to a different department which may have more funding. This proposed bill is just asking the president to declare the land a national monument and it seems as though it is skirting democratic process.

Director Willis stated he is opposed to federalizing any more land in the mountains. The problem is the people in the area not respecting the area and not properly recreating. Federalizing the land will not fix the fundamental problem. There is no benefit to federalizing that land.

Director Gerardi moved and Director Thomas seconded to approve Item 4J as presented. Motion carried.

5. Board Committee – Delegate Report:

A. Pomona Valley Protective Association (PVPA) Representative's Report – Director Thomas reported the PVPA spoke at length about the San Gabriel Mountains National Monument instead of the NRA. The committee adopted the budget for the fiscal year and approved using the same financial auditor as the previous year.

Weed abatement activities on PVPA property is handled by the City of Pomona who recently requested five new weed whackers to replace the ones specifically used for PVPA property. The request was approved by the committee.

B. Six Basins Representative Report – Mr. Moorrees reported the San Gabriel Mountains National Monument was also discussed at the Six Basins meeting. A letter drafted by the Friends of the River urged the Under Secretary to include the language that was adopted in the NRA protecting water rights for SAWCo. Mr. Moorrees emailed Steve Evans with the San Gabriel Wilderness Forever requesting they also send a letter regarding water rights protection.

The Strategic Plan was also discussed. The Groundwater Model uses baseline results going back 40 years. They are finishing describing the baseline threshold and cost analysis and are in the final calibration stage.

C. Chino Basin Representative Report – Ms. Rosemary Hoerning reported on the Appropriative Pool meeting. She stated the Chino Basin Board members are now able to either take the stipend or submit it to their respective employers for use. There were budget adjustments associated with the Appropriative Pool which will go to the Advisory Committee and then to the Board for approval.

An additional \$100,000 in engineering studies were required in relation to the subsidence in the Pomona area. A Subsidence Management Plan in the Chino/Chino Hills area is already underway but more subsidence is being seen in the Pomona area/Six Basins divider. They would like to begin field testing and studying to develop an action plan to mitigate subsidence in Pomona. The item was not in the Chino Basin Watermaster budget so the additional monies will translate to a higher assessment. There was more production last year in the Basin so the costs associated with engineering and administration is spread over a larger production area so the assessment amount is similar to the previous year's amount.

Numerous Appropriative Pool meetings have been held about recalculating the Operating Safe Yield (OSY). The initial evaluation that was completed pursuant to the judgment requirements was to look at a base period between 2000 and 2010. The court orders a recalculation in 2010 and an effort has been made to do so. The base period of 2000-2010 was established not knowing what is known today. The desalters weren't in operation at that time and a number of other factors make those years a bad timeframe to use as a base for OSY.

The Appropriative Pool contracted with Tom Harder, a hydrogeologist, to evaluate if there is a better timeframe to use as a base period. A base period of 2010 to 2020 was recommended to watermaster who looked into that timeframe as well as 2015 to 2025. Watermaster then proposed an OSY of 135,000 acre feet (AF) which is 5,000 AF below the current OSY.

There is a requirement to backfill the decline of 5,000 AF as well as a commitment to back out the amount of water that comes in from the Santa Ana River (SARUNY) out of the OSY and dedicate it to the desalter reoperation which lowers the OSY even more so. There is concern as to what the final calculation of OSY when taking into account these requirements and commitments.

It was discovered that there was unexpected production above the new OSY with its requirements and commitments to the tune of 184,000 AF. There may be some need to restore that amount which can cost upwards of \$100 million. It needs to be determined whether or not there was true impact from this overproduction and whether or not it's something that can be corrected over a greater period of time rather than immediately.

Watermaster is looking for the Appropriators to come up with a solution and a present a plan of action to the Board and justify it so that it can be adopted.

D. Administration and Finance Committee (AFC) Chairman's Report – Director Sundell stated all items of interest are included in the General Managers Report.

E. Planning, Resources, & Operations Committee (PROC) Chairman's Report – No meeting to report on.

6. General Manager's Report on Activities:

A. Fee for Returned Water Stock Certificates – Mr. Moorrees stated this item is for approval of a nominal storage and handling fee for returned and unclaimed stock certificates held at the Company's office. During the process of stock transfers, staff does its due diligence to place the original stock certificate in the hands of the shareholder.

Unsuccessful attempts by the Post Office to deliver packets to the shareholder and certificate packages at the Post Office unclaimed by the shareholder result in the stock certificate being returned to the Water Company. The packet is then stored in the Water Company's safe. Subsequent attempts by staff to communicate with the shareholder to pick up their stock certificate at the Water Company office are typically unsuccessful. With no incentive for the shareholder to retrieve their returned stock certificate, the certificates remain at the Water Company's office.

Staff recommends charging \$10.00/month to cover monthly attempts to communicate via phone and/or mail to the shareholder to pick up their stock certificate(s) from the Water Company office. The monthly fee will be added to the shareholders water account when possible. Fees will begin accumulating after two months of attempted contact via phone and/or mail with the shareholder to collect their stock certificate(s).

Mr. Moorrees recommended the Board agree with the AFC to approve a nominal monthly \$10.00 storage and handling fee to those shareholders whose stock certificate(s) are returned unclaimed and are held at the Water Company office effective immediately.

Director Elliott moved and Director Cable seconded to approve a \$10.00 monthly storage and handling fee to begin accumulating after two months of attempted contact via phone and/or mail with the shareholder to collect their stock certificate(s) after their stock certificate(s) are returned to the company office. Motion carried.

- B. Emergency Tunnel Investigation and repair** – Mr. Moorrees reported that staff routinely takes water quality samples at the source of Tunnel supply before and after disinfection (chlorination). During high tunnel flows in the past, staff observed occasional positive bacteria (non-fecal) from the Tunnel water supply prior to disinfection. This was usually resolved by flushing the Tunnel out to waste.

Currently, flows in the Tunnel are at its lowest due to the reduced subterranean flows caused by the drought. Recent sampling in July before chlorination came back positive for bacteria (non-fecal). Regular flushing did not resolve the bacteria issues, as more samples came back positive. As a result, the California Department of Public Health (CDPH) curtailed the tunnel flow from supplying the domestic system until October. Operations staff currently redirects these flows along with remaining surface water supply to the City of Upland Treatment Plant.

On August 15th, staff engaged with Harper & Associates to investigate potential causes of bacteriological contamination in the Tunnel supply. On August 20th their initial findings discovered blockage of flows in the Tunnel north and south of the Tunnel's access Shaft 9A. Staff ascertained that this material was deposited in the CY2005 storm event which breached this shaft and allowed the infiltration of material. Water quality sampling north and south of the shaft confirmed staff's suspicion that obstruction was the cause of the bacteria.

C.P. Construction was able to locate a contractor with required confined space certification and experience to do the work. On Tuesday, August 26th, staff met with C.P. Construction and Johnson Boring to evaluate the work required. It was discussed that C.P. Construction would prepare the staging area for equipment for the crane to excavate the material; however, Johnson Boring would not be able to begin the work until October so they sub-contracted with C.P. Construction.

On Tuesday, September 2nd, staff met with C.P. Construction, a pump representative and a representative from both the Department of Mining and Occupational Safety Health Administration (OSHA) at the site to evaluate and permit work inside the Tunnel.

C.P. Construction provided a proposal of \$99,500 for doing the work in five days. However, there was a lot more material in the Tunnel than what was initially thought. C.P. Construction should complete their job by the end of the current week. Harper & Associates will then finish their investigation. SAWCo will re-chlorinate the system at that time and take water quality samples. Once the samples come back clean, staff will contact CDPH to get approval to begin using the Tunnel for domestic service again.

In the meantime staff has met with local rock company Holliday Rock to advise them SAWCo needs to curtail their water delivery. They have reduced production by 29% since being made aware of the issue.

There is an additional three days of work needed for C.P. Construction to finish clearing out the Tunnel at a cost of \$15,000 per day. Mr. Moorrees felt requesting \$50,000 for the additional three days of work would insure the project's completion without having to return to the Board for additional monies. Thus far the cost for this project has been \$6,900 for Harper & Associates services, \$99,500 for C.P. Construction's work, and a contingency of 10% equaling \$9,950. With the additional three days of work needed at a cost of \$50,000 the total amount needed is \$166,400.

Mr. Moorrees recommended the Board ratify and approve emergency actions by staff and cost involved in investigating the Water Company's Tunnel system, cost to remove the obstruction by C.P. Construction, and appropriate \$166,400 from Depreciation and Obsolescence Reserves.

Director Gerardi asked if the contingency amount is sufficient. Mr. Moorrees felt the contingency amount would be adequate.

Pictures of the Tunnel project were shown.

Director Elliott moved and Director Bozar seconded to ratify and approve \$166,400 from Depreciation and Obsolescence Reserves for the investigation and removal of obstruction in the Water Company's Tunnel system. Motion carried.

C. CY2014 Mid-Year Budget Review - Mr. Moorrees reported that management is considering a future increase in water rates and/or issuing assessments to shareholders. Revenues versus expenses are currently in the red but projected to be positive by the end of the year due to the sale of stored water. The money from the sale of stored water was put in the Depreciation and Obsolescence Reserve Fund but will need to be transferred to the general fund at the end of the year to cover operating expenses.

The reduced capacity to deliver entitlement impacts revenues and may present the need to consider long-term effects of the drought as it relates to the adopted commodity rate. One of the options staff will present for the Board is to consider passing on expenses of the Chino Basin assessment and Six Basins assessment through to SAWCo shareholders as an assessment to mitigate losses.

Mr. Moorrees briefly reviewed the revenue which shows a reduction of 12.36% largely due to the decrease in entitlement and reduced production deliveries.

A review of expenses shows that for General and Administration expenses, the Water Company is under budget by four percent. However, figures show the Water Company over budget by \$52,784 for Facilities, Operations and Maintenance expenses.

Mr. Moorrees warned that storage amounts in the Chino Basin reduced dramatically which may affect the ability to transfer water to agencies with service agreements at the end of the year to reconcile accounts. A project scheduled for this year provides an avenue to spread water into Chino Basin which will help offset the low storage amount.

Director Gerardi moved and Director Sundell seconded to receive and file the CY2014 Mid-Year Budget Review. Motion carried.

D. Water Quality – MCL Violation - Mr. Moorrees advised the Board that on August 19th, when field staff took a routine water quality sample from the sample tap on 2400 Cliff Road, the result from the Lab came back positive for coliform bacteria, but absent for E. Coli. Standard procedures require notification to the California Department of Health (CDPH) and additional water quality tests. Water quality samples taken above and below the positive sample site were negative. Subsequent tests of the sample tap however were positive and the CDPH required a Public Notice posted in the local

newspaper. The sample tap has since been cleaned/replaced and has had no additional positive samples.

- E. Development Project Update** – Mr. Moorrees reported that staff is still waiting to do the final job walk on the irrigation pipeline installation completed by C.P. Construction on 19th Street in Upland for Meritage Homes.

Hidden Lane Estates consists of nine residential lots where water mains were installed over 20 years ago by C.P. Construction. Staff processed nine Will Serve Letters. Five homes are framed and nearing completion with two having paid for water service and currently metered.

F. Project Status Report –

- **Mountain Drive – ECW – 1,500 LF 8” Waterline** – Work has been delayed until September 29th due to availability of materials.
- **Upland Hills Golf Course – Irrigation waterline replacement** – There are some issues with Viewpoint Homeowners Association in obtaining access from Scenic View Drive. SAWCo has a blanket easement to the area in question.
- **Well 25A-Site Improvements per City CUP – Carry Over CY 2014** – Working on drilling the piers. RC Construction will begin work once the piers are completed. SAWCo will receive word next week on whether the landscape plan is acceptable.
- **WFA Pipeline Connection** – Unable to begin until October.
- **Cucamonga Basin** – Desilting project at crosswalls – Environmental work should be completed and submitted back to the Planning Department by the end of the week. Movement on the temporary construction access agreement with the Colonies Partners has stalled due to the impending move of the Ford dealership to the site of the haul route. SAWCo has a blanket easement of the area in question.
- **Water Rights Investigation – Activity** – The State Water Resources Control Board (SWRCB) is reviewing responses. SWRCB just took over the drinking water program and groundwater management program.
- **Chino Basin Recharge Pipeline** – Easement document going to the PVPA for approval.

Director Bozar inquired about whether the SWRCB groundwater management program would affect the adjudicated basins. Mr. Moorrees replied that it will not affect them.

7. Closed Session: None.

8. Director’s Comments and Future Agenda Items: Director Elliott expressed his appreciation for Ms. Hoerning’s report on Chino Basin Watermaster. He’d like to see it covered in the meeting minutes.

Director Elliott also shared his visit to the Southern California Edison Big Creek Hydroelectric Project. He stated that Shaver Lake is so low that the only pumping station is 1,000 feet underground.

Director Bozar inquired as to how close SAWCo is to declaring a Stage II Water Conservation alert. Mr. Moorrees was holding off going into a Stage II until finding out the status of the Tunnel after the blockage was cleared. He reported that shareholders on average are using more water this year than they were last year. A full report will be presented at the next PROC meeting.

Director Thomas mentioned a program through the City of Upland and IEUA that provides for the removal of 500 to 1,000 square feet of turf and replacement with drought tolerant landscaping with a drip irrigation system. He felt that if SAWCo shareholders do not qualify for the program that quite possibly SAWCo itself should look at starting a similar program with their customers.

Adjournment: There being no further business the meeting adjourned at 6:08 p.m.

Future Meetings:

- The next Regular Board Meeting will be held on Tuesday, October 21, 2014 at 5:00 p.m.

Assistant Secretary
Charles Moorrees