

SAN ANTONIO WATER COMPANY
MINUTES OF THE SAN ANTONIO WATER COMPANY
Tuesday, October 18, 2016

An open meeting of the Board of Directors of the San Antonio Water Company (SAWCo) was called to order at 5:06 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, Ken Willis, and Sue Sundell. Also in attendance were resident Jane Willis, City of Upland's Public Works Director Rosemary Hoerning, Justin Scott-Coe with Monte Vista Water District (MVWD), Terry Catlin with the Inland Empire Utilities Agency (IEUA), Vivian Castro with the Chino Basin Water Conservation District (CBWCD), and SAWCo's General Manager Charles Moorrees, Assistant General Manager Teri Layton and Administrative Specialist Kelly Mitchell. Director Thomas presided.

- Salute to the Flag
- 1. Recognitions and Presentations: Mr. Moorrees recognized Rosemary Hoerning with the City of Upland, Justin Scott-Coe with MVWD, Terry Catlin with IEUA, and Vivian Castro with CBWCD.
- 2. Additions-Deletions to the Agenda: Mr. Moorrees added three items to the agenda: Item 6I, Pomona Valley Protective Agency (PVPA) Proxy; Item 6J, Cucamonga Basin Management; and Item 6K, Cucamonga Crosswalls.
- 3. Shareholder-Public Testimony: None.
- 4. Consent Calendar Items:
 - A. Approval of Board Meeting Minutes
Regular Meeting Minutes September 20, 2016.
 - B. Planning, Resources, and Operations Committee (PROC) Meeting Minutes
PROC meeting minutes of July 26, 2016
 - C. Administrative and Finance Committee (AFC) Meeting Minutes
No meeting minutes to report.
 - D. Ad Hoc Committee Office/Yard Relocation Meeting Minutes
No meeting minutes to report.
 - E. Financial Statement
Comparative Income Statement and Balance Sheet for August 31, 2016 and year-to-date.
 - F. Investment Activity Report
Monthly Report of Investments Activity
 - G. Water Production
Bi-Monthly water production [Jan/Feb, Mar/Apr, May/June, July/Aug, Sept/Oct, Nov/Dec]
 - H. Prominent Issues Update
Status summaries on certain on-going active issues.
 - I. Projects and Operations Update
Status summaries on projects and operations matters.
 - J. Groundwater Level patterns [Quarterly in April, July, October & January]
Tracking patterns of groundwater elevations relative to ground surface.
 - K. Correspondence of Interest:
 - Letter invitation for SAHA to speak at annual meeting
 - Letter response to SAHA invitation to speak at annual meeting

Director Elliott moved and Director Bozar 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 there is not much water being spread due to the current drought. The easement for the 5-acre landlocked property in Thompson Creek is still being monitored.

Ms. Hoerning spoke about the PVPA Board issuing a letter to the Six Basins Watermaster concerning Senate Bill 88 (SB88) regarding reporting water diversions in the spreading grounds. PVPA advised in the letter that they will provide all of the reporting for SAWCo when they spread below the dam, City of Pomona, City of Upland, and Three Valleys Municipal Water District. Mr. Moorrees commented SAWCo already reports its diversion at the Edison Box and their Six Basins spreading. Director Thomas suggested getting guidance from Wildermuth Environmental, Inc. about reporting Six Basins spreading to avoid double accounting.

B. Six Basins Representative Report – Mr. Moorrees reported on the Six Basins Watermaster meeting held on September 28, 2016. On the consent calendar was the approval to transfer 112.2 acre feet (AF) of stored water from SAWCo to the City of Pomona. The City of Pomona will then transfer the same amount of water to the City of Ontario. This transfer will fulfill the 2015 annual entitlement of SAWCo water for the City of Ontario. Recorded precipitation at the San Antonio Dam for the water year is at 10.1 inches. A total of 581 AF of water was spread; 230 AF was from SAWCo. A report was given by staff regarding the evaluation of potential substantial injury. Issues and suggestions regarding the option to have a private consultant perform the substantial injury analysis or have watermaster staff perform the analysis. Costs and consistency were of greatest concern. A staff report update was given on Proposition 1 funding. The October 14th date has been pushed back. The president of the board asked the board to consider whether or not they would continue with the strategic plan projects if they do not receive Proposition 1 funding. The board agreed that they would move forward with the projects regardless of Proposition 1 funding. The next board meeting will be held October 26th.

C. Chino Basin Representative Report – Ms. Layton reported on the Chino Basin Watermaster 2015 Safe Yield Reset Agreement (SYRA). A tentative order from the judge was received on September 19th which set the safe yield at 135,000 and sided with the City of Chino on all other issues. SAWCo's operating safe yield is going from 1,369 AAF to 1,232 AF. By December 2, 2016 the court will issue a briefing schedule with its list of questions for further briefing. The court noted that further oral argument is not foreclosed.

The Pool Meeting was held on October 13, 2016. The 2015 Ground-level Monitoring Committee recommended the Advisory Committee recommend to the Watermaster Board the adoption of the 2015 Annual Report of the Ground-level Monitoring Committee, along with filing a copy with the court.

In regards to the Supplemental Water Recharge Procedure, Ms. Hoerning spoke at the watermaster meeting to the benefit of SAWCo. The Fontana Water Company raised concern about entities that have not paid into the basin now being allowed to spread into the basin. They are looking to recover costs from those that have not paid. SAWCo provided comments in a letter to Peter Kavounas on August 31st. In the letter they suggested a pre-determined, agreed upon fixed rate water loss instead of incurring unknown charges. SAWCo also stated in the letter that they believe it is the sole responsibility of the party, not watermaster, to develop mitigation measures if any material physical injury exists. They also expressed concern with the process and inquired if they can add their metered water in during storm events and requested clarification. SAWCo then recommended a "priority of rights" and suggested Six Basins borrowed language indicating that "native" water would be first. There is concern that if SARCUP and others put water in the basin it may become full during storm events. If this takes place it needs to be determined who has first rights to put their water in the basin and who will lose their rights first if there is a loss of water.

The preliminary design has been completed for the recommended recharge master plan projects. Some project's yield and cost have made some projects less desirable. Staff has been talking with other parties of the Pool and will recommend removing some of the more undesirable projects from the list.

The Non-Agriculture Pool members have the ability through the Peace agreement to sell their available water to the Appropriate Pool members. Negotiations were made and the settled price is \$570/AF for one year.

SAWCo does not plan on supporting the Supplemental Water Recharge Procedure unless all of the issues they raised in their letter to Mr. Kavounas have been addressed.

D. Administration and Finance Committee (AFC) Chairman's Report – No meeting to report.

E. Planning, Resources, & Operations Committee (PROC) Chairman's Report – Mr. Elliott stated the action items are covered in the General Manager's Report on Activities items 6A through 6D and Item 6H.

F. Office Feasibility Study Ad Hoc Committee – No meeting to report.

6. General Manager's Report on Activities:

A. Tolle Nursery – Ground Lease Extension – Mr. Moorrees brought to the Board the renewal of the Tolle Nursery ground lease. The request is for a one year extension of the current lease agreement.

Mr. Moorrees recommended the Board authorize extending the ground lease for Tolle Nursery, Co., for another 12 month term beginning November 1, 2016 through October 31, 2017 for the Water Company property site located at 20th Street and Campus Avenue.

Director Elliott moved and Director Bozar seconded to renew the ground lease with Tolle Nursery, Co. Motion carried.

B. Water Master Plan – Mr. Moorrees advised the evaluation criteria for the domestic and irrigation systems was presented by Greg Ripperger with Civiltec Engineering at the most recent PROC meeting. The PROC recommended the Board approve the evaluation criteria for the Water Master Plan as presented including any comments. The technical memorandum was provided in the Board agenda packet.

Mr. Moorrees recommended the Board approve the evaluation criteria for the Water Master Plan as presented including any comments as appropriate.

Director Elliott moved Director Sundell seconded to approve the general manager's recommendation. Motion carried.

C. Upland Memorandum of Understanding (MOU) – Mr. Moorrees reported this item is a draft MOU for emergency water delivery from the City of Upland. It has been reviewed by Ms. Hoerning and was presented at the most recent PROC meeting. Mr. Moorrees added or revised a couple of items to the MOU.

Director Elliott moved and Director Bozar seconded to approve the MOU subject to approval of the minor revisions by the City of Upland. Motion carried.

D. Proposed Purchase of Water Company Land by the City of Upland – Mr. Moorrees stated this item was added to the agenda of the last PROC meeting. The City of Upland has requested to purchase 2.4 acres of the southern portion of SAWCo's 5-acre site located at 17th Street and Benson Avenue. A reservoir is to be constructed at this site by the City of Upland.

Staff advised that the revenue from the sale of the property may affect the Water Company's 85/15 rule as it cannot receive more than 15% of revenue from non-water source sales. Additionally, the Water Company is currently working with an architect and the AdHoc Committee to develop a new

office and yard facility on the same site. The proposed purchase may interfere with the plans for the new Water Company office and operational activities.

Director Thomas asked for an analysis of the tax implications from SAWCo's accountant.

Director Sundell expressed some concern about the timing of building a new office and yard. Ms. Layton responded that with the sale of the current office and yard facilities coupled with the sale of the southern portion of 17th Street and Benson Avenue may offset the cost to build the new office and yard facilities.

Director Thomas felt that combining the office and yard facilities still makes sense. A rate increase is needed because of operations.

Director Willis stated that these items come from two different sources of money. One has to do with daily operations and the other has to do with depreciation and obsolescence reserves acquired through good management of the company.

Ms. Hoerning updated the Board on the progress of getting approval from the City of Upland to acquire the southern portion of 17th Street and Benson Avenue. On Monday, October 10th the City of Upland Council took action to approve moving forward with the process. She thanked the Board for their support. They are still in the development phase. As things progress she will update the Board.

Director Bozar asked for a timeline. Ms. Hoerning advised they are on an accelerated timeline. Proposals have already been requested from design engineers as well as an environmental consultant. The plan development of the site is likely to begin within a few months. The design process can take up until March of 2017 and the application submitted to the State of California can take six months. There is a possibility of obtaining State revolving fund monies to help pay for the project. Ms. Hoerning hopes to have the reservoir completed before 2018.

Mr. Moorrees questioned whether the City of Upland would like to use the amount SAWCo owes them for entitlement as part of the payment for the land purchase. Ms. Hoerning replied 'yes'. Mr. Moorrees requested she provide that in her letter or term sheet.

Director Bozar stated there are issues where SAWCo has to relocate pipelines for the City of Upland's project to take place. These items will need to be resolved prior to the sale of the land.

Director Bozar moved and Director Elliott seconded to approve the general manager's recommendation to receive the City of Upland's request to acquire said property and authorize staff to negotiate the proposal to present to the advisory committee for recommendations and for Board approval as appropriate. Motion carried.

E. Water Supply Reduction – Mr. Moorrees reported that at the end of 2015 SAWCo was short on projected water production. Entitlement for 2016 was not lowered due to the expected El Nino. The heavy rains never came to Southern California and SAWCo is expected to produce even less water in 2016 than in 2015. Additionally, the water company was over appropriating total water production supply by including water that was recharged in the Cucamonga Basin and the Tunnel spread ponds.

Mr. Moorrees recommended the Board approve reducing the entitlement 12.7% for a total of 10,086 AF annual entitlement effective November 1, 2016, agree to determine entitlement based on water supply annually as appropriate in October of each year, and agree to discontinue entitlement billing to the City of Ontario for "unearned" income per their service agreement.

Director Willis exited the meeting at 5:44 p.m.

Director Bozar moved and Director Sundell seconded to approve reducing entitlement 12.7% to 10,086 AF effective November 1, 2016, determine entitlement based on water supply annually and discontinue entitlement billing to the City of Ontario for “unearned” income per their current service agreement. Motion carried.

- F. Conservation Programs Update** – Mr. Moorrees brought the Board’s attention to the high water shortage stage water violations. There have been 14 water violations issued since June 30th. Some customers have asked for reprieves of the fines. Mr. Moorrees has allowed for removal of fines with the advisement that a second offense will be fined at the rate of a second fine.

Also included with the agenda item was a thank you letter from a shareholder.

- G. Chino Basin Water Conservation District – LAFCO Application to Consolidate With IEUA** – Director Thomas had Mr. Moorrees bring this item to the Board for recommendation to either take a neutral stance or support either IEUA or CBWCD regarding the proposed consolidation.

Mr. Moorrees introduced both Vivian Castro from CBWCD and Terry Catlin from IEUA.

Ms. Castro stated CBWCD’s Board and staff urged SAWCo to oppose the consolidation of CBWCD with IEUA. CBWCD’s staff views the act as a hostile takeover. CBWCD and IEUA have collaborated often over the years but water conservation is CBWCD’s main focus and it excels in that area.

Ms. Castro added that in LAFCO’s staff report dated May of 2015 they recommended consolidation, yet later that year they expanded CBWCD’s sphere of influence. If LAFCO believes an agency should not exist, a zero sphere of influence is given to the agency. LAFCO did not give CBWCD a zero sphere of influence, rather it expanded its sphere of influence.

The reasons given by IEUA for taking over CBWCD were for good governance, to reduce tax payer dollars and improve services. CBWCD questions the methodology used to calculate those savings. IEUA’s original submittal showed a savings of one million dollars annually but was questioned by LAFCO. A second submittal by IEUA showed an average savings of \$200,000 in five years. CBWCD has requested financial documents from IEUA including their 2016-2017 budget and have not received it. CBWCD provides conservation services and has eight water basins that it does not charge local agencies to send water to for recharge. These services are paid for by local property taxes. IEUA charges fees for their services and wants to take the water basins. Ms. Castro cautioned the Board that fees most likely will be charged to put water in the eight water basins CBWCD owns and operates should IEUA take over.

Ms. Castro gave examples of the special services provided by CBWCD that she feels are unmatched and encouraged the Board to support them in their defense against consolidation with IEUA.

Mr. Moorrees asked Ms. Castro if CBWCD ever approached IEUA to take over their water conservation services. Ms. Castro replied CBWCD has not proposed taking over IEUA’s water conservation services.

Mr. Catlin spoke on behalf of IEUA stating that in 2015 LAFCO released a staff report recommending either two conservation districts within the county consolidate or the overlying municipal water district consolidate with the CBWCD. IEUA had Webb and Associates prepare a plan for service study which was sent to LAFCO in August starting the application for consolidation. The report indicated a one million dollar annual savings in tax payer money and also government efficiencies should IEUA take over CBWCD. From a policy perspective Mr. Catlin voted in favor of IEUA consolidating CBWCD. LAFCO is now taking input from all affected parties. From the financial standpoint, IEUA utilized figures from CBWCD’s 2016-2017 budget as well as audited financials

from previous years. The public records request from CBWCD for IEUA's financials is in the process of distribution.

Mr. Catlin urged the SAWCo Board to at least take a neutral position on the consolidation.

Director Thomas inquired about who would be saving money if the IEUA consolidated CBWCD. Mr. Catlin stated any savings realized would be by the local tax payer. If there are any savings realized by the consolidation Mr. Catlin stated that as a board member of IEUA he would choose to return the money to the tax payers.

Director Thomas questioned what would happen with the CBWCD assets should IEUA take over. He pointed out CBWCD has nice facilities as well as some reserves from land sales. It appears as though the big guy is trying to take the little guys stuff. Mr. Catlin replied that if there are 24 million dollars in reserves he would recommend IEUA return it to the tax payers. As far as facilities, he has not heard mention of selling them. If consolidation does take place, CBWCD conservation staff would become part of IEUA. Current board members would serve as an advisory committee until their term expired. Details would be worked out by LAFCO consolidation plan.

Mr. Moorrees questioned whether local agencies would see charges to recharge water in the eight water basins if IEUA took over CBWCD. Mr. Catlin replied he has not posed that question and does not know what staffs response would be. His perspective at IEUA has always been to recover costs of service for all services they provide and to be transparent. IEUA already operates many of the basins and charges for that expense.

Ms. Layton inquired what, if any, plans IEUA had with the CBWCD property in Montclair. Mr. Catlin answered he did not believe there was a plan to sell the property. How to best use the property has not been planned for.

Ms. Layton also questioned whether or not IEUA had considered allowing CBWCD to handle all of water conservation since IEUA handles a myriad of other things that water conservation is just a small portion. Mr. Catlin stated if they can reduce redundancies and capture some efficiencies he is in favor of it.

Ms. Layton also inquired about charges such as supplemental recharge fees. Mr. Catlin stated IEUA is part of the watermaster and wants to follow the Optimum Basin Management Plan and ensure there is no physical harm done to any portion of the basin. There are some adverse impacts at different places within the basin or impacted water quality. IEUA is in favor of improving those situations. A consensus of all the producers is required to make anything happen.

Director Thomas inquired what the City of Upland plans to do in this situation. Ms. Hoerning was informed by the city manager that Upland is taking a neutral position on the topic at this time.

Director Thomas considered delegating this item to the AFC to review further. He felt uncertain responding with anything other than a neutral position at this time.

Director Bozar stated he is for cost savings but questioned how the taxpayer will benefit from the consolidation. A clear answer to that was not given. Though short term cost savings may have been stated Director Bozar questioned what the costs would be in the long run.

Director Thomas stated he is not aware of SAWCo customers paying taxes for CBWCD specifically. Should IEUA take over CBWCD's water basins and begin charging agencies to put water in them it would be an added cost to SAWCo and its shareholders. The water company may want to oppose the consolidation for this reason.

Mr. Moorrees advised the AFC meets the following week and inquired whether or not the Board wished to put the item on the agenda. Director Thomas agreed the item should be on the agenda for the meeting.

Director Bozar commented he wanted to see agreeable numbers for cost savings, short term and long term savings at the AFC meeting. Additionally, the rate payer impact showing how the tax payer is going to save money; not just eliminate a line item on their property tax bill and then charge them somewhere else to make up the difference.

Director Willis moved and Director Sundell seconded to take no position at this time but continue to pursue information on the subject for possible change of position. Motion carried.

Mr. Moorrees commented that though IEUA had a compelling argument. However, CBWCD could approach IEUA regarding their water conservation program. IEUA's mission statement and CBWCD's mission statement are very different with CBWCD's pertaining to conservation only. Both are great agencies and are good at what they do.

H. Project Status Report –

- **Water Rights** – The State Water Resources Control Board is reviewing the documents submitted by SAWCo. A phone conference is to be scheduled for the following week.
- **Well 31 Biological Treatment** – The treatment plant is up and running. The term sheet is currently being reviewed by staff and will be presented at the next PROC meeting. Water quality test result shows the treatment plant is working to eliminate contaminants.

- I. **PVPA Proxy** – The annual meeting of the Pomona Valley Protection Agency will be on November 9th. Each year they have the annual shareholders meeting to elect the board of directors for the upcoming year and to conduct annual business. SAWCo must authorize a member to carry their proxy to vote at the annual meeting.

Director Elliott moved and Director Sundell seconded the general manager recommendation to appoint Director Thomas as the proxy to vote all SAWCo shares at the PVPA annual shareholders meeting on November 9th. Motion carried.

- J. **Cucamonga Basin Management** – Mr. Moorrees stated SAWCo is looking at moving forward with modernizing the judgment for Cucamonga Basin with Cucamonga Valley Water District (CVWD) and the City of Upland. The 2012 state of the basin report completed by Wildermuth Environmental, Inc. left the parties with a lot of unanswered questions. Staff would like to engage with Thomas Harder & Co. to provide the technical review of the 2012 State of the Cucamonga Basin Report and Safe Yield Calculation, use them as oversight in moving forward with modernizing the judgment, and appropriate \$29,520 from the Depreciation and Obsolescence Reserves. Thomas Harder & Co. came highly recommended by Aquality Engineers whom SAWCo used for their Tunnel water quality issues and has been vetted by the Chino Basin Watermaster Appropiative Pool parties.

Director Elliott moved and Director Bozar seconded to engage with Thomas Harder & Co. to provide the technical review of the 2012 State of the Cucamonga Basin Report and Safe Yield Recalculation and appropriate \$29,520 from the Depreciation and Obsolescence Reserves. Motion carried.

- K. **Cucamonga Crosswalls Contract** – Mr. Moorrees reported the Board expressed a desire Board to recoup costs spent thus far in getting the Cucamonga Crosswalls project started. The owners of GRB Equipment have an arrangement with the owner of Holliday Rock and have a proposal that will provide a concession to SAWCo for any expenses they have incurred to date. Staff anticipates the proposal will be presented at November's PROC meeting for recommendation to the Board for approval in December. The remaining items pending are the letter of acceptance from the San Bernardino County Flood Control District, the nationwide permit from the Army Corps of Engineers, and the 401 permit from the Regional Water Quality Control Board.

Mr. Moorrees advised that using the Holliday Rock access route will negate the need to use 22nd Street and Campus Avenue. This will eliminate the need for the noise study, traffic study, meeting with the public and making an application to the City of Upland to amend the adopted mitigated negative declaration.

Director Thomas stated being able to work with John Holliday is key in order to get the project to move forward. He would like verification of the agreement between GRB Equipment and Holliday Rock. Mr. Moorrees will bring the details to the next PROC meeting.

7. Closed Session: None.

8. Director's Comments and Future Agenda Items: None.

Adjournment: Seeing no further business the meeting was adjourned at 6:28 p.m.

Future Meetings:

- The next Board Meeting will be held on Tuesday, November 15, 2016 at 5:00 p.m.

Assistant Secretary
Charles Moorrees