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FILED-Rancho Cucamonga District
SAN BERNARDINO COUNTY
SUPERIOR COURT

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8 SUPERIOR COURT OF THE STATE OF CALIFORNIA
9 COUNTY OF SAN BERNARDINO - RANCHO CUCAMONGA DIVISION

11 CHINO BASIN MUNICIPAL WATER DISTRICT,)
12)
13 Plaintiff,)
14 v.)
15 THE CITY OF CHINO,)
16)
17 Defendants.)

CASE NO. RCV 51010
Judge: Honorable J. MICHAEL GUNN
**MOTION FOR APPROVAL OF
RECHARGE FACILITIES
FINANCING AGREEMENT**
Hearing Date: July 8, 2002
Hearing Time: 1:30 pm
Dept: 8

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18 The Chino Basin Watermaster has embarked upon an ambitious effort to implement the
19 physical solution mandated by the stipulated judgment entered in *Chino Basin Municipal Water*
20 *District v. City of Chino*, San Bernardino Superior Court Case No. 51010. This effort is known as
21 the Optimum Basin Management Program ("OBMP"). A unique opportunity has arisen that will
22 enable the utilization of significant funds from Proposition 13 (also known as the Water Bond) to
23 fund the implementation of a portion of the OBMP to the benefit of all of the parties to the
24 Judgment. In order to utilize these funds, Watermaster would like to enter into an agreement,
25 known as the Recharge Facilities Financing Agreement, a true and correct copy of which is
26 attached here as Exhibit "A." Watermaster thus comes before the Court to respectfully request
27 approval of the Recharge Facilities Financing Agreement.
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I.

INTRODUCTION

A. OPTIMUM BASIN MANAGEMENT PROGRAM: PROGRAM ELEMENT
2 IMPLEMENTATION SCHEDULE

Program Element 2 ("PE2") of the Optimum Basin Management Program Implementation Plan ("OBMP Implementation Plan") describes measures that will be taken to enhance and protect the Safe Yield of the Chino Basin through the development of physical recharge capacity in the Basin. The OBMP Implementation Plan contemplates the development of capacity to recharge storm water, imported water and recycled water.

A first draft of specific recharge improvement projects was provided in Table 1 of the OBMP Implementation Plan. These measures were subsequently refined and described with more particularity in the Recharge Master Plan Phase II Report ("Recharge Master Plan") which was completed by Watermaster in August of 2001.

PE2 contemplated the implementation of the elements of the Implementation Plan and Recharge Master Plan over a period of many years. According to the PE2 implementation schedule, implementation during the first three years was anticipated to consist only of:

- (1) the formation of an *ad hoc* committee to coordinate with the Chino Basin Water Conservation District ("CBWCD") and the San Bernardino County Flood Control District ("SBCFCD");
- (2) implementation of all high priority recharge projects that involve only reoperation of existing recharge/flood control facilities;
- (3) completion of the Recharge Master Plan; and
- (4) completion of design and construction of early action recharge projects (ie., those projects listed with an "A" priority on Table 1.

(OBMP Implementation Plan, p.22.)

After the first three years, the OBMP Implementation Plan specifies that the following activities will take place:

- 1 (1) implementation of all high priority projects that involve construction and re-
2 operation at existing facilities by year five;
3 (2) implementation of all other recharge projects based on need and available
4 resources; and
5 (3) update of the comprehensive recharge program every five years.

6 (OBMP Implementation Plan, p.23.)

7 **B. PROPOSITION 13 FUNDING**

8 As described in the Declaration of Michael T. Fife which is attached to this pleading as
9 Exhibit "B," implementation of the Recharge Master Plan was submitted for funding under
10 Proposition 13 by the Santa Ana Watershed Project Authority to the State Water Resources
11 Control Board ("SWRCB"). Funding for this Project was approved by the SWRCB in the
12 amount of \$19,000,000. In order to take advantage of the availability of Proposition 13 funds,
13 and in order to more expeditiously implement this critical element of the OBMP, the parties
14 decided to accelerate the implementation schedule and implement the elements of PE2 described
15 above immediately.

16 Doing so has necessitated a strong show of financial commitment to the OBMP by the
17 Appropriative and Non-Agricultural Pools, since the utilization of Proposition 13 funds demands
18 that local entities match funds received through Proposition 13 with a 50% Local Share.

19 The Inland Empire Utilities Agency ("IEUA"), through its financing arm known as the
20 Chino Basin Regional Financing Authority ("Authority"), has agreed to provide the funding for
21 the Local Share through the issuance of variable rate bonds. The Authority will then recover this
22 expense from both Watermaster and IEUA. Watermaster's financial commitment in this regard is
23 described by the attached Recharge Facilities Financing Agreement.

24 **C. RECHARGE FACILITIES FINANCING AGREEMENT**

25 Generally, the Recharge Facilities Financing Agreement provides that the Authority will
26 issue bonds in the amount of approximately \$20,000,000 for the purpose of providing the Local
27 Share of the funding for the implementation of the Recharge Master Plan. Through a separate
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1 agreement, IEUA has agreed to assume the debt service and other associated costs (called in the
2 Agreement, "Fixed Project Costs") for one-half of the bond issuance (approximately
3 \$10,000,000). The Authority will then charge Watermaster an amount which will be computed as
4 the amount necessary in order to pay the other one-half of the Fixed Project costs.

5 Specifically, the Authority is a joint exercise of powers authority composed of IEUA and
6 the Cucamonga County Water District. The Authority will issue variable rate bonds in the middle
7 of July whose purpose is to fund a variety of IEUA projects. A portion of these bonds,
8 approximately \$20,000,000 worth, are intended to be used to fund the Local Share of the
9 implementation of the Recharge Master Plan. Through the Agreement, Watermaster agrees to
10 pay one-half of the "Fixed Project Costs" on this bond issue. (Agreement § 5(f)(i).) Through a
11 separate agreement with the Authority, IEUA has agreed to pay the other half of the Fixed
12 Project Costs. The Fixed Project Costs consists of payments of the debt service on the bonds and
13 payments to create and maintain appropriate reserves both for the repair and maintenance of the
14 facilities as well as for the payments due under the Agreement. (Agreement § 1.) Interest earned
15 on these reserves will be credited pro rata toward Watermaster's obligations under the
16 Agreement. (Agreement § 5(e)(ii).)

17 Under the Agreement, Watermaster will make payments to the Authority by July 15 of
18 each year. (Agreement § 5(f)(i).) The Authority commits to provide a budget to Watermaster
19 which explains the charges that it will be paying, and also agrees to account for all of the money
20 paid to it by Watermaster. (Agreement §§ 5(f)(ii), 6, 9(a).) The Authority also covenants that all
21 payments made by Watermaster will be used only for purposes related to the redemption of the
22 bonds and that all bond money will be used only for the purpose of either funding the Local
23 Share or to redeem the bonds. (Agreement §§ 3, 9(c).) Correspondingly, Watermaster agrees to
24 provide for the payments under the Agreement in its annual budget, and to levy an OBMP
25 assessment that is sufficient to pay its obligations under the Agreement. (Agreement § 8(a)-(b).)

26 Since the Authority is a funding entity only, it does not have any responsibility or role
27 with regard to the implementation of the Project. Implementation of the Project instead will be
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1 effectively controlled by Watermaster. For example, preliminary design work of the facilities is
2 being performed by Black & Veatch under the direct supervision of Watermaster, and each of the
3 Basin entities is closely appraised of the progress of this work and is providing regular input. If
4 there are any material changes to the Project as previously presented to the Court, then
5 Watermaster would return to the Court for supplemental review of those changes. Watermaster is
6 currently in the process of negotiating operations agreements with each of IEUA, the SBCFCD
7 and the CBWCD to ensure that operations at the basins owned by each of these entities will be
8 conducted in a manner consistent with implementation of the Recharge Master Plan. The basin
9 water users and Watermaster are thus protected with regard to the implementation of the Project
10 because in a very real sense they themselves are implementing it.

11 Under the Agreement, the Authority covenants that bond monies may only be used to pay
12 for costs associated with the Project or to redeem the bonds. (Agreement §§ 3, 9(c).) Since
13 Watermaster will control the implementation of the Project, it will be able to control what costs
14 are incurred as part of the Project. In this way Watermaster will be able to ensure that the bond
15 money is disbursed as intended by the parties.

16 The Agreement describes the amount to be paid by Watermaster to the Authority as an
17 "operations fee" that is based on Watermaster's utilization of the improvements that will be
18 financed through the bond money and the matching Proposition 13 funds. (Agreement § 5(c).)
19 This charge, however, is not meant to imply that operations and maintenance expenses for the
20 facilities are to be paid through the bond issuance or the Proposition 13 funds. (Agreement § 3.)
21 Rather, operations and maintenance expenses at the facilities will be accounted for through
22 separate agreements between Watermaster and the entities which own the specific facilities.

23 On May 16, 2002, the Agricultural Pool Committee unanimously recommended that
24 Watermaster enter into this Agreement with the Authority. The Appropriative Pool and the Non-
25 Agricultural Pool also discussed the Agreement on this date, and then continued their discussion
26 to a special meeting held on May 22, 2002. At this meeting both Pools unanimously voted to
27 recommend execution of the Agreement and also determined a methodology for distributing the
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1 costs under the Agreement amongst the parties in each Pool. On May 23, 2002 the Advisory
2 Committee also unanimously recommended to the Board that this Agreement be executed and
3 submitted to the Court for approval. On that same day the Board unanimously directed staff and
4 counsel to complete negotiation of the Agreement and to submit it to the Court for approval.

5 **II.**

6 **REQUEST FOR APPROVAL OF THE RECHARGE FACILITIES FINANCING**
7 **AGREEMENT**

8 Under the Judgment, any party, or the Watermaster itself, may apply to the Court for
9 review of any of Watermaster's actions, decisions or rules. (Judgment ¶ 31.) In addition, the
10 Judgment specifies that Watermaster may not contract with or purchase materials, supplies or
11 services from the Chino Basin Municipal Water District (now IEUA) except upon the prior
12 recommendation and approval of the Advisory Committee and pursuant to written order of the
13 Court. (Judgment ¶ 25.) Given the magnitude of the financial commitment entailed by the
14 implementation of PE2, the parties believe that it would be most prudent to receive Court
15 approval of the Recharge Facilities Financing Agreement.

16 **A. APPROVAL OF THE RECHARGE FACILITIES FINANCING**
17 **AGREEMENT WILL PROVIDE BENEFITS TO THE CHINO BASIN AS**
18 **A WHOLE**

19 Approval of the Agreement by the Court will allow for the implementation of the
20 Recharge Master Plan in an expeditious manner. There are many benefits to the users of the
21 Basin to implementing the Recharge Master Plan in this expeditious manner.

22 First and foremost is the current availability of Proposition 13 funding. Proposition 13
23 funding has been made available for this Project in the amount of \$19,000,000. There have been
24 suggestions made that whatever portion of these funds are not spent at the end of three years will
25 be reallocated by SAWPA to other projects in the Santa Ana Watershed. In addition, given the
26 fiscal issues that exist currently in California, there is a risk associated with assuming that money
27 held by the State now, will still be available in years to come. It is therefore in the best financial
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1 interest of the Basin as a whole to implement as much of the Recharge Master Plan as will
2 maximize the use of these available funds.

3 Second, a large component of the Recharge Master Plan involves the redesign and
4 reoperation of recharge facilities in order to better capture and recharge available storm flows and
5 recycled water. Currently, water not recharged from these sources flows out of the Chino Basin
6 and into the Santa Ana River. It is in the best interest of the management of the Basin as a whole
7 to capture these flows in as expeditious a manner as possible.

8 **B. THERE ARE NO LIMITATIONS ON WATERMASTER'S ABILITY TO**
9 **ENTER INTO THE AGREEMENT IN THE JUDGMENT, THE PEACE**
10 **AGREEMENT OR PRIOR ORDERS OF THE COURT**

11 Technically, the Agreement is between the Authority and Watermaster only and so does
12 not implicate paragraph 25 of the Judgment. However, since IEUA has a significant role with
13 regard to the operation of the Authority, it is prudent that the Court should consider this aspect of
14 the Judgment when providing its approval of the Agreement. The Agreement was negotiated at
15 arms-length between Watermaster's general counsel and bond counsel to the Authority and
16 IEUA. No special consideration is given to IEUA in the Agreement, and the corresponding
17 Agreement between IEUA and the Authority obligates IEUA to the same repayment terms as
18 Watermaster. The Agreement was circulated to all of the Watermaster parties, and no party raised
19 special concerns relating to paragraph 25 of the Judgment or to IEUA's involvement in the
20 Agreement generally. Both the Advisory Committee and the Board voted unanimously to
21 approve the Agreement.

22 Except as described above, there are no limitations on Watermaster's ability to enter into
23 the Agreement contained in the Judgment, the Peace Agreement, or prior Orders of the Court.
24 The Agreement, and the consequent implementation of the Recharge Master Plan, does not
25 involve Watermaster ownership of real property or substantial capital assets. (Judgment ¶ 19.)
26 The implementation of the Recharge Master Plan will primarily involve the construction at and
27 reoperation of existing facilities. While it is not currently anticipated, if it becomes necessary to
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1 acquire any real property interests such as easements, title to these interests will be vested in any
2 of the numerous stakeholders who are authorized to hold title to real property interests.

3 Furthermore, since the money will be borrowed by the Authority, the Judgment limitation
4 on borrowing is not applicable. (Judgment ¶ 24.) In general, Watermaster has reserved its general
5 discretion to set assessments at a level that is prudent under the Judgment but in a manner
6 sufficient to pay its recharge expenses. Watermaster has also agreed and been directed by the
7 Court to implement the OBMP and to seek Proposition 13 funding. Through the Agreement,
8 Watermaster does not borrow money, but instead only agrees to set assessments at a level that
9 will be sufficient to pay for the implementation of PE2 in a manner that will allow for the use of
10 Proposition 13 funding.

11 Like the prohibition on the ownership of property, the prohibition on borrowing is
12 designed to prevent Watermaster from assuming any long term commitments that may result in it
13 having vested interests of its own that might interfere with its role in implementation of the
14 physical solution under the Judgment for the benefit of the Basin as a whole. In those isolated
15 instances where the best interests of the basin entail the acquisition of real property or the
16 assumption of debt, Watermaster has been able to use arrangements that satisfy the needs of the
17 Basin while remaining true to the terms and intent of the Judgment. For example, with regard to
18 the ownership of real property, Watermaster has in one instance utilized the concept of trust
19 ownership with regard to the ownership of water rights. Watermaster currently holds two water
20 rights and will soon be processing an Application for another water right, which rights will be
21 held in trust for the parties to the Judgment. The Court has held that this arrangement does not
22 violate the Judgment. Thus, while Watermaster will enjoy the use of the bond money, and
23 ultimately will control the disposition of the money, the actual borrowing of the money will be
24 accomplished by another entity. The terms and the intent of the Judgment will be met because
25 ultimately the purchasers of the bonds will look to the Authority for repayment of the bond
26 money.

27 Next, since payments under the Agreement will be classified as OBMP assessments, they
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1 will be considered administrative expenses under the Judgment paragraph 54. (Peace Agreement
2 § 1.1(cc).) Paragraph 54 of the Judgment authorizes Watermaster to classify its expenses into two
3 categories: general Watermaster administrative expenses and special project expenses. As
4 described in Watermaster's *Post Order Memorandum*, dated October 26, 2000, Watermaster
5 classifies most OBMP expenses as general administrative expenses because implementation of
6 the OBMP is regarded as having a general benefit to all parties who produce water from the
7 Basin. (Post Order Memorandum, pp.12-13.)

8 Finally, the limitation upon the duration of contracts that may be entered in to by the
9 Watermaster that was contained in the Court's 1998 Order creating the current nine-member
10 Board (*see* 1998 Order, p.7, line 12), allowed that such contracts could be entered into with Court
11 approval and was arguably lifted by the Court's subsequent Order of September 28, 2000
12 extending the term of the nine-member Board.

13 Watermaster therefore respectfully requests the Court to issue an order approving
14 Watermaster's decision to enter in to the Recharge Facilities Financing Agreement and directing
15 Watermaster to proceed with implementation of PE2 in order to maximize its use of available
16 Proposition 13 funds.

17
18 DATED: July 1, 2002

HATCH AND PARENT

19
20 By: 

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22 SCOTT S. SLATER
23 MICHAEL T. FIFE
24 Attorneys for Chino Basin Watermaster
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27
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EXHIBIT A

RECHARGE FACILITIES FINANCING AGREEMENT

Dated as of May 1, 2002

By and Between

CHINO BASIN REGIONAL FINANCING AUTHORITY

and

CHINO BASIN WATERMASTER

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RECHARGE FACILITIES FINANCING AGREEMENT

This Agreement, dated as of May 1, 2002, by and between the Chino Basin Regional Financing Authority (the "Authority"), a joint exercise of powers agency duly organized and existing pursuant to Article 1, Chapter 5, Division 7, Title 1 of the Government Code (the "Joint Powers Act"), commencing with Section 6500, and the Chino Basin Watermaster ("Watermaster"), created pursuant to the terms of the Judgment (as defined below).

WITNESSETH:

WHEREAS, the Watermaster and certain other entities in the Chino Basin have entered into the Peace Agreement Chino Basin, dated June 29, 2000 (the "Peace Agreement") attached to which as Exhibit B is the Optimum Basin Management Program Implementation Plan ("OBMP Implementation Plan");

WHEREAS, pursuant to Program Element 2 of the OBMP Implementation Plan, Watermaster has agreed to develop and implement a comprehensive recharge program in order to enhance the water resources of the Chino Basin;

WHEREAS, in August 2001, Watermaster completed the Optimum Basin Management Program Recharge Master Plan Phase II Report ("Recharge Master Plan") which describes specific facilities improvements to be performed in furtherance of the goals of Program Element 2;

WHEREAS, the Watermaster, IEUA, San Bernardino County Flood Control District and the Chino Basins Water Conservation District have previously entered into a Recharge Memorandum of Agreement which described several broad operational elements of the implementation of the Recharge Master Plan;

WHEREAS, the State Water Resources Control Board ("SWRCB") has previously approved a grant request for \$19,000,000 of Proposition 13 funding to be used to fund the implementation of the Recharge Master Plan;

WHEREAS, in order to utilize these grant funds, a local share of the funding to implement the Recharge Master Plan must be provided;

WHEREAS, the Authority has agreed to use its best efforts to issue bonds in an amount sufficient to pay the local share of the funding to implement the Recharge Master Plan;

WHEREAS, the Authority and IEUA have entered into the 2002 Financing Agreement pursuant to which IEUA will pay one-half of the debt service on the bonds issued by the Authority to fund the Local Share of the recharge facilities improvements described in the Recharge Master Plan;

WHEREAS, the Authority and Watermaster now wish to enter into this Agreement to provide for the payment to the Authority by Watermaster of an operating fee that will be of sufficient amount to pay the remaining one-half of the debt service of the bonds issued by the Authority to fund the Local Share of the recharge facilities improvements described in the Recharge Master Plan;

NOW THEREFORE, the parties hereto do agree as follows:

Section 1. Definitions.

The following terms shall, for all purposes of this Agreement have the following meanings:

“Agreement” shall mean this Recharge Facilities Financing Agreement, dated as of May 1, 2002, by and between the Authority and Watermaster as the same may be amended and supplemented from time-to-time in accordance with the terms hereof.

“Authority” shall have the meaning assigned thereto in the preamble hereto.

“Authority Bonds” means bonds, notes or other evidences of indebtedness issued by or on behalf of the Authority to finance or refinance the Project.

“Authority Fiscal Year” means the twelve month period commencing on July 1 of each calendar year and ending on the following June 30 or such other twelve month period which may be designated by the Authority as its fiscal year.

“Bond Resolution” means the resolution or resolutions providing for the issuance of Authority Bonds and the terms thereof, and any indenture or trust agreement related thereto.

“Debt Service” means, as of the date of calculation and with respect to Authority Bonds, an amount equal to the sum of (i) interest payable during such Authority Fiscal Year on Authority Bonds, except to the extent that such interest is to be paid from capitalized interest, (ii) that portion of principal of Authority Bonds payable during such Authority Fiscal Year, (iii) amounts necessary to replenish any reserve fund created pursuant to a Bond Resolution, and (iv) all letters of credit, remarketing and other financing costs payable on a periodic basis. Such interest, principal and financing costs for Authority Bonds shall be calculated on the assumption that no Authority Bonds outstanding at the date of calculation will cease to be outstanding except by reason of the payment of principal on the due date thereof;

provided further that, as to any such Authority Bonds bearing or comprising interest at other than a fixed rate, the rate of interest used to calculate Debt Service shall be one hundred ten percent (110%) of the greater of (a) the daily average interest rate on such Authority Bonds during the twelve (12) calendar months preceding the date of calculation (or the portion of the then current Authority Fiscal Year that such Authority Bonds have borne interest) or (b) the most recent effective interest rate on such Authority Bonds prior to the date of calculation; and

provided further that, as to any such Authority Bonds or portions thereof bearing no interest but which are sold at a discount and which discount accretes with respect to such Authority Bonds or portions thereof, such accreted discount shall be treated as interest in the calculation of Debt Service; and

provided further that the amount on deposit in a debt service reserve fund on any date of calculation of Debt Service shall be deducted from the amount of principal due at the final maturity of the Authority Bonds for which such debt service reserve fund was established and in each preceding Authority Fiscal Year until such amount is exhausted.

“Fixed Project Costs” means that portion of the capital costs of the Project not funded by Proposition 13 grant funding, also known as the Local Share of such capital costs, including (i) Debt Service on the bonds issued by the Authority to fund the Local Share, (ii) reserves for repair and

replacement and improvement to the Project and (iii) reserves for payment of Debt Service on the bonds issued by the Authority to fund the Local Share.

“IEUA” shall have the meaning ascribed thereto in the preamble hereto.

“Independent Certified Public Accountant” means any firm of certified public accountants appointed by Watermaster, or the Authority, as the case may be, and each of whom is independent pursuant to the Statement on Auditing Standards No. 1 of the American Institute of Certified Public Accountants.

“Joint Powers Agreement” means the Joint Exercise of Powers Agreement creating the Chino Basin Regional Financing Authority, as such agreement may be amended or supplemented from time to time.

“Judgment” means: Judgment No. RCV 51010 (previously No. 164327) of the Superior Court of the State of California for the County of San Bernardino, dated January 27, 1978, in the action *Chino Basin Municipal Water District v. City of Chino, et al.*, and any subsequent amendments thereto.

“Local Share” means that portion of the capital costs of the Project not paid for by Proposition 13 grant funding, and to be financed by the Authority through the issuance of bonds.

“OBMP Assessment” shall have the meaning ascribed thereto in Section 1(cc) of the Peace Agreement.

“Peace Agreement” shall have the meaning ascribed thereto in the preamble hereto.

“Project” means certain recharge facilities improvements identified in the OBMP Recharge Master Plan Phase II Report. The Authority and Watermaster acknowledge that portions of the Project are currently being designed and that the definition of the Project may be revised from time-to-time without amendment to this Agreement.

“Trustee” means the entity or entities designated by the Authority pursuant to any Bond Resolution to administer any funds or accounts required by such Bond Resolution or otherwise.

“Watermaster” shall have the meaning assigned thereto in the preamble hereto.

Section 2. Purpose: Financing and Construction.

The purpose of this Agreement is for the Authority to provide for the financing of the Fixed Project Costs of the Project. All other aspects of the Project, including the obtaining of all necessary authority and rights, consents and approvals, and the performance of all things necessary and convenient therefor, subject to compliance with all necessary federal and state laws, including but not limited to the California Environmental Quality Act (“CEQA”), and all other agreements relating thereto, shall be provided for by separate agreements.

Section 3. Recharge Facilities.

Pursuant to the terms of this Agreement, the Authority shall provide to Watermaster, and Watermaster shall utilize, the Project for recharge purposes in accordance with the Judgment,

Section 5.1 of the Peace Agreement and Program Element 2 of Exhibit B thereto. Subject to Watermaster's payment obligations hereunder, the Authority agrees to use its best efforts to finance the Project pursuant to this Agreement. Watermaster shall be responsible for the operation of the Project, including the payment of all operation and maintenance costs with respect to the Project, and the Authority shall have no responsibility to pay any operation and maintenance costs with respect to the Project.

Section 4. No Authority Responsibility for Recharge Water.

Neither the Authority nor any of its officers or agents shall be liable for the control, carriage, handling, use, disposal, or distribution of recharge water; nor for claim of damage of any nature whatsoever, including but not limited to property damage, personal injury or death, arising out of or connected with the control, carriage, handling, use, disposal or distribution of such recharge water and including attorneys fees and other costs of defense in connection therewith. Watermaster shall indemnify and hold harmless the Authority and its officers, agents, and employees from any such damages or claims of damages.

Section 5. Rates and Charges.

(a) Establishment of Rates and Charges. The Authority shall fix charges to Watermaster under this Agreement equal to the amounts anticipated to be needed by the Authority to pay one-half of the Fixed Project Costs.

(b) Insufficiency of Funds. Watermaster acknowledges that the Fixed Project Costs will vary from time-to-time and within any Authority Fiscal Year. If funds collected by the Authority in any Authority Fiscal Year are insufficient to pay Fixed Project Costs of the Project in such Authority Fiscal Year, the Authority shall promptly notify Watermaster of such insufficiency and Watermaster shall pay to the Authority an amount equal to Watermaster's portion of such insufficiency. The obligation of Watermaster to pay one-half of the Fixed Project Costs shall commence upon execution and delivery of this Agreement and continue to exist and be honored by Watermaster whether or not the Project is implemented (which provision may be characterized as an obligation to pay Watermaster's portion of the costs on a take-or-pay basis whether or not the Project is completed or is operable).

(c) Source of Payments. The obligation of Watermaster to make payments under this Agreement is a general obligation of Watermaster. Watermaster shall make payments under this Agreement solely as an operation fee (as determined in accordance with generally accepted accounting principles). Watermaster shall make such payments on a parity with other operation and maintenance expenses of Watermaster and prior to any payments other than operation and maintenance expenses of Watermaster. Nothing herein shall be construed as prohibiting Watermaster from using any other funds and revenues for purposes of satisfying any provisions of this Agreement.

(d) Obligation Is Not Subject To Reduction. Watermaster shall make payments under this Agreement whether or not the Project is completed, operable, operated or retired and notwithstanding the suspension, interruption, interference, reduction or curtailment of operation of the Project in whole or in part for any reason whatsoever. Such payments are not subject to any reduction, whether offset or otherwise, and are not conditioned upon performance by the Authority under this Agreement or any other agreement.

(e) Allocation of Costs and Expenses.

(i) Adjustments. The Authority shall update the values and amounts of Fixed Project Costs on a quarterly basis, including year-to-date comparisons, in order that the charges to Watermaster may accurately reflect increases or decreases from Authority Fiscal Year to Authority Fiscal Year in Fixed Project Costs. In addition, each such determination shall include an adjustment to be paid or received by Watermaster for succeeding Authority Fiscal Years which shall account for the differences, if any, between projections of Fixed Project Costs used by the Authority in determining the amounts of said Fixed Project Costs for all preceding Authority Fiscal Years and actual Fixed Project Costs incurred by the Authority to Watermaster during such Authority Fiscal Years.

(ii) Interest Earnings. Interest earnings on all amounts paid by Watermaster to the Authority shall be credited to Watermaster through the budgeting process.

(f) Time and Method of Payment.

(i) Fixed Project Costs. For the Authority Fiscal Year ending June 30, 2003, Watermaster shall pay to the Authority within 15 days of receiving an invoice an amount equal to one-half of the Fixed Project Costs as provided in the initial budget described in Section 6 hereof. Thereafter, Watermaster shall pay to the Authority, on or before July 15 of each Authority Fiscal Year, an amount equal to one-half of the Fixed Project Costs for such Authority Fiscal Year.

(ii) Statement of Charges. The Authority shall furnish Watermaster with a written statement of the estimated Fixed Project Costs for the next succeeding Authority Fiscal Year on or prior to June 1 of the prior Authority Fiscal Year. Such written statements shall take into account applicable credits received by the Authority and estimated investment earnings on moneys related to the Project held by the Authority.

(iii) Contest of Accuracy of Charges. If Watermaster questions or disputes the correctness of any billing statement by the Authority, it shall pay the Authority the amount claimed when due and shall, within thirty (30) days of the completion and delivery of the Authority's annual audit, request an explanation from the Authority. If the bill is determined to be incorrect, the Authority will adjust the bill to Watermaster in the next Authority Fiscal Year, including an adjustment equal to the interest actually earned by the Authority on its general reserves during such period. If the Authority and Watermaster fail to agree on the correctness of a bill within thirty (30) days after Watermaster has requested an explanation, the parties shall promptly submit the dispute to arbitration under Section 1280 et seq. of the Code of Civil Procedure.

Section 6. Annual Capital Budget and Billing Statement.

The Authority will promptly prepare and approve a capital budget for the period from July 1, 2002 through June 30, 2003 after execution and delivery of this Agreement. Thereafter, the Authority will prepare a preliminary annual capital budget for each applicable Authority Fiscal Year for credits, costs and expenses relating to the Project. The Authority shall submit a draft of such budget to Watermaster on or prior to each April 1 for review and comment. Authority staff shall use its best efforts to resolve any questions or concerns of Watermaster during such review. The Board

of Directors of the Authority will adopt a final annual capital budget for the applicable Authority Fiscal Year on or before June 1 of each Authority Fiscal Year. The Authority shall supply a copy of said final annual capital budget to Watermaster on or before June 15 of each Authority Fiscal Year. Any amendment to the final annual capital budget shall be submitted to Watermaster for review and comment at least 30 days prior to action thereon by the Authority Board of Directors.

Section 7. Obligation in the Event of Default.

(a) Written Demand. Upon failure of Watermaster to (i) make any payment in full when due under this Agreement or (ii) to perform any other obligation hereunder, the Authority shall make written demand upon Watermaster. If a failure described in clause (i) above is not remedied within thirty (30) days from the date of such demand or, if Authority Bonds are outstanding, for such additional time as is reasonably required, in the sole discretion of the Trustee, to correct the same, such failure shall constitute a default at the expiration of such period. If a failure described in clause (ii) cannot be remedied within thirty (30) days from the date of such demand but Watermaster commences remedial action within such thirty (30) day period, then such failure shall not constitute a default hereunder. Notice of any such demand shall be provided to Watermaster by the Authority. Upon failure of the Authority to perform any obligation of the Authority hereunder, Watermaster shall make written demand upon the Authority, and if said failure is not remedied within thirty (30) days from the date of such demand or, if Authority Bonds are outstanding, for such additional time as is reasonably required, in the sole discretion of the Trustee, to correct the same, then such failure shall constitute a default at the expiration of such period. Notice of such demand shall be provided to Watermaster.

In addition to any default resulting from breach by the Authority or Watermaster of any agreement, condition, covenant or term hereof, if the Authority or Watermaster shall file any petition or institute any proceedings under any act or acts, state or federal, dealing with or relating to the subject of bankruptcy or insolvency or under any amendment of such act or acts, either as a bankrupt or as an insolvent or as a debtor or in any similar capacity, wherein or whereby the Authority or Watermaster asks or seeks or prays to be adjudicated a bankrupt, or is to be discharged from any or all of its debts or obligations, or offers to its creditors to effect a composition or extension of time to pay its debts, or asks, seeks or prays for a reorganization or to effect a plan of reorganization or for a readjustment of its debts or for any other similar relief, or if the Authority or Watermaster shall make a general or any assignment for the benefit of its creditors, then in each and every such case the Authority or Watermaster, as the case may be, shall be deemed to be in default hereunder.

(b) Termination of Agreement; Continuing Obligations. Upon the failure of Watermaster to make any payment which failure constitutes a default under this Agreement and causes the Authority to be in default under any Bond Resolution, the Authority may (in addition to the remedy provided by subsection (a) of this Section) give notice of termination of the provisions of this Agreement insofar as the same entitle Watermaster to use the Project which notice shall be effective within 30 days thereof unless such termination shall be enjoined, stayed or otherwise delayed by judicial action. Irrespective of such termination, Watermaster shall remain liable to the Authority to pay the full amount of costs allocated to Watermaster hereunder.

(c) Enforcement of Remedies. In addition to the remedies set forth in this Section, upon the occurrence of a default as described herein, the Authority or Watermaster, as the case may be, shall be entitled to proceed to protect and enforce the rights vested in such party by this Agreement by such appropriate judicial proceeding as such party shall deem most effectual, either by suit in

equity or by action at law, whether for the specific performance of any covenant or agreement contained herein or to enforce any other legal or equitable right vested in such party by this Agreement or by law. The provisions of this Agreement and the duties of each party hereof, their respective boards, officers or employees shall be enforceable by the other party hereto by mandamus or other appropriate suit, action or proceeding in any court of competent jurisdiction, with the losing party paying all costs and attorney fees.

(d) Trustee is Third Party Beneficiary. Any Trustee for Authority Bonds shall have the right, as a third party beneficiary, to initiate and maintain suit to enforce this Agreement to the extent provided in any Bond Resolution.

Section 8. Covenants of Watermaster.

(a) Amount of OBMP Assessment. Watermaster will fix, prescribe and collect an OBMP Assessment for payments due under this Agreement equal to at least 1.25 times Fixed Project Costs.

(b) Budgets. On or before the first day of each Watermaster Fiscal Year, Watermaster will adopt and file with the Authority a budget approved by the governing body of Watermaster, including therein in the estimated payment obligations under this Agreement payable to the Authority. Any budget may be amended at any time during any Watermaster Fiscal Year and such amended budget shall be filed by Watermaster with the Authority.

(c) Accounting Records and Financial Statements.

(i) Watermaster will keep appropriate accounting records with respect to the OBMP Assessments, which records shall be available for inspection by the Authority and the Trustee at reasonable hours and under reasonable conditions.

(ii) Watermaster will prepare and file with the Authority annually within two hundred ten (210) days after the close of each Watermaster Fiscal Year (commencing with Watermaster Fiscal Year ending June 30, 2003) financial statements of Watermaster for the preceding Watermaster Fiscal Year prepared in accordance with generally accepted accounting principles, together with a report of an Independent Certified Public Accountant thereon. Watermaster will promptly furnish a copy of such report to the Authority and to the Trustee.

(d) Protection of Security and Rights of the Authority. Watermaster will preserve and protect the rights of the Authority and the Trustee to the obligations of Watermaster hereunder and will warrant and defend such rights against all claims and demands of all persons.

(e) Payment of Taxes and Compliance with Governmental Regulations. Watermaster will pay and discharge all taxes, assessments and other governmental charges which may hereafter be lawfully imposed upon the OBMP Assessments when the same shall become due. Watermaster will duly observe and conform with all valid regulations and requirements of any governmental authority relative to the OBMP Assessments, but Watermaster shall not be required to comply with any regulations or requirements so long as the validity or application thereof shall be contested in good faith.

(f) Further Assurances. Watermaster will adopt, deliver, execute and make any and all further assurances, instruments and resolutions as may be reasonably necessary or proper to effect the financing and refinancing of the Project and to allow the Authority to comply with reporting obligations, to assure the Authority of Watermaster's intention to perform hereunder and for the better assuring and confirming unto the Authority and the Trustee of the rights and benefits provided to them herein.

(g) Maintenance of Tax-Exempt Status of Authority Bonds. Notwithstanding any other provision of this Agreement, Watermaster shall not take any action or omit to take any action, directly or indirectly, in any manner, which would result in any of the Authority Bonds being treated as an obligation not described in Section 103(a) of the Internal Revenue Code of 1986, as amended, by reason of classification of such Authority Bond as a "private activity bond" within the meaning of Section 141 of said Code or for any other reason.

Section 9. Covenants of the Authority.

(a) Accounting Records and Financial Statements.

(i) The Authority will keep appropriate accounting records in which complete and correct entries shall be made of all Authority transactions relating to the Project, which records shall be available for inspection, copying and audit by Watermaster and its accountants, attorneys and agents at reasonable hours and under reasonable conditions.

(ii) The Authority will prepare annually within two hundred ten (210) days after the close of each Authority Fiscal Year (commencing with the Authority Fiscal Year ending June 30, 2003) financial statements of the Authority for the preceding Authority Fiscal Year prepared in accordance with generally accepted accounting principles, together with a report of an Independent Certified Public Accountant thereof. The Authority will promptly furnish a copy of such report to Watermaster and to the Trustee.

(b) Compliance with Law. The Authority shall comply with all local, state and federal laws applicable to the Project.

(c) Use of Funds for Project. The Authority shall not allow the portion of the proceeds of Authority Bonds allocated to the Project to be used for any purpose other than to pay for costs associated with financing or refinancing the Project. Surplus proceeds of the portion of the Authority Bonds allocated to the Project not needed to pay costs associated with the Project shall be applied to redeem Authority Bonds.

Section 10. Term.

(a) No provision of this Agreement shall take effect until (i) this Agreement has been duly executed and delivered by Watermaster to the Authority together with an opinion of Hatch & Parent, General Counsel to Watermaster, in substantially the form attached hereto as Exhibit A and (ii) this Agreement has been duly executed and delivered by the Authority to the Watermaster with an opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Special Counsel to the Authority, in substantially the form attached hereto as Exhibit B.

(b) The term of this Agreement shall continue until the later of December 31, 2032 or the final maturity of Authority Bonds. The parties hereto agree to negotiate in good faith to amend this Agreement on or prior to such date to extend the term hereof and to include terms and conditions as are mutually agreeable to the parties.

Section 11. Assignment.

The Authority may pledge and assign to any Trustee for Authority Bonds, all or any portion of the payments received under this Agreement from Watermaster and the Authority's other rights and interests under this Agreement. Such pledge and assignment by the Authority shall be made effective for such time as the Authority shall determine and provide that the Trustee shall have the power to enforce this Agreement in the event of a default by the Authority under a Bond Resolution. Watermaster may assign its rights or obligations under this Agreement only with the written consent of the Authority.

Section 12. Amendments.

Except as otherwise provided in this Agreement, on and after the date Authority Bonds are issued and so long as any Authority Bonds are outstanding in accordance with the applicable Bond Resolution, Section 6, 8, 9, 11 and 12 and this Section of this Agreement shall not be amended, modified or otherwise changed or rescinded by agreement of the parties without the consent of each Trustee for Authority Bonds whose consent is required under the applicable Bond Resolution. This Agreement may only be otherwise amended, modified, changed or rescinded in writing by each of the parties hereto.

The Authority agrees not to grant to the owners of Authority Bonds as individuals any rights relating to the amendment, modification or change of this Agreement.

Notwithstanding the foregoing, the sections of this Agreement set forth in the first paragraph of this Section may be amended without the consent of each Trustee for Authority Bonds for any of the following purposes:

(a) to add to the agreements, conditions, covenants and terms contained herein required to be observed or performed by the Authority or Watermaster other agreements, conditions, covenants and terms hereafter to be observed or performed by the Authority or Watermaster, or to surrender any right reserved herein to or conferred herein on the Authority or Watermaster, and which in either case shall not adversely affect the interests of the owners of any Authority Bonds;

(b) to make such provisions for the purpose of curing any ambiguity or of correcting, curing or supplementing any defective provision contained herein or in regard to questions arising hereunder which the Authority or Watermaster may deem desirable or necessary and not inconsistent herewith, and which shall not materially adversely affect the interests of the owners of any Authority Bonds;

(c) to make any modifications or changes necessary or appropriate in the opinion of a firm of nationally recognized standing in the field of law relating to municipal bonds to preserve or protect the exclusion from gross income of interest on the Authority Bonds for federal income tax purposes;

(d) to make any modifications or changes to this Agreement in order to enable the execution and delivery of Authority Bonds on a parity with any Authority Bonds previously issued and to make any modifications or changes necessary or appropriate in connection with the execution and delivery of Authority Bonds;

(e) to make any other modification or change to the provisions of this Agreement which does not materially adversely affect the interests of the owners of any Authority Bonds;

(f) to make changes to the definition of "Project."

Section 13. Miscellaneous.

(a) Headings. The headings of the sections hereof are inserted for convenience only and shall not be deemed a part of this Agreement.

(b) Partial Invalidity. If any one or more of the covenants or agreements provided in this Agreement to be performed should be determined to be invalid or contrary to law, such covenant or agreement shall be deemed and construed to be severable from the remaining covenants and agreements herein contained and shall in no way affect the validity of the remaining provisions of this Agreement.

(c) Counterparts. This Agreement may be executed in several counterparts, all or any of which shall be regarded for all purposes as one original and shall constitute and be but one and the same instrument.

(d) Governing Law. THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF CALIFORNIA.

(e) Notices. Any notices required or permitted to be given hereunder shall be given in writing and shall be delivered (a) in person, (b) by certified mail, postage prepaid, return receipt requested, (c) by Federal Express or another reputable commercial overnight courier that guarantees next day delivery and provides a receipt, or (d) by telefacsimile or telecopy, and such notices shall be addressed as follows:

If to Watermaster: Chino Basin Watermaster
8632 Archibald Avenue, Suite 109
Rancho Cucamonga, California 91730
Attention: Chief Executive Officer

With a copy to: Hatch & Parent
21 East Carillo Street
Santa Barbara, California 93101
Attention: Scott Slater

If to Authority: Chino Basin Regional Financing Authority
c/o Inland Empire Utilities Agency
9400 Cherry Avenue, Bldg. A
Fontana, CA 92335
Attention: Treasurer

With a copy to: Stradling Yocca Carlson & Rauth
660 Newport Center Drive
Newport Beach, CA 92660
Attention: Douglas Brown

or to such other address as either party may from time to time specify in writing to the other party. Any notice shall be deemed delivered when actually delivered, if such delivery is in person, upon deposit with the U.S. Postal Service, if such delivery is by certified mail, upon deposit with the overnight courier service, if such delivery is by an overnight courier service, and upon transmission, if such delivery is by telefacsimile or telecopy.

(f) Merger of Prior Agreements. This Agreement and the exhibits hereto constitute the entire agreement between the parties and supersede all prior agreements and understandings between the parties relating to the subject matter hereof. This Agreement is intended to implement, and should be interpreted consistent with, the Peace Agreement.

(g) Time of the Essence. Time is of the essence in the performance of this Agreement.

IN WITNESS WHEREOF Watermaster has executed this Agreement with the approval of its governing body, and the Authority has executed this Agreement in accordance with the authorization of its Board of Directors.

CHINO BASIN REGIONAL FINANCING
AUTHORITY

By: _____
Chairperson

Attest:

By: _____
Secretary

CHINO BASIN WATERMASTER

By: _____
Chief Executive Officer

EXHIBIT A

[This opinion shall be delivered upon execution of the Agreement]

July __, 2002

Chino Basin Regional Financing Authority
c/o Inland Empire Utilities Agency
9400 Cherry Avenue, Bldg. A
Fontana, CA 92335

Chino Basin Watermaster
8632 Archibald Avenue, Suite 109
Rancho Cucamonga, California 91730

Ladies and Gentlemen:

We are acting as general counsel to the Chino Basin Watermaster (“Watermaster”) in connection with the execution and delivery of the Recharge Facilities Financing Agreement, dated as of May 1, 2002 (the “Agreement”), between the Chino Basin Regional Financing Authority (the “Authority”) and Watermaster. As such counsel we have examined and are familiar with (i) documents relating to the existence, organization and operation of Watermaster provided to us by Watermaster, (ii) certifications by officers of Watermaster, (iii) all necessary documentation of Watermaster relating to the authorization, execution and delivery of the Agreement, and (iv) an executed counterpart of the Agreement. Terms used herein and not otherwise defined have the respective meanings set forth in the Agreement.

Based upon the foregoing and such examination of law and such other information, papers and documents as we deem necessary or advisable to enable us to render this opinion, including the Constitution and laws of the State of California, together with the resolutions, ordinances and public proceedings of Watermaster, we are of the opinion that:

1. Watermaster is a court-appointed entity, duly created, organized and existing under the laws of the State of California and duly qualified to undertake a water recharge program within its boundaries.
2. Watermaster has legal right, power and authority to enter into the Agreement and to carry out and consummate all transactions reasonably contemplated thereby, and Watermaster has complied with the provisions of applicable law relating to such transactions.
3. The Agreement has been duly authorized, executed and delivered by Watermaster, is in full force and effect as to Watermaster in accordance with its terms and, subject to the qualifications set forth in the second to the last paragraph hereof, and assuming that the Authority has all requisite power and authority, and has taken all necessary action, to authorize, execute and deliver such Agreement, the Agreement constitutes the valid and binding obligation of Watermaster .

4. The obligations of Watermaster to make payments under the Agreement as a general obligation of Watermaster as provided in Section 5 of the Agreement is a valid, legal and binding obligation of Watermaster enforceable in accordance with its terms.

5. No approval, consent or authorization of any governmental or public agency, authority or person is required for the execution and delivery by Watermaster of the Agreement.

6. The authorization, execution and delivery of the Agreement and compliance with the provisions thereof will not conflict with or constitute a breach of, or default under, any instrument relating to the organization, existence or operation of Watermaster, any commitment, agreement or other instrument to which Watermaster is a party or by which it or its property is bound or affected, or any ruling, regulation, ordinance, judgment, order or decree to which Watermaster (or any of its officers in their respective capacities as such) is subject or any provision of the laws of the State of California relating to Watermaster and its affairs.

7. There is no action, suit, proceeding, inquiry or investigation at law or in equity, or before any court, public board or body, pending or, to our knowledge, threatened against or affecting Watermaster or any entity affiliated with Watermaster or any of its officers in their respective capacities as such, which questions the powers of Watermaster referred to in paragraph 2 above or the validity of the proceedings taken by Watermaster in connection with the authorization, execution or delivery of the Agreement, or wherein any unfavorable decision, ruling or finding would materially adversely affect the transactions contemplated by the Agreement, or which would adversely affect the validity or enforceability of the Agreement.

The opinion expressed in paragraphs 3 and 4 above are qualified to the extent that the enforceability of the Agreement may be limited by any applicable bankruptcy, insolvency, reorganization, arrangement, moratorium, or other laws affecting creditors' rights, to the application of equitable principles and to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against public agencies in the State of California and provided that no opinion is expressed with respect to any indemnification or contribution provisions contained therein.

This opinion is rendered only with respect to the laws of the State of California and the United States of America and is addressed only to the Chino Basin Regional Financing Authority and Watermaster . No other person is entitled to rely on this opinion, nor may you rely on it in connection with any transactions other than those described herein.

Very truly yours,

EXHIBIT C

[This opinion shall be delivered upon execution of the Agreement]

June __, 2002

Chino Basin Regional Financing Authority
c/o Inland Empire Utilities Agency
9400 Cherry Avenue, Bldg. A
Fontana, CA 92335

Chino Basin Watermaster
8632 Archibald Avenue, Suite 109
Rancho Cucamonga, California 91730

Ladies and Gentlemen:

We are acting as special counsel to the Chino Basin Regional Financing Authority (the "Authority") in connection with the execution and delivery of the Recharge Facilities Financing Agreement, dated as of May 1, 2002 (the "Agreement"), between the Authority and the Chino Basin Watermaster ("Watermaster"). As special counsel we have examined and are familiar with (i) documents relating to the existence, organization and operation of the Authority provided to us by the Authority, (ii) certifications by officers of the Authority, (iii) all necessary documentation of the Authority relating to the authorization, execution and delivery of the Agreement, and (iv) an executed counterpart of the Agreement. Terms used herein and not otherwise defined have the respective meanings set forth in the Agreement.

Based upon the foregoing and such examination of law and such other information, papers and documents as we deem necessary or advisable to enable us to render this opinion, including the Constitution and laws of the State of California, together with the resolutions, ordinances and public proceedings of the Authority, we are of the opinion that:

1. The Authority is a joint exercise of powers agency duly created, organized and existing under the laws of the State of California.

2. The Authority has legal right, power and authority to enter into the Agreement and to carry out and consummate all transactions reasonably contemplated thereby, and the Authority has complied with the provisions of applicable law relating to such transactions.

3. The Agreement has been duly authorized, executed and delivered by the Authority, is in full force and effect as to the Authority in accordance with its terms and, subject to the qualifications set forth in the second to the last paragraph hereof, and assuming that Watermaster has all requisite power and authority, and has taken all necessary action, to authorize, execute and deliver such Agreement, the Agreement constitutes the valid and binding obligation of the Authority.

4. No approval, consent or authorization of any governmental or public agency, authority or person is required for the execution and delivery by the Authority of the Agreement.

5. The authorization, execution and delivery of the Agreement and compliance with the provisions thereof will not conflict with or constitute a breach of, or default under, any instrument relating to the organization, existence or operation of the Authority, any commitment, agreement or other instrument to which the Authority is a party or by which it or its property is bound or affected, or, to the best of our knowledge, any ruling, regulation, ordinance, judgment, order or decree to which the Authority (or any of its officers in their respective capacities as such) is subject or any provision of the laws of the State of California relating to the Authority and its affairs.

6. There is no action, suit, proceeding, inquiry or investigation at law or in equity, or before any court, public board or body, pending or, to our knowledge, threatened against or affecting the Authority or any of its officers in their respective capacities as such, which questions the powers of the Authority referred to in paragraph 2 above or the validity of the proceedings taken by the Authority in connection with the authorization, execution or delivery of the Agreement, or wherein any unfavorable decision, ruling or finding would materially adversely affect the transactions contemplated by the Agreement, or which, in any way, would adversely affect the validity or enforceability of the Agreement.

The opinion expressed in paragraph 3 above is qualified to the extent that the enforceability of the Agreement may be limited by any applicable bankruptcy, insolvency, reorganization, arrangement, moratorium, or other laws affecting creditors' rights, to the application of equitable principles and to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against public agencies in the State of California and provided that no opinion is expressed with respect to any indemnification or contribution provisions contained therein.

This opinion is rendered only with respect to the laws of the State of California and the United States of America and is addressed only to the Authority and Watermaster. No other person is entitled to rely on this opinion, nor may you rely on it in connection with any transactions other than those described herein.

Respectfully submitted,

EXHIBIT B

FEE EXEMPT

1 Scott S. Slater (SBN 117317)
2 Michael T. Fife (SBN 203025)
3 HATCH AND PARENT
4 21 East Carrillo Street
5 Santa Barbara, CA 93101
6 Phone: 805-963-7000
7 Fax: 805-965-4333

FILED-Rancho Cucamonga District
SAN BERNARDINO COUNTY
SUPERIOR COURT

JUL 02 2002

By Michael T. Fife Deputy

Attorneys for CHINO BASIN WATERMASTER

8 SUPERIOR COURT OF THE STATE OF CALIFORNIA
9 COUNTY OF SAN BERNARDINO - RANCHO CUCAMONGA DIVISION

11 CHINO BASIN MUNICIPAL WATER DISTRICT,)

CASE NO. RCV 51010

12 Plaintiff,)

Judge: Honorable J. MICHAEL GUNN

13 v.)

DECLARATION OF MICHAEL T.
FIFE IN SUPPORT OF MOTION
TO APPROVE RECHARGE
FACILITIES FINANCING
AGREEMENT

14 THE CITY OF CHINO,)

15 Defendants.)

Date: July 8, 2002
Time: 1:30 pm
Dept: R8

HATCH AND PARENT
21 East Carrillo Street
Santa Barbara, CA 93101

- 21 1. My name is Michael Fife and I am an attorney with the law firm of Hatch and Parent.
- 22 2. Hatch and Parent is the General Counsel for the Chino Basin Watermaster.
- 23 3. In my capacity as General Counsel for the Chino Basin Watermaster I have participated in
- 24 the negotiations regarding the Recharge Facilities Financing Agreement ("Agreement").
- 25 4. I have personal knowledge of the progress of these negotiations and of the schedule that
- 26 has been followed throughout the course of these negotiations.
- 27 5. The Agricultural Pool met on May 16, 2002 and discussed the Agreement.

1 7. The other two Pool Committees also met on May 16, 2002 to discuss and continued this
2 discussion to May 22, 2002 at which time both Pools approved the Agreement unanimously.

3 8. The Advisory Committee and Board met on May 23, 2002 and both unanimously
4 approved the Agreement and directed that negotiation of the Agreement be completed and that
5 the completed Agreement then be submitted to the Court for approval.

6 9. Watermaster staff completed negotiation of the Agreement as expeditiously as possible.

7 10. Implementation of the Recharge Master Plan was submitted for funding under
8 Proposition 13 by the Santa Ana Watershed Project Authority ("Authority") to the State Water
9 Resources Control Board ("SWRCB"). Funding for this Project was approved by the SWRCB in
10 the amount of \$19,000,000.

11 11. The utilization of Proposition 13 funds under this Agreement demands that local entities
12 match funds received through Proposition 13 with a 50% Local Share.

13 12. The Inland Empire Utilities Agency ("IEUA"), through its financing arm known as the
14 Chino Basin Regional Financing Authority ("Authority"), has agreed to provide the funding for
15 the Local Share through the issuance of variable rate bonds.

16 13. The Authority is a joint exercise of powers authority composed of IEUA and the
17 Cucamonga County Water District.

18 14. The Authority will issue variable rate bonds in the middle of July whose purpose is to
19 fund a variety of IEUA projects. A portion of these bonds, approximately \$20,000,000 worth, are
20 intended to be used to fund the Local Share of the implementation of the Recharge Master Plan.

21 15. The Authority is a funding entity only, and thus does not have any responsibility or role
22 with regard to the implementation of the Project. Implementation of the Project instead will be
23 effectively controlled by Watermaster.

24 16. Preliminary design work of the facilities is being performed by Black & Veatch under the
25 direct supervision of Watermaster, and each of the Basin entities is closely appraised of the
26 progress of this work and is providing regular input.

27 17. Watermaster is currently in the process of negotiating operations agreements with each of
28 IEUA, the SBCFCD and the CBWCD to ensure that operations at the basins owned by each of

1 these entities will be conducted in a manner consistent with implementation of the Recharge
2 Master Plan.
3 18. The Agreement was negotiated at arms-length between Watermaster's general counsel
4 and bond counsel to the Authority and IEUA. No special consideration is given to IEUA in the
5 Agreement, and the corresponding Agreement between IEUA and the Authority obligates IEUA
6 to the same repayment terms as Watermaster. The Agreement was circulated to all of the
7 Watermaster parties, and no party raised special concerns relating to paragraph 25 of the
8 Judgment or to IEUA's involvement in the Agreement.

9 19. I swear under penalty of perjury that the foregoing is true and correct to the best of my
10 knowledge and belief.

11
12 Dated: July 1, 2002



Michael T. Fife

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CHINO BASIN WATERMASTER

Case No. RCV 51010

Chino Basin Municipal Water District v. The City of Chino

PROOF OF SERVICE

FILED-Rancho Cucamonga District
SAN BERNARDINO COUNTY
SUPERIOR COURT

JUL 02 2002

By  Deputy

I declare that:

I am employed in the County of San Bernardino, California. I am over the age of 18 years and not a party to the within action. My business address is Chino Basin Watermaster, 8632 Archibald Avenue, Suite 109, Rancho Cucamonga, California 91730; telephone (909) 484-3888.

On July 2, 2002 I served the attached:

HEARING DATE: JULY 8, 2002

1. **EX PARTE APPLICATION FOR AN ORDER SHORTENING TIME FOR THE FILING OF MOTION FOR APPROVAL OF RECHARGE FACILITIES FINANCING AGREEMENT; EXHIBIT A - DECLARATION OF MICHAEL T. FIFE IN SUPPORT OF EX PARTE APPLICATION FOR AN ORDER SHORTENING TIME FOR THE FILING OF THE RECHARGE FACILITIES FINANCING AGREEMENT; PROPOSED ORDER GRANTING EX PARTE APPLICATION FOR AN ORDER SHORTENING TIME FOR THE FILING OF THE RECHARGE FACILITIES FINANCING AGREEMENT; AND**
2. **MOTION FOR APPROVAL OF RECHARGE FACILITIES FINANCING AGREEMENT; EXHIBIT A - RECHARGE FACILITIES FINANCING AGREEMENT; EXHIBIT B - DECLARATION OF MICHAEL T. FIFE IN SUPPORT OF MOTION TO APPROVE RECHARGE FACILITIES FINANCING AGREEMENT**

in said cause, by placing a true copy thereof enclosed with postage thereon fully prepaid, for delivery by United States Postal Service mail at Rancho Cucamonga, California, addresses as follows:

See attached service list:

Attorney Service List
Mailing List 1

I declare under penalty of perjury that the foregoing is true and correct and that this declaration was executed at Rancho Cucamonga, California, on July 2, 2002.


Michelle Lauffer, Water Resources Specialist

Attorney Service List

Updated 7/2/02

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DEPUTY COUNSEL - POMONA
ALVAREZ-GLASMAN & CLOVEN
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