



**BEAUMONT CHERRY VALLEY WATER DISTRICT
AGENDA
SPECIAL MEETING OF THE BOARD OF DIRECTORS
Wednesday, April 30, 2008 – 7:00PM
560 Magnolia Avenue, Beaumont, CA 92223**

Assistance for the Disabled: If you are disabled in any way and need accommodation to participate in the meeting, please call Blanca Marin Administrative Assistant, at (951) 845-9581 Ext. 23 for assistance so the necessary arrangements can be made.

- 1. Call to Order, Pledge of Allegiance, Invocation, Roll Call- President Chatigny**
- 2. Adoption and Adjustment of Agenda (additions and/or deletions)**
- 3. Public Input**

PUBLIC COMMENT: Anyone wishing to address the Board of Directors on any matter not on the agenda of this meeting may do so now. Anyone wishing to speak on an item on the agenda may do so at the time the Board considers that item. All persons wishing to speak must fill out a "Request to Speak" form and give it to the Secretary at the beginning of the meeting. The forms are available on the table at the back of the room. There is a three (3) minute limit on public comments. Sharing or passing time to another speaker is not permitted. Please do not repeat what was said by a previous speaker except to note agreement with that speaker. Thank you for your cooperation.

- 4. Presentation by Ray Martinez, Ray Martinez and Associates and Greg Bollinger Regarding the Breakdown Cost of the New District Headquarters.**
- 5. Discussion Regarding District Financial Activity Including Reserves, Operation Expenses and Capital Projects**
- 6. Action Items**
 - a. Request to amend General Manager's Employment Contract
- 7. Adjournment**

Review of Capital Improvement Projects and Expenses for Water System Operations and Maintenance

Summary

There has been a considerable amount of public debate related to the District's financial position since development began to slow in 2007. Concerns range from costs associated with the new building discussed previously, the recharge project and recent water system improvements. There is also a misunderstanding by some water users and possibly Board members related to the use of facility fees and operating reserves during the winter and spring of 2008 to cover capital and normal operating expenses.

Those who are scrutinizing the District's financial position over the last several months have also stated concerns related to use of facility fee reserves this winter for completion of two needed wells approved in 2007 and currently under construction. Some of the more vocal rate payers incorrectly suggest that the District is spending in excess of available funds creating negative overall fund balances. In answering the critics, first, it is important to understand that there is a difference between operating revenue (Water sales, service charges and water system operations income) and non-operating revenue (Facility Fees and developer impact fees and other non-operating income). Operating revenue is used for daily water system operation, maintenance and system replacement requirements. Facility fees and other non-operating revenue by law can only be used for their intended purpose which includes; construction of facilities such as the new headquarters, wells, reservoirs, transmission mains and the non-potable or recycled water system to meet water demands and to further enhance water system reliability to meet the new water demands.

It is important for the Board and the public to understand the use of reserves and the reasons for the reserves to have become depleted. For example, the District in an effort to help the Bonita Vista Mutual Water Company (Company) residents gain a modern secure potable water system were advanced out of reserves over \$550,000 for distribution system construction. This reserve advance was in the form of a District loan to be paid back over twenty years. The loan allowed the Company to annex its service area to the District and pay for construction of a new potable water distribution system as the existing system had been allowed to fall into a state of total disrepair including failed wells (containing high nitrates and other contaminants), an undersized inadequate distribution system and a reservoir that was also allowed to lapse into poor unusable condition. The District's Board also included in its offer of assistance to its neighbors a waiver of approximately \$800,000 in facility fees that all other newly annexing areas are required to pay.

Many old mains in the District system have also been replaced with a combination of operating reserves, facility fees, depreciation fees, front footage fees and general fund

reserves. The depreciation fees and reserves were used to pay the existing water users prorated share of the new system being installed in the older portions of the water system that was required to accommodate the increased water demand in the newly developing areas as facility “oversizing”. Using facility fees for existing demands does not conform to State Law. Without the use of reserves and general funds to rehabilitate the existing system to coincide with new development water demands, it would have required the District to take on debt to borrow the capital for these necessary improvements. The only other alternative would have been to parallel the old system with a new second system sized for the new development.

Historically the Board has been unwilling to incur long term debt since the last debt was retired in 1977. Using reserves to fund replacements rather than incurring long term debt has direct impact on BCVWD water rates. The District’s Board in an effort to continue to maintain one of the lowest overall water rates in the area has in the past determined that it is not in the District’s best interest to burden the water user with debt and interest in its water rates.

The capital improvements discussed herein will serve the District for many decades as we continue to move forward in the new millennium. The water system improvements are such that the District can conservatively add as many as 6,000 connections (\$60,000,000 in facility fee revenue at the current rate) without greatly increased capital and reserve expense for water system infrastructure improvements. Front footage fees will also be collected that will refund revenue expended by the District in construction of new mains throughout the water system that was replaced as discussed above.

This additional income will allow the newly collected fees to be used for purchase of additional water rights for supply to the District as demand grows, continued expansion of the recharge facility, construction of the Pollution Control Project and the Storm Water Capture Project. Other benefits may include payment of the State Revolving Fund obligations and expansion of the recycled/non-potable water system into the areas north of Brookside Avenue.

Operating Income

In 2007, the Board approved a rate increase of 6%; this increase was based on a rate study which suggested a series of increases over the lapse of five years, it was necessary to replenish the District’s reserves and system replacement/depreciation funds. The rate study also included a recommendation that a recharge rate for purchase of State Project water for replenishment of groundwater be collected so that the District could begin to recharge the Beaumont Groundwater Basin. The Board implemented only a single year 6% rate increase along with the replenishment and power charge. Because of the accumulative financial impact on the water users with the 6% commodity rate increase, the replenishment charge and power charge, the Board did not impose the annual increases to more quickly replenish reserves that the study recommended. This has slowed the replenishment of reserves, however with the increased water sales from the

additional development the last several years, reserves will begin to rebuild albeit at a much slower pace than the rate study envisioned.

In reviewing the District's current financial balances, it also appears that the public does not fully understand all of the issues related to the District's seasonal water system operations. With the amount of development that the District has had the last several years there has been an incredible influx of Facility Fees which has had a great positive impact on the District's total funds on hand. This increased balance of funds on hand even though the funds are restricted in their use, has apparently had a tendency to make the normal seasonal impacts on general fund and operating reserves somewhat obscure to the public. When operating revenue is considered separately versus operating expenses, reductions in operating income and revenue during the winter and spring typically require reserves to be used to cover seasonal short falls caused by reduced water sales.

Facility Fee Revenue

As stated above during the last several years, the District has seen unprecedented growth which has caused Facility Fees for water system needs to increase tremendously. The District has used those fees collected to enter into a capital improvement and construction program to build infrastructure to offset water demands and greatly increase water system reliability. In the four year period ending December of 2007, the District's net assets increased well over 400% by building 15 million gallons of additional storage capacity (three times the previous reservoir capacity), and has fully rebuilt and constructed many miles of new transmission main systems in five pressure zones including the main 2750 zone (BCVWD's largest), the upper Beaumont 2850 zone and the new 2650, 2550 and 2350 zones. With the completion of wells 25 and 29, the District has added six new wells for an additional 20 million gallons per day in well production capacity. A new headquarters building was built to house the increase in employees needed to handle the increased administrative activity caused by the development.

The District has also purchased a 78.8 acre recharge site and constructed Phase I of a recharge basin project. To date over 2.5 billion gallons of imported water has been recharged since September 2006. Current year recharge rates for percolation of imported State Project water is about 100,000,000 gallons of water per month. This water is being purchased with San Gorgonio Pass Water Agency replenishment charge that was approved in the 2007 water rate increase discussed herein. The purchase of imported water allows the District to recharge the groundwater basin for current and future uses. The amount of State Project water recharged per month is based on the supply available which is not restricted by the recharge rates at their charge site. Currently, only one sometimes two basins of the eight available are used as recharge. Rates are uncommonly high at the site. Monitoring wells on-site verify that the recharged imported water is reaching the regional aquifer in about 60 days.

BCVWD has also built a large portion of a non-potable water system for the delivery of recycled water from the City of Beaumont wastewater treatment plant to more than 200

connections throughout the lower portion of the District (south of Brookside). Once the system is complete (as early as next year) the District will begin distributing a blend of recycled water and imported water to those large irrigation demands which will reduce the use of groundwater saving it for our potable water needs.

Other financial facts associated with Facility Fees that the public appear to have overlooked or are not aware of are that the facility fee collected to offset water demands must be used within three years or the funds are subject to refund. This coupled with the fact that the State Law states that these fees and the interest they gain must only be used for their intended purpose. Holding these fees to act as a reserve for operations is actually not a lawful or realistic option. This is especially true when one considers the water systems source of supply (wells) capabilities and reliability issues associated with the deteriorating water quality in the Cherry Valley area (well 16) and the tremendous growth that the District has faced in the last four or five years.

Construction of Wells 25 and 29

In 2007, the District determined that it was necessary to build new well 25 (capacity 2,800 gpm) in the 2850 zone to increase reliability in that zone for the 2008 summer pumping season as there were only two wells operating in the zone in 2007. Both had mechanical problems in 2007 and had to be temporarily removed from service for repairs during this high demand time. One of the wells is well 16, which continues to experience nitrate contamination caused by the discharge from on-site waste disposal systems (septic tanks) in the Cherry Valley area. The District also determined that with the impacts to the 2750 main pressure zone caused by the growth in the 2650, 2550 and 2350 zones (all without production facilities) that well 29 be outfitted as the first well in the 2650 zone. Adding well 29 increases system reliability for the summer of 2008 by adding 4,000 gpm in capacity and minimizes the impacts on the main 2750 pressure zone from the development in the western portion of the District. The addition of wells 25 and 29 also enhances the 2750 zones ability to act as a backup water supply to all zones from Oak Glen to Calimesa rather than the primary source of supply for all zones.

Funding for the outfitting of wells 25 and well 29 currently in the last stages of construction was originally to come from capital reserves and a developer bond sale planned in 2006 to occur in April of 2007. Bonds were not sold in April 2007 because of the housing/mortgage issue. The sale was rescheduled to the fall of 2007. The bond sale however has not gone forward and is being held indefinitely. Because of the need for wells 25 and 29 (explained above) as it relates to water system reliability funding for the two wells (approximately 5 million dollars) had to come fully from capital reserves. This use of capital reserves may be the biggest contributor to the public's concern regarding the current levels of the District's cash reserve even though they do not understand the necessity for the expenditures nor the fact that the facility fee reserves and the interest they gain can not act or be used as an operating reserve. As explained herein the necessities for the expenditures include increased water demands this coming summer, continued impacts from nitrate water pollution from the Cherry Valley area and overall

water system reliability should the District have mechanical failures to some of its equipment. Note four wells, 16, 21, 23 and 24 had mechanical failures during the summer and fall of 2007 which required each to be removed from service while repairs and maintenance occurred.

Following is a discussion of water system upgrades, increased water system reliability, the recharge project and the recycled water system.

2750 Pressure Zone Improvements

In the 2750 zone which serves the areas of the District south of Oak Valley Parkway to Potrero Blvd. and is the backup for the remainder of the BCVWD water system, the District has completely rebuilt the transmission system replacing old undersized mains with new 30", 24" and 18" water mains. The 2750 zone wells provide the water supply for the zone as well as the 2650 zone and are the backup supply for the 3050 zone (Cherry Valley) and the 2850 zone via the 3050 zone. In 2000/01 one 4 million gallon steel tank was added and in 2007 one 2 million gallon tank was constructed raising the total reservoir capacity from 2.1 million gallons to 8.1 million gallons for this zone alone. The District has also added wells 24 and 26 which bring the total production capacity in the main pressure zone to 12,500 gallons per minute when new wells are combined with wells 1, 3, 21 and 22 that also pump into this zone. Wells 1, 3 and 21 have been rebuilt to increase their efficiencies. Wells 21 and 24 currently have diesel powered back up capabilities. Well 1 and Booster 3 have back up connections which allow them to be operated by the District's portable diesel generator which is currently staged at the Cherry Yard. Wells 21 and 22 can also be operated by the District's portable generator. Booster Pumps 21 A and B (at the Cherry Yard) have diesel backup connections and 21 C is a natural gas fired pump giving the District the capability to pump to the upper pressure zones.

Well 26 was drilled and outfitted in 2007 and was placed on line in the last 60 days and will be ready for pumping to the 2750 zone this summer. The 2750 zone is the main or back bone system in BCVWD this is because the majority of the largest wells (1, 3, 21, 22, 24, 26) exist in this zone. It is currently connected through pumps to the 2850 and the 3050 zones. It is connected by gravity flow to the 2650, 2550 and 2350 zones.

It is important to note that basin model runs indicate that well 21 will require wellhead treatment in the near future because of the influence of the nitrates and on-site disposal septic systems in Cherry Valley. This coupled with similar issues at well 16 discussed below will have a negative impact on water system reliability potentially reducing production capabilities by 4.6 million gallons per day.

An important point that I am sure the public and the press is not aware of is the fact that the District has all of its pumping equipment above 100 horse power (all wells in the 2850, 2750 and 2650 pressure zones) on Time-Of- Use power rates. This allows for greatly reduced operating costs if the District pumps during the off peak time period as

opposed to pumping during the on peak. Conversely, if the District must pump on peak power demand costs alone can increase from the current rate of approximately \$15,000 per month to as high as \$170,000 per month when the District is required to pump on peak and the power rate is also 3 or 4 times greater than the off peak power rates. With power cost being the second highest system operating expense, maintaining adequate water system reliability is a major operating cost issue that the Board must consider when approving wells and infrastructure for without reliability and redundant backup capabilities the District will not be able to provide the most basic service to the community.

The District should in the near future consider continuing the retrofitting wells in all zones with more backup generators to expand the District's water system reliability.

2850 Pressure Zone Improvements

Currently, our second largest pressure zone is the 2850 zone which serves the area generally north of Oak Valley Parkway from Starlite to Noble Creek. This zone also serves the area from Highland Springs west to Starlite south of Oak Valley Parkway to Eighth Street and a portion of the BCVWD service area south of Potrero Blvd. in the low rolling hills in south Beaumont. The significant transmission main improvements upgrades and additions include 18", 24" and 16" transmission mains feeding from the 2850 reservoir site located on Vineland west of Noble throughout the zone.

Since 2001, the District has added one 2 million gallon and one 3 million gallon reservoirs at the Vineland tank site. Total reservoir capacity for the 2850 zone is currently 6 million gallons. It is important to note for reliability purposes that this system is also fed by a connection to the 3050 zone which allows water to be taken into this zone via an automated pressure regulated system. This "bypass" allows water produced in the canyon well fields to be passed from the upper zones through the 3050 zone to the 2850 zone by gravity. During winter months and in emergencies, the gravity system can and is used to maximize canyon well production efficiencies. There is also a temporary emergency connection via Cherry Booster 21 C that can be used to backup the system until well 25 is operational.

Wells that produce water from the Beaumont Basin that pump to the 2850 zone are wells 16 and 23. Total production by these wells is 4,200 gallons per minute. Groundwater modeling has determined that with the increased nitrate and on-site waste systems discharges will ultimately require wellhead treatment at well 16 or it may in the alternative have to be removed from service because of wellhead treatment costs. Because of the issues and concerns with well 16 and the growth in the water demand in the 2850 zone, staff budgeted for and the Board approved the drilling of well 25 (2850 zone) and well 26 in the 2750 zone. After well 25 was drilled, the District let the bids to outfit it (and well 29 discussed later herein) to increase the 2850 zones reliability should well 16 require removal from service and to meet the expanding water demands in the zone. I should note that with the loss of well 16 if well 25 were not constructed the 2850

pressure zone would have only one well to meet summer time demands. This would require the District's operation to be altered to pump water from the 2750 pressure zone to the 3050 (Cherry Valley zone) then pass it through that system to the 2850 zone and/or pump 21 C to the 2850 zone. As reported last year this would reduce water availability in the 2750, 2850 and 3050 zones to a point where mandatory conservation may have been necessary. Note well 25 will be on line well before the summer water demands occur.

2650 Pressure Zone Improvements

During 2006, the District completed design and began construction of a 5 million gallon underground reservoir in the new 2650 pressure zone at the intersection of Hannon Road and Cherry Valley Blvd. This tank and this zone like the Cherry Valley zone is currently supplied water from the wells in the 2750 zone during the summer months.

Again, to increase reliability in the water system in 2006/07 the District purchased the Sunny Cal Ranch well (well 29). After test pumping, it was determined that the well could produce 4,000 gpm on a continuous basis. The Board decided to put bids out to outfit this well so it would be available in the summer of 2008. This well will reduce the demand on the 2750 zone which in turn provides increased system reliability when the current nitrate pollution from Cherry Valley area requires the Board to determine the course of action necessary related to wells 16 and 21 either taking the wells out of service or retrofitting them with wellhead treatment (estimated capital cost of wellhead treatment is one million dollars per 1,000 gpm or \$3.2 million plus operations). The 2650 zone supplies water to the area of the District west of Oak Valley Parkway in the Champions and Fairway Canyon areas. It is also the supply for the 2550 and 2350 zones also located in the Oak Valley/Fairway canyon area.

MEMORANDUM

Date: April 30, 2008
From: C.J. Butcher, General Manager
To: Board of Directors
Subject: Request to amend General Manager's employment contract

I hereby request the Board of Directors amend my employment contract to delete Section XII (copy attached) which requires that I reside in the District's upper canyon residence and respond to emergencies at the upper canyon facilities. Effective date: July 1, 2008.

I also request that the District rescind the Housing Agreement between the General Manager and the District dated March 2006 (copy attached). Effective date: July 1, 2008.

Assuming the Board approves my request, I recommend that the Board President appoint a committee of the Board to develop a policy for Watershed Management and Protection, and Emergency Response that will establish Board policy as to how employees respond to potentially dangerous situations at the District's facilities and property in the three canyons owned by the District. I feel it is very important and a tremendous liability if less experienced employees are required to respond to these facilities and property during an emergency without direct supervision as we have today. Without a Board set policy that tells the employee and his or her supervisor what the employee's responsibilities are and when they should evacuate, they could be injured or worse while attempting to do their respective jobs.

Response ahead of an oncoming fire for example, requires that various system components be set in manual mode so that when power failures occur the system will continue to operate in the preset manual mode. Failure to take this action will cause the system to not function when the power fails, which in turn will have a major impact on the water systems ability to supply water for fire fighting.

The Esperanza Fire last year is an example. Five fire fighters died when they were trapped in a canyon because of the fast moving fire cut off their ability to evacuate when their position became untenable. The District Board must have a policy that tells the employees when they should act and when they should evacuate with enough time to clear themselves from the dangerous area.

**EMPLOYMENT AGREEMENT
BETWEEN
BEAUMONT CHERRY VALLEY WATER DISTRICT
AND
THE GENERAL MANAGER**

THIS AGREEMENT is entered into as the 11th day of October, 2006, between the Board of Directors of and on behalf of the BEAUMONT CHERRY VALLEY WATER DISTRICT (herein after referred to as the "District") and CHARLES J. BUTCHER (herein after referred to as the "General Manager" or "Butcher"). The above named parties hereby mutually agree and promise as follows:

I. TERM.

The District hereby employs Butcher as General Manager for a term of eight (8) years, commencing on October 11, 2006, and continuing through March 1, 2014. In the event that this Agreement is allowed to expire at the end of the initial eight – year term, the provisions of Section IX herein shall not apply and Butcher shall not be entitled to any Severance Pay.

II. SALARY.

Butcher's annual salary shall be One Hundred Seventy Seven Thousand Six Hundred and Forty Eight (177,648), and he shall be provided fringe benefits as described at Section X below. An annual cost – of – living adjustment will be made to said salary.

III. DUTIES.

Butcher shall perform the duties of General Manager as prescribed in the District's Job Description for the position of General Manager. In addition to the duties described in the District's Job Description, the General Manager shall have such powers and duties which are delegated to him by the Board of Directors. The General Manager shall execute all powers and duties in accordance with the policies adopted by the Board of Directors and the applicable laws of the State of California.

The General Manager will respond to emergencies necessary during the term of the Agreement without additional compensation.

IV. GENERAL MANAGER AND BOARD OF DIRECTORS RESPONSIBILITIES.

The General Manager shall be the Chief Executive Officer of the District. As such, the General Manager shall have the responsibility for implementing Board of Directors' policy, whereas the Board of Directors shall retain the responsibility for formulating and adopting said policy.

V. PERSONNEL MATTERS.

The General Manager shall have additional responsibility of organizing, reorganizing and arranging the staff of the District in such a way that in his judgment best serves the District. The General Manager shall have such responsibility in all personnel matters, including selection, assignment, transfer and termination of employees in accordance with the District's personnel rules and regulations. Members of the Board of Directors, individually and collectively, will promptly refer all criticisms, complaints and suggestions called to their attention to the General Manager for review and action as the General Manager deems appropriate.

VI. OTHER DUTIES.

The General Manager (or his designee) shall: (1) review all policies proposed to the Board of Directors and make appropriate recommendations to the Board; (2) periodically evaluate employees as provided for by District policy; (3) advise the Board of Directors of possible source of funds that might be available to implement present or contemplated District programs or services; (4) maintain and improve his professional competence by available means, including subscription to and reading of appropriate periodicals, and joining and participating in appropriate professional associations and their activities; (5) establish and maintain an appropriate community relations program; (6) serve as liaison between the Board of Directors and as its designated representative with respect to all labor negotiations, and make recommendations to the Board of Directors concerning those matters. Notwithstanding that a designee of the General Manager may perform such duties; the General Manager shall be the person ultimately responsible to the Board of Directors for the proper implementation of the duties and responsibilities described herein.

VII. OUTSIDE ACTIVITIES.

During the term of this Agreement, the General Manager shall focus his full professional time, ability, and attention to the business and affairs of the District, subject to the following exceptions:

A. Outside Professional Activities

Butcher, with prior approval of the Board of Directors, may undertake outside professional activities for compensation, including consulting, teaching, training, speaking and writing, provided they do not interfere with the normal duties of the General Manager, and are done only during Butcher's vacation or holiday time, and are not done with any existing vendors or contractors of the District. Under no circumstances shall such outside activities create a conflict of interest with the duties of the General Manager and the interests of the District.

B. Outside Educational and Charitable Activities

Butcher may expend reasonable amounts of time for educational and/or charitable activities. Such activities shall not be deemed a breach of the Agreement, nor shall Butcher be required to obtain the prior approval of the Board, unless otherwise required by policies of the District, provided that such activities do not interfere and/or conflict with his duties and responsibilities as General Manager and/or the needs and interests of the District.

C. Personal Investment and/or Private Business Affairs

This Agreement shall not in any way be interpreted as prohibiting Butcher from making passive personal investments and/or attending to such other private business affairs, provided that such personal investments and/or private business affairs in no way interfere and/or conflict with the fulfillment of his duties and responsibilities as General Manager and/or the needs and interests of the District.

VIII. EVALUATION.

The General Manager shall meet with the Board of Directors in closed session on an annual basis to review the General Manager's performance and to discuss the Board of Directors' evaluation of said performance. The Board of Directors' may, in its discretion, give raises or bonuses, depending on the performance review.

IX. TERMINATION.

The General Manager shall serve at the will and pleasure of the Board of Directors' and may be removed from office (terminated) at any time for any reason or no reason upon a majority vote of the Board of Directors. Nothing in this Agreement shall prevent the Board of Directors from terminating this Agreement and the services of the General Manager at its sole discretion.

A. Notice of Termination

In the event, the General Manager is terminated by the District during the term of this Agreement, during which time, the General Manager is willing and able to perform his duties under this Agreement, the District may, following provisions of notice of termination, immediately release Butcher from his employment with the District by providing Butcher with (1) eighteen (18) months salary; and (2) continuation of all existing health benefits currently offered the General Manager through the Districts' health care plan, for the lesser of eighteen (18) months, or until the General Manager finds other employment, whichever occurs first. (The salary and benefits shall be referred to collectively as "Severance Pay.") However, should there be less than eighteen (18) months remaining on the unexpired term of this Agreement, including any extension, the Severance Pay shall instead be equal to the number of months left on the expired term of Agreement.

B. Termination for Cause

At any time, and without prior notice, the District may terminate General Manager for Cause. Termination shall be for "Cause," if the General Manager: (1) acts in bad faith and to the detriment of the District; (2) refuses or fails to act in accordance with any specific direction or order of the Board of Directors'; (3) exhibits in regard to his employment unfitness for service, misconduct, dishonesty, negligence or incompetence; (4) is convicted of a crime involving dishonesty, breach of trust, or physical or emotional harm to any person; or (5) breaches any material term of this Agreement.

In the event that it is determined that the General Manager has been terminated for cause, Butcher shall not be entitled to any Severance Pay. Upon termination for cause, Butcher shall only be entitled to receive all compensation earned, but unpaid, for actual

work performed as of the date of termination for cause and for accrued vacation time. Butcher hereby acknowledges and agrees that such payment is the only compensation and/or benefit that he is entitled to receive in the event he is terminated for cause.

C. Resignation

If General Manager desires to resign his position during the first six (6) years, he will provide the Board of Directors' with at least ninety (90) calendar days' notice, in writing. If General Manager desires to resign his position during his final year, he will provide the Board of Directors' with at least sixty (60) days' notice in writing. In the event that the General Manager resigns from his employment with the District, the General Manager shall not be entitled to any Severance Pay.

X. FRINGE BENEFITS.

The General Manager shall receive all Fringe Benefits, including, but not limited to, District approved holidays, vacation time, retirement contributions, health benefits, and insurance coverage provided by the District to other managerial employees.

The District participates in a health insurance and dental insurance plan, and will pay all premiums on behalf of the General Manager. The District shall contribute to the General Manager's retirement plan an amount equal to Eight Percent (8%) of the annual salary.

The General Manager shall be entitled to four (4) weeks of vacation leave per year. In December of each year, the General Manager shall be paid for any vacation leave accrued, but not used, in that calendar year.

Upon execution of this Agreement, the General Manager shall be deemed to have received and/or accrued three hundred twenty (320) hours of sick leave which may be used in accordance with the District's policies. Butcher shall be paid Fifty Percent (50%) of the value of any unused sick leave upon retirement or termination.

XI. BUSINESS EXPENSES.

The District shall reimburse the General Manager for such reasonable and appropriate District related business and/or travel expenses as are authorized and/or ratified by the Board of Directors. The General Manager shall be subject to the rules and regulations of the District that apply to employees in regard to approval and reimbursement for business and/or travel expenses.

XII. DISTRICT HOUSING.

The District owns a residence, located at 12303 Oak Glen Road, which is situated near and convenient to District facilities. The General Manager agrees to reside at said address so that, in the event of emergency or other circumstances at the facilities, he can be readily available to respond.

XIII. GENERAL PROVISIONS.

A. Entire Agreement

This Agreement supersedes any and all other agreements, either oral or written between the parties hereto with respect to the employment of Butcher by the District and contains all of the covenants and agreements between the parties with respect to the employment of Butcher by the District. Each party agrees and acknowledges that no representations, inducements, promises or agreements, orally or otherwise, have been made by any party, or anyone acting on behalf of any party, which are not embodied herein and that any agreement, statement, or promise not contained in this Agreement shall not be valid or binding on either party.

B. Modifications

Any modifications of this Agreement and/or extension of the term of this Agreement will be effective only if made in writing and signed by both Butcher and the District.

C. Severability

If any provision of this Agreement is held by a court of competent jurisdiction to be invalid, void or unenforceable, the remaining provision shall nevertheless continue in full force and effect without being impaired or invalidated in any way.

D. Effect of Waiver

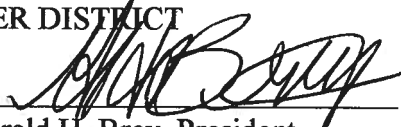
The failure of either party to insist on strict compliance with any of the terms, covenants and/or conditions of this Agreement by the other party shall not be deemed a waiver of that term, covenant and/or condition, nor shall any waiver or relinquishment of any right or power at any one time or times be deemed a waiver or relinquishment of that right or power for all or any other times.

E. Construction

This Agreement shall not be construed more strongly against either party regardless of which party prepared it.

IN WITNESS WHEREOF, the parties have executed this Agreement on the day and year first above written.

BEAUMONT CHERRY VALLEY
WATER DISTRICT

By 
Gerald H. Brey, President

Board of Directors

Charles J. Butcher

HOUSING AGREEMENT

THIS HOUSING AGREEMENT ("Agreement") is made this 1st day of March, 2006, for identification purposes only, by and between BEAUMONT CHERRY VALLEY WATER DISTRICT, a public agency, ("BCVWD") and Charles J. Butcher ("Butcher").

RECITALS:

- A. BCVWD and Butcher executed that certain employment agreement dated 1st day of March, 2006 ("Employment Agreement") wherein BCVWD employed Butcher for a term of eight (8) years, commencing in March of 2006 and continuing through March 1, 2014.
- B. BCVWD owns certain real property located in the City of Beaumont, Riverside County, California which is described and/or depicted on Exhibit "A" attached hereto and by this reference incorporated herein ("Premises").
- C. As a condition of employment pursuant to the Employment Agreement, Butcher is required to reside at the Premises during the term of the Employment Agreement. Butcher accepted employment with BCVWD under the condition that Butcher would reside at the Premises.
- D. The Board of Directors of BCVWD requires Butcher to live on the Premises during the term of his employment because it requires Butcher to be available for duties at all times, to respond to BCVWD needs, including but not limited to, response to emergency and other problems regarding BCVWD facilities and to be on call twenty-four (24) hours per day, at all times of the day and night to monitor BCVWD facilities located in close proximity to the Premises.
- E. Butcher agrees to reside in the Premises during his term of employment with BCVWD pursuant to the Employment Agreement and BCVWD shall make availability to Butcher the Premises upon the terms and conditions set forth herein.

NOW, THEREFORE, IN CONSIDERATION OF THE MUTUAL PROMISES AND COVENANTS HEREIN, AND OTHER GOOD AND VALUABLE CONSIDERATION, THE RECEIPT AND SUFFICIENCY OF WHICH ARE HEREBY ACKNOWLEDGED, THE PARTIES AGREE AS FOLLOWS:

1. Term. The agreement shall commence on March 1, 2006 and at midnight one (1) year after the termination of Butcher's employment with BCVWD pursuant to the terms of the Employment Agreement.
2. No Payment. The parties hereby acknowledge that Butcher shall reside in the Premises as a condition of his employment and as a convenience to BCVWD. During the term of this Agreement, Butcher shall not be required to pay to BCVWD any amount for the use of the

premises nor shall BCVWD be required to pay Butcher any additional income because it requires Butcher to reside at the Premises.

3. Utilities. BCVWD shall pay, before delinquency, all charges for electricity, light, power and propane/gas used by Butcher in or upon the Premises. BCVWD shall not be required to pay for any utilities after the termination of Butcher's employment. On the date of termination, until one (1) year after the termination, or on such date Butcher vacates the Premises, Butcher hereby agrees to pay for all utilities used in connection with the Premises. For purposes of this paragraph, a year shall begin on February 28 and end on March 1, 2014.
4. Taxes. The parties to this Agreement understand and acknowledge that BCVWD is a public agency and as such is exempt from most real property taxes and assessments. However, the County may require BCVWD to pay a possessor interest tax. The parties hereby agree that Butcher shall pay the possessor interest tax.

All possessor interest tax payments shall be made directly to the charging authority by Butcher before delinquency and before any fine, interest, or penalty shall become due or be imposed by operation of law for the nonpayment. Butcher shall promptly furnish BCVWD with satisfactory evidence that the possessor interest taxes have been paid. If Butcher fails to pay the possessor interest taxes when due, BCVWD may pay the taxes and Butcher shall reimburse BCVWD for the amount of the tax payment. All other property taxes and assessments, if any, shall be paid by BCVWD.

5. Compliance With Laws. BCVWD, at its sole cost and expense, except as provided herein, shall comply with and conform to all laws, ordinances, orders, rules and regulations, municipal, state and federal, and any and all requirements and orders of any municipal, state, or federal board or authority, present and future, in any way relating to the Premises, or the use or manner of use of the Premises throughout the entire term of this Agreement.
6. Maintenance of Premises. Throughout the term, BCVWD shall, at BCVWD's sole cost and expense, maintain the Premises and all improvements, in good condition and repair, ordinary wear and tear excepted. Butcher shall not be required to furnish any services or facilities or to make any repairs or alterations or maintain the Premises except for damages caused by the negligence or intentional acts of Butcher. BCVWD shall promptly replace, at the expense of BCVWD, any and all damaged portion or portions of the Premises from any cause whatsoever in and about the Premises, except for damages caused by the negligence or intentional acts of Butcher.
7. Assignment. Butcher shall have no right to assign, or otherwise transfer this Agreement either voluntarily or by operation of law, in whole or in part, nor to sublet or permit occupancy by any party other than Butcher of all or any part of the Premises without the prior written consent of BCVWD in each instance, which consent may be withheld in BCVWD's sole and absolute discretion. Any purported assignment or subletting of BCVWD's interest shall be null and void and shall, at the option of BCVWD, terminate this Agreement.
8. Insurance.

- a) BCVWD shall carry and maintain, at BCVWD's sole cost and expense, at all times during the term of the Agreement, with respect to the Premises, broad form General Public Liability Insurance for Bodily Injury and Property Damage: \$1,000,000 per person, \$3,000,000 per occurrence. The policy (ies) may contain an aggregate limit not less than the occurrence limit. The required limits may be satisfied by a combination of a primary policy and an excess or umbrella policy.
 - b) All insurance required pursuant to the express provisions of this Agreement shall provide that coverage shall not be revised, cancelled or reduced until at least thirty (30) days' written notice of such revision, cancellation or reduction shall have been given to Butcher.
 - c) The comprehensive general liability insurance to be maintained by BCVWD pursuant to this section above shall name Butcher as an additional insured.
9. Casualty Insurance for BCVWD. BCVWD shall maintain at its sole cost and expense, on the building and other improvements that are a part of the Premises, a policy of standard fire and extended coverage insurance. The insurance policy shall be issued in the name of BCVWD. The insurance policy shall provide that any proceeds shall be made payable to BCVWD.
10. Casualty Insurance for Butcher. Butcher shall maintain at his sole cost and expense, such fire and extended coverage insurance, as he desires on his personal property, household furniture and furnishings, including without limitation, art, silverware, dishes, antiques, personal clothing, jewelry and items of a similar nature. Butcher understands, acknowledges and agrees that neither the foregoing assets nor any other property of Butcher shall be covered under any insurance policy held by BCVWD. The insurance policy shall be issued in the name of Butcher. The insurance policy shall provide that any proceeds shall be made payable to Butcher.
11. Default. A party shall be deemed to be in default under the terms of this Agreement if a party shall fail to promptly perform or observe any covenant, condition or agreement to be performed by such party under this Agreement within thirty (30) days after written notice from the other party describing in reasonable terms the manner in which such party has failed to perform his/its obligation under this Agreement and specifying the action that must be taken to cure the claimed nonperformance.
12. Remedies. In the event of a default by a party, the non-defaulting party without further notice to defaulting party shall have all available remedies provided by law or equity.
13. General Provisions.
- a) All notices hereunder must be in writing and, unless otherwise provided herein, shall be deemed validly given if sent by certified mail, return receipt requested, addressed as follows (or to any other mailing address which the party to be notified may designate to the other party by such notice). Should BCVWD or Butcher have a change of address,

the other party shall immediately be notified as provided in this paragraph of such change.

Butcher: Chuck Butcher
12303 Oak Glen Road
Beaumont, CA 92223

BCVWD: Beaumont Cherry Valley Water District
PO Box 2037
Beaumont, CA 92223

If the address or phone number where either party may be contacted is changed, such party will immediately notify the other party of such change.

- b) It is agreed and understood that this Agreement contains all agreements, promises and understandings between BCVWD and Butcher, and no verbal or oral agreements, promises or understanding shall or will be binding upon either BCVWD or Butcher, and any addition, variation or modification to this Agreement shall be void and ineffective unless made in writing and signed by the parties hereto.
- c) Subject to the provisions of this Agreement on assignment and subletting, each and all of the covenants and conditions of this Agreement shall be binding on and shall inure to the benefit of the heirs, successors, executors, administrators, assigns and personal representatives of the respective parties.
- d) In the event that either party becomes involved in litigation arising out of this Agreement or the performance thereof, the Court in such litigation, or in a separate suit, shall award attorneys' fees and costs to the justly entitled party.
- e) Should any part, clause, provision, or condition of this Agreement be held void, invalid, or inoperative, such invalidity shall not affect any other provision hereof, which shall be effective as though such invalid provisions had not been made.
- f) A party hereto, at any time upon reasonable request of the other party, will execute, acknowledge and deliver such additional documents, instruments and other agreements and all such further assurances and will do or cause to be done all further acts and things, in each case, as may be proper or reasonably necessary to carry out the purposes hereof.
- g) This Agreement and performance hereof shall be governed, interpreted, construed and regulated by the laws of the State of California.
- h) No failure by either BCVWD or Butcher to insist upon the strict performance by the other of any covenant, agreement, term or condition of this Agreement, or to exercise any right or remedy consequent upon a breach thereof, shall constitute a waiver of any such breach or of such covenant, agreement, term or condition. No waiver of any breach shall affect or alter this Agreement, but each and every covenant, condition, agreement and

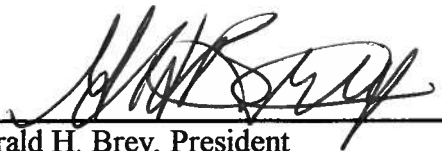
term of this Agreement shall continue in full force and effect with respect to any other then existing or subsequent breach.

- i) Nothing contained in this Agreement shall be deemed or construed by the parties or by any third person to create the relationship of principal and agent or of partnership or of joint venture or of any association between BCVWD and Butcher, and no provisions contained in this Agreement nor any acts of the parties shall be deemed to create any relationship between BCVWD and Butcher, other than the relationship of employer and employee.
- j) This Agreement is not subject to modification except in writing.
- k) This Agreement may be executed in any number of counterparts, each of which shall be deemed an original, but all of which when taken together shall constitute one and the same instrument. The signature page of any counterpart may be detached there from without impairing the legal effect of the signature(s) thereon, provided such signature page is attached to any other counterpart identical thereto, except having additional signature pages executed by other parties to this Agreement attached hereto.
- l) All of the Recitals are hereby incorporated herein by this reference to the same extent as through herein again set forth in full.

IN WITNESS WHEREOF, the parties have hereunto set their hands on the date first above written.

BCVWD:

BEAUMONT CHERRY VALLEY WATER DISTRICT

By 
Gerald H. Brey, President
Board of Directors

Its 
Charles J. Butcher