

MINUTES OF THE REGULAR MEETING
OF THE BOARD OF DIRECTORS OF THE
SEMITROPIC, BUTTONWILLOW, POND-POSO, AND
WILDLIFE IMPROVEMENT DISTRICTS OF
SEMITROPIC WATER STORAGE DISTRICT

Convened at 12:30 p.m. on Wednesday
October 8, 2008

The regular meeting of the Board of Directors was called to order by President Wegis on Wednesday, October 8, 2008, at 12:30 p.m., at the offices of the District, 1101 Central Avenue, Wasco, California. Those in attendance included:

Directors Present: James A. Crettol, Jeff Fabbri, Ted Page, Phil Portwood, Todd Tracy, Dan Waterhouse and Fredrick Wegis;

Directors Absent: None

Others Present: General Manager, Will Boschman;
District Engineer, Paul Oshel;
District Superintendent, John Lynch;
District's Controller, John Wooner;
District's Staff Engineer, Craig Wallace;
District's Accountant, Judy Burns;
District's Exec. Secretary, Marsha Payne;
Districts Legal Counsel, Ernest A. Conant;
District's Consulting Engineers, Bookman-Edmonston, GEI Consultants, Inc., represented by Marc Rozman;
W.M. Lyles Representative, Rick Amigh;
District Consultants, John Jones and Bob Reed;
Wells Fargo Representatives, Michael Engelbrecht and Darrin Heibert;
Paramount Farming representative, Kim Brown;
District landowner, ACDF, LLC representative, Devin Aviles; and Steve Gair, representing Wingate Realty.

President Wegis led the flag salute, then introduced and welcomed all guests.

Approval of Agenda

It was noted that two new items came to the staff's attention after posting the agenda and needs action before the next meeting; 1) Consider Processing Addendum #4 to SWRU

Supplemental EIR, and 2) Consider Award of Contracts for WB-215 & WB-216 – 2008-2009 Winter Improvements.

On motion by Director Crettol, seconded by Director Tracy, the revised agenda was unanimously approved.

ACTION ITEMS

Minutes

On motion by Director Waterhouse, seconded by Director Tracy, the Minutes of the Regular Meeting on September 10, 2008 were approved.

Treasurer's Report

Due to the Board Meeting held early in the month, financial records were not yet available for complete review by the Treasurer. The Treasurer's Reports will be submitted for approval at a later date.

Accounts Payable

The Cash Disbursement List was presented for review and payment. Several items were discussed, including payments to Bob Reed for marketing, Eastech Flow Controls, Inc. for a replacement flow meter for Diltz Plant, McCrometer for test metering on the AVWB, and Quick Start Intelligence for IT training.

On motion by Director Portwood, seconded by Director Page, the Board authorized payment of the Accounts Payable as listed on the October 8, 2008 Disbursement List for Semitropic Water Storage District and Semitropic Improvement District. A copy of the Disbursement List is attached hereto as "Exhibit A".

Consider 2009 Budget, Set Water Rates and Adopt Related Resolutions

Staff presented three scenarios for Contract Water rate increases to the Board, 1) a 20% or \$10.66/AF increase to \$64.99/AF; 2) a 30% or \$16.06/AF increase to \$70.06/AF; and 3) a 41% or a \$21.96/AF increase to \$75.96/AF. After considerable discussion, the Board recommended minor changes to the rate formula, primarily in regards to depreciation and utility expenses, after which the Board elected to increase rates by 30% to \$70.00/AF (\$69.96 based on 3.5 AF/AC). In addition, the Board elected that Noncontract water would have the same rate as Contract water of \$70.00/AF (\$69.96 based on 3.5 AF/AC).

Utility energy pumping costs increased by 37% or \$295,000 to \$11 Million in 2009 up from \$0.8 Million in 2008. This price increase is caused by the combined increase in utility rates and pumping.

On motion by Director Page, seconded by Director Tracy, the Board approved an increase of power charges to 11¢Kwh. Director Waterhouse voted No on the motion.

For budgeting purposes, it is assumed that the District will receive 40% of its annual water entitlement; the cost of water will increase significantly by 29% or \$2.3 Million to \$10 Million in 2009, up from \$8 Million in 2008. The main reason the cost of water substantially increased is due to the depletion of the State Trust Fund in 2008.

The total 2009 proposed budget is \$54,359,480.00. In addition, staff recommended for now that there be no end of the year payment in the 2009 budget, but instead staff will determine the cash availability in November 2009 if an end of year payment can be made in 2009.

On motion of Director Tracy, seconded by Director Waterhouse, the Board approved the 2009 Budget and adopted Resolution No. ST 08-6 and Resolution No. SID 08-7 in accordance with staff recommendations and is adjusted by the Board with the exception of end of year payment that will be reviewed later and except as amended by the Board:

RESOLUTION ADOPTING 2009 BUDGET

On motion of Director Portwood, seconded by Director Crettol, Resolution No. BW 08-5 and Resolution No. PP 08-5 were adopted pursuant to final review by the Finance Committee:

RESOLUTION FIXING SURFACE WATER SERVICE AREA PRELIMINARY SERVICE CHARGE AND PRELIMINARY ADDITIONAL WATER USE CHARGE FOR 2009 AND SETTING NOTICED PUBLIC HEARING THEREON.

Consider Resolutions to Adopt Amended Investment and Reserve Policies

Manager Boschman stated that staff has reviewed the District's Investment and Reserve Policies and it appears that minor revisions are necessary. John Wooner reviewed the changes with the Board and discussion followed.

On motion by Director Portwood, seconded by Director Page, the Board adopted Resolution No. ST 08-7:

ADOPTING AN ANNUAL INVESTMENT POLICY
FOR THE
SEMITROPIC WATER STORAGE DISTRICT

On motion by Director Portwood, seconded by Director Page, the Board adopted Resolution No. ST 08-8:

ADOPTING A REVISED RESERVE POLICY
FOR THE
SEMITROPIC WATER STORAGE DISTRICT

Consider Resolution Announcing Intent to adopt Amended Conflict of Interest Code

Ernest A. Conant, legal counsel for the District, stated that every two years, the District is required to review its Conflict of Interest Code and determine if any changes are necessary. Upon review by legal staff, it was determined that the position of Controller should be added to the Code; therefore, an Amended Conflict of Interest Code must be adopted by the Board and filed with the County.

On motion by Director Page, seconded by Director Fabbri, the Board approved Resolution No. ST 08-5 which establishes a mandatory 45-day comment period beginning on October 9, 2008 and ending on November 24, 2008:

RESOLUTION ANNOUNCING THE INTENT TO ADOPT A CONFLICT OF
INTEREST CODE AND ESTABLISHING A COMMENT PERIOD

Consider Bond Conversion with Wells Fargo Bank

Manager Boschman stated that the Board previously indicated an interest to convert the 2008 Bonds from a variable interest rate to a fixed rate.

Michael Engelbrecht of Wells Fargo addressed the Board regarding the volatile market both in the US and worldwide. The District would be required to give the Bond holders a 30-day notice of intent to convert. December 1st would be the first opportunity to convert to a fixed interest rate at a cost of around \$10,000. Discussion followed.

On motion by Director Waterhouse, seconded by Director Fabbri, the Board authorized staff and consultants to commence the process to convert the variable interest rate 2008 Bonds to a fixed interest rate.

Michael Engelbrecht and Darrin Heibert left the meeting at 1:55 p.m.

Consider Changes to the Joint Well Policy

Manager Boschman stated that a potential alternative to the well sharing agreement has been proposed and needs to be addressed by the Board. Any changes would need to be

addressed in the Joint Well Policy. Discussion followed.

By general consensus, the Board deferred this matter to the Policy Committee to discuss and then present recommendations to the full Board at a later date.

Consider Retaining Services of Additional Environmental Consultant

Manager Boschman reported that Scott Kuney, Esq. along with Wes Rhodehamel and Waring Laurendine of Live Oak Associates has been working hard to resolve the environmental issues raised by various State and Federal agencies. In order to complete an incidental take permit application package, including a Habitat Conservation Plan (HCP) and Environmental Impact Statement (EIS), it has become necessary to consider an Environmental Consultant who specializes in developing and completing these documents. The Manager stated that Entrix, Inc. from Concord, California has extensive experience in HCP and EIS documentation as well as the associated NEPA/CEQA documents. Entrix has submitted a resume of qualifications and has an appointment this coming Friday to meet District staff to get started on the required documentation.

Discussion followed regarding budget allowance for this endeavor and request for a clear understanding of what is involved in the development of the HCP and EIS documents. Board approved an initial expenditure of \$7,500 to at least cover the first meeting. A more detailed scope of work and budget will be presented at the next meeting.

Consider Processing Addendum #4 to SWRU Supplemental EIR

Legal counsel, Ernest Conant, stated that Addendum #4 for the SWRU Supplemental EIR has become necessary to accurately describe the project to include the realignment of the canal and pipelines. The Addendum was discussed and reviewed by the Board.

On motion by Director Crettol, seconded by Director Fabbri, the Board adopted Addendum #4 of the SWRU Supplemental EIR in the form of Resolution No. SID 08-8:

CERTIFICATION OF FOURTH ADDENDUM TO SUPPLEMENTAL ENVIRONMENTAL
IMPACT REPORT RELATING TO THE SEMITROPIC STORED WATER RECOVERY
UNIT (SWRU), AND FURTHER UPDATES TO THE PROPOSED FACILITIES

Consider Award of Contracts for WB-215 & WB-216 – 2008-2009 Winter Improvements

Marc Rozman, GEI Consultants representative, reviewed the GEI Analysis and Recommendation for Award of Contract for WB-215 & WB-216 Constructing the 2008/2009 Winter Improvements. Mountain Cascade, Inc. appears to be the low bidder for Specifications WB-215 for a total amount of \$3,392,000.00 out of 7 proposals. Preston Pipelines, Inc. appears

to be the low bidder for Specifications WB-216 for a total amount of \$1,293,400.00 out of 6 proposals.

Paul Oshel, District Engineer, recommended awarding Schedules A, B & C on Specifications WB-216. Discussion followed. It was requested that GEI keep in close contact with the contractors as these projects are under short time constraints.

On motion by Director Waterhouse, seconded by Director Tracy, the Board authorized Award of Contract of WB-215 Constructing the 2008/2009 Winter Improvements to Mountain Cascade, Inc., and WB-216 to Preston Pipelines, Inc.

Design/Build Team Construction Update

W.M. Lyle's representative, Rick Amigh, reported on the design and budget development of Phase 2B of the Project. Due to changes in various alignments, revisions are in process on both the N/S Conveyance System canal and System X pipelines. Rights-of-way, easements and maps are being developed on the realigned areas and landowners are being contacted.

Rick Amigh also reported on the Raw Water Processing Plant facility at the Junction Pumping Plant, south of the solar plant. Training for operation, sampling and chemical handling has started and it is anticipated that plant operations will commence very soon and will continue through November to coincide with District pumpback operations.

INFORMATIONAL AND UP-DATE ITEMS

Manager Boschman's written report on "District Activity During September 2008" dated October 2, 2008 was accepted for filing. In addition, Manager Boschman presented the following:

Water Supply Update

Manager Boschman reported that a very grim outlook remains for the 2009 water supply. Not much has changed in recent months and no rain is in sight yet. Wells in the Central Valley are being drilled at record pace which indicates that farmers are expecting to rely on groundwater in coming years.

Butte has indicated they may have water to bring in and is interested in a 5 year demonstration program. Contact has been made with KCWA and documents are being processed for permits.

Status of Delinquencies

The total amount of Contract Water Delinquencies is \$6,952.44. The accounts include Bloemhof Ag Enterprises - \$3,400.18 and Wildwood Ranches - \$3,552.26.

Banking Project Update

Manager Boschman reported on pumpback operations. There has been some resistance to turning on wells by some landowners. Discussion followed on various solutions to gain cooperation.

There was also discussion on MWD's effort to be pro-active in cleaning up water thru processing unusable water and the fallowing program.

At 3:15 p.m. Director Crettol and Rick Amigh left the meeting.

Semitropic-Rosamond JPA Activities

The Manager reported that the JPA has asked Wells Fargo to look at funding possibilities to help bridge the gap on the Semitropic part of the project. A considerable amount of time has been spent with Antelope Valley-East Kern Water Agency (AVEK) with the intent to cooperate as much as possible with their objectives as well as the Water Bank Authority's development of a project.

Energy Activities

The District Engineers reported on the load shed program with EnerNoc which earned the District \$46,002 in September. All four engine generator up-grades have been completed.

Poso Creek IRWMP

Paul Oshel reported that the Poso Creek IRWMP Group has been working on governance issues in an effort to be prepared to apply for grant funds when or if they become available.

Consultants

District consultant, John Jones, reported that the District drilled its first flow path well successfully. He also reported on the well drilling operations, well developing, the right-of-way easements for Phase II and the abandoned burn dump which passed a final inspection by the County of Kern. There will be no further inspections or fees on this facility by the County.

Miscellaneous

Manager Boschman reported that Buena Vista had comments on Semitropic's Annexation #1 and therefore the item was taken off the Agenda for the Kern County Water Agency's Board Meeting. Buena Vista staff indicated that they were not aware of Semitropic's Annexation process and had questions, which have been discussed and hopefully resolved.

Consulting Engineer's Report

Mr. Marc Rozman from Bookman-Edmonston, GEI Consultants, Inc. presented the "Consulting Engineers' Report on Projects for Semitropic Water Storage District" for work during September 2008, which was accepted for filing.

Mr. Rozman also reported on engineering activities related to various projects including repair on the P-1030 canal after it developed a leak in July. The canal was shut down and earthen plugs were installed on each side of the leak. The work was completed by the end of September. Also reported on were activities on the Poso Creek IRWMP Grant Programs, preparation for bidding on the Winter Improvement Projects and construction activities for the P-565 Distribution System.

Legal Counsel

At 3:40 p.m. the District's legal counsel, Ernest Conant, stated that a closed session was needed pursuant to the following:

- a. Conference with legal counsel to discuss pending litigation
(Gov't Code Section 54956.9(a)-*California Groundwater Association, et al. v. Semitropic Water Storage District*)
- b. Conference with legal counsel to discuss anticipated litigation (Gov't Code Section 54956.9(b))
- c. Conference with Real Property Negotiators (Gov't Code Section 54956.8)
Negotiators: Will Boschman and Rick Wegis
Parties: Various landowners
- d. Personnel Matters (Gov't Code Section 54957)

All visitors left the meeting.

At 4:20 p.m. the Board reconvened to open session. President Wegis stated that several items were discussed, including litigation issues and land negotiations.

On motion by Director Fabbri, seconded by Director Tracy, the Board authorized staff to retain the services of Steve Gair with Wingate Realty as Real Estate Agent for land transactions.

At 4:22 p.m. District staff left the meeting in order for the Board to discuss personnel matters.

Adjournment

At 4:45 p.m. the meeting was adjourned by President Wegis until Wednesday, October 22, 2008 at 12:30 p.m. at the District office to continue the business of the District.

James A. Crettol, Secretary

APPROVED:

Fredrick A. Wegis, President