

MINUTES FOR BUDGET WORKSHOP  
OF  
SAN BERNARDINO VALLEY CONSERVATION TRUST,  
a California Nonprofit Public Benefit Corporation

Wednesday, July 17, 2024 – 2:00 pm

CALL TO ORDER –2:00 p.m.

ROLL CALL

John Longville, SBV Water Conservation District  
Richard Corneille, SBV Water Conservation District  
Paul Kielhold, SBV Municipal Water District  
Jim Earsom, IE Resource Conservation District

David Cosgrove, SBV Water Conservation District  
Milan Mitrovich, SBV Water Conservation District  
Angie Quiroga, SBV Water Conservation District  
Kai Palenscar, SBV Municipal Water District  
Bob Stewart, SBV Water Conservation District  
Donald Grant, PFM Asset Management  
Robert Quadra, PFM Asset Management

1. PUBLIC PARTICIPATION - None
2. APPROVAL OF MINUTES FROM JANUARY 17, 2024, and FEBRUARY 29, 2024 BUDGET WORKSHOP.

**It was moved by Director Corneille and seconded by Director Kielhold to approve the meeting minutes from January 17, 2024, and February 29, 2024, as presented. The motion carried 3-0, with all Directors present voting in the affirmative.**

**Vice President Longville: Yes**

**Director Corneille: Yes**

**Director Kielhold: Yes**

3. RECOGNIZE NEW BOARD MEMBER AND ROLES-WATER CONSERVATION DISTRICT REPRESENTATIVE AND DISTRICT ROLES (PRESIDENT AND VP)

Mr. Cosgrove provided a brief overview of the Conservation District Trust's composition. Following the passing of Director Raley, who served on the SBV Water Conservation Trust, a vacancy arose on the Board. As required by Section 4.C.2 of the bylaws, the Conservation District Trust Board took action at its last regular meeting to appoint Director Corneille to the vacant role. Director Corneille was formally acknowledged and welcomed to the Trust Board.

The group then skipped to Items 4 and 5 on the agenda – Amendment of Third Amendment to the Bylaw and Vote to Fill Independent Contractor Position – to ensure that all seated Directors could participate in the nomination of the President and Vice President in item 3 on the agenda.

#### 4. APPROVAL OF THIRD AMENDMENT TO TRUST BYLAWS

Mr. Cosgrove stated the request of the Board is to amend the Trust Bylaws regarding the manner in which the Independent Director is appointed. Mr. Cosgrove directed the group to Package Page 9, describing the Third Amendment to Bylaws concerning the appointment process of the Independent Director. The amendment changes the current appointment process to now allow the remaining Board of Directors the ability to fill a vacancy in the Independent Director position. Mr. Cosgrove advised that this amendment is being done to better align with the current structure of the Trust, which has evolved since its inception.

**It was moved by Director Corneille and seconded by Director Kielhold to approve the third amendment to the Trust Bylaws. The motion carried 3-0, with all Directors present voting in the affirmative.**

**Vice President Longville: Yes**

**Director Corneille: Yes**

**Director Kielhold: Yes**

#### 5. VOTE TO FILL INDEPENDENT DIRECTOR POSITION - JIM EARSOM

After approval of the third amendment to the Trust Bylaws, Jim Earsom was unanimously appointed as the Independent Director.

**It was moved by Director Kielhold and seconded by Director Corneille to appoint Mr. Earsom as the Independent Director. The motion carried 3-0, with all Directors present voting in the affirmative.**

**Vice President Longville: Yes**

**Director Corneille: Yes**

**Director Kielhold: Yes**

The group then nominated the President and Vice President of the Conservation Trust Board.

**It was moved by Director Corneille to appoint Vice President Longville as President. The motion carried 4-0, with all Directors present voting in the affirmative.**

**Vice President Longville: Yes**

**Director Corneille: Yes**

**Director Earsom: Yes**

**Director Kielhold: Yes**

**Director Kielhold nominated Director Corneille as Vice President. The motion carried 4-0, with all Directors present voting in the affirmative.**

**President Longville: Yes**  
**Director Earsom: Yes**  
**Director Corneille: Yes**  
**Director Kielhold: Yes**

6. PFM INVESTMENT PERFORMANCE REVIEW UPDATE FOR QUARTER ENDED JUNE 30, 2024

Mr. Donald Grant from PFM Asset Management introduced himself as the Relationship Manager, stepping in for Sarah Hart. Mr. Grant was joined by his colleague, Mr. Robert Quadra and advised Mr. Quadra will be taking over management of the Trust's account going forward.

Mr. Grant provided an overview of the Trust's performance, market valuation, and asset allocation. He noted that audited figures were available through the end of Q1, but Q2 performance data was not yet finalized due to the meeting's timing.

- **Market Performance (Q1 2024):**  
The Trust returned 5.32%, slightly underperforming its blended benchmark of 5.45%. Since inception (June 2018), the Trust has an annualized return of 7.53%, compared to the benchmark's 7.67%.
- **Market Value (as of July 16, 2024):**  
The Trust's market value was \$2,637,688.70, a significant decrease from the year-start value of approximately \$3.4 million due to over \$1 million in net outflows. The Trust's return on investment for the first quarter was \$126,000, and the trailing 12-month return was \$426,691, representing a 15.5% gain.
- **Asset Allocation:**  
Mr. Grant provided an overview of the Trust's asset allocation. He noted a slight underperformance in the Trust's small-cap exposure compared to large-cap investments, largely due to the strong performance of AI-related companies. Domestic equity was overweight due to strong market performance, while international equity and fixed income were underweight. Recent rebalancing efforts were made to align allocations closer to policy targets in response to anticipated market volatility.

President Longville raised a question regarding whether any of the Trust's investments could be considered socially or ethically questionable if they became the subject of public scrutiny. The concern was not about the financial soundness of the investments but rather the potential social implications. Mr. Grant addressed the inquiry by explaining that the Trust's portfolio includes broad exposure to various industries and sectors, such as through investments in the Vanguard Total Stock Market ETF. This includes sectors that may raise concerns, particularly considering current global and domestic issues. He emphasized that this exposure is typical for a globally diversified portfolio, but it is important to acknowledge the potential for public or social scrutiny in these areas.

Vice President Corneille raised a question about return on investment of the non-wasting endowment, noting that the \$126,000 return for the year seemed low. He asked whether this amount limits the funds available for implementation activities or if additional funding sources

are available. Mr. Mitrovich clarified that the \$126,000 was the return from the first three months of the year, covering January through March. He confirmed that funding for activities tied to Wash Plan implementation primarily comes from the non-wasting endowment, which is essential for supporting these activities. However, the Trust also has other funding mechanisms, such as grants, which contribute to the overall implementation efforts. Mr. Mitrovich further explained that, as of February, the endowment was approximately 20% funded of the total amount originally envisioned under the Wash Plan. He mentioned that Ms. Quiroga would provide a detailed financial update later in the meeting, including the current status of the endowment and what it means for future funding activities. Mr. Grant added that although the return for the first quarter was \$126,000, the return for the trailing 12 months, from the end of Q1 2023 to Q1 2024, was \$426,691. He emphasized that this represented a solid 12-month performance for the invested funds. The Board acknowledged the importance of the non-wasting endowment in supporting ongoing activities.

Director Kielhold raised a question about the segregation of the non-wasting endowment from other funds. Mr. Cosgrove clarified that at present, the non-wasting endowment is not held in a formal, separate account. We are tracking the separation and once the endowment is fully funded, there will be a more formal separation structure. For now, the funds are tracked in conjunction with revenue figures, and budgeting is based on available revenue from the endowment. Director Kielhold then asked for clarification about the 20% funding mentioned earlier. Mr. Mitrovich confirmed that the Trust is currently only 20% funded toward the full amount envisioned under the Wash Plan. This issue will be addressed further in the budget presentation.

## 7. FINANCIAL STATUS UPDATE

Ms. Quiroga directed the Board to Package Page 12 and provided an overview of the financial status for the third and fourth quarters of the fiscal year. The California Credit Union cash balance increased \$98,256. In April 2024, a grant reimbursement of \$135,709.39 was received which covered biological services for January 31st and March 13<sup>th</sup> and reimbursement of staff time for BLM Fuels Management as of June 30<sup>th</sup>. The ending balance for the fiscal year in California Credit Union is \$192,939. In U.S. Bank investments, the accrued interest and dividends, including unrealized gains and losses, led to a \$36,795 increase. Additional expenses included PFM Advisory Management fees of \$1,452.33. The overall end balance is \$2,255,510, an increase of \$34,468. Accounts receivable remain unchanged, but there are ongoing efforts to collect on minor contributions to the endowment. Liabilities have decreased by \$269,842 from the previous quarter. A reduction in the liability to the District of \$415,125 was noted due to the District assuming responsibility for prior expenses incurred from Brownstein Hyatt related to the land exchange. Mitigation and implementation costs for habitat management totaled \$163,996 from April through June. The current overall liability stands at \$1.3 million.

Ms. Quiroga directed the Board to Package Page 13 noting SP Deerfield has a negative mitigation deposit balance. An invoice to recover this overage has been issued. For Highland-Fifth Orange Partners, only a quarter-hour of work was billed against the deposit for accounting review. The project isn't progressing, but reimbursement of the remaining deposit remains unclaimed. Some work was done for SBCTA 210 Lane Addition, reducing the District's credit just over \$11,000.

Ms. Quiroga mentioned that final fiscal year numbers are still pending, but current accounting shows there was \$210,209 in additional implementation costs outside of the promissory note. This brings the total estimated reimbursement to the District to \$303,209, which includes \$93,000 for the promissory note and \$210,209 for additional implementation costs.

The Board discussed the relationship between the accounts reported by Ms. Quiroga and those managed by PFM. Ms. Quiroga clarified that U.S. Bank holds the funds managed by PFM, while the California Credit Union cash account is separate. The Board expressed appreciation for the clarification and noted the importance of understanding the various accounts and financial obligations, including the repayment agreement with the District related to the promissory note.

#### 8. WASH PLAN IMPLEMENTATION BUDGET FY 24/25

Mr. Mitrovich provided a slide presentation noting some of the information to be shared was shared during the budget workshop and will serve as a refresher, but there are also recent updates to present. He explained the current estimated balance of the endowment is a little over \$2 million. Pending receivables from Robertson's Ready Mix of just over \$4 million, and from Cemex of just over \$6 million are needed to fully fund the endowment. Mr. Mitrovich explained that this puts the endowment slightly under 20% of the projected total.

Director Kielhold inquired about the payments mentioned. Mr. Cosgrove explained that the triggering event for payments is when the mining companies apply for a Certificate of Inclusion (COI) under the Wash Plan. Currently, they have not applied due to ongoing permitting issues. While the U.S. Fish and Wildlife Service has granted a federal Incidental Take Permit (ITP) for the entire Wash Plan, the California Department of Fish and Wildlife (CDFW) has been more hesitant to approve the state permit for the plan. Robertson's Ready Mix requested an expedited permit for fifty-eight acres, which CDFW initially accommodated with a draft permit. However, Robertson's found some of the financial conditions unsatisfactory. They are now pursuing a Consistency Determination from CDFW, which would allow them to proceed under the federal ITP without needing separate state permits. The process is currently in a 30-day review period.

Mr. Mitrovich provided an update on the Promissory Note. The principal balance currently stands at \$930,000, with a repayment schedule of 10% each year for 10 years, starting on June 30, 2024. The first payment of approximately \$93,000 is included in the monies owed to the District, as previously discussed by Ms. Quiroga. The interest rate is 0% through June 30, 2033, thanks to the District's decision not to charge interest, offering significant financial relief. If any balance remains outstanding at the end of the term, a balloon payment option is available, with the full amount due by June 30, 2033. Mr. Mitrovich emphasized that the funds from the promissory note have been instrumental in advancing four years of Wash Plan implementation, aligning with agreed-upon goals. Now, as the repayment phase begins, it is essential to consider the impact of the repayment on the upcoming year's budget.

Mr. Mitrovich provided an update on the Wash Plan Budget with various payment scenarios:

- Mr. Mitrovich noted that with the new fiscal year (FY 2024-2025) beginning, the Wash Plan budget is being set. As of August 1, 2024, the estimated endowment balance, assuming *full* payment by both mining companies, would be just over \$12 million. However, as discussed earlier, full payment is unlikely in the next few

weeks. Based on simple estimates, a 4% return on the endowment would generate \$480,000. The proposed annual budget for Wash Plan implementation in the new fiscal year would not exceed \$375,000. Additionally, the second payment on the promissory note, due June 30, 2025, for \$100,000, would be covered. This amount would be in addition to the \$375,000 budgeted for implementation, utilizing \$100,000 of the \$480,000 projected return to make the payment.

- Mr. Mitrovich explained that in the current situation, without full payment from the mining companies, the estimated endowment balance stands at approximately \$2 million. He emphasized that this is a rough estimate and kept the calculation simple. The expected return on the endowment is about \$80,000. Additionally, the Wash Plan includes Jumpstart Funds, which provide \$33,000 annually for the first seven years. This brings the total available funds for the upcoming fiscal year to \$113,000, which is significantly less than in a full payment scenario. Mr. Mitrovich reminded the board that a minimum required payment to the District is due on June 30, 2025, and the current available funds will need to accommodate that obligation. He concluded by noting the contrast between full payment expectations and the current situation.
- Mr. Mitrovich explained that with no or partial payment from the mining companies, staff will revise the budget's "not to exceed" amount from \$375,000 to align with the available funds for the year. He mentioned the uncertainty surrounding payments—whether partial payment might come from Robertson's, full payment from one company but not the other, or if both payments could be delayed up to 120 days. Due to this uncertainty, flexibility is needed to adjust the budget accordingly. If full payment is received by the end of the month, the District will be in a strong position. However, if payments are delayed, the "not to exceed" amount will be revised downward, balancing key elements of Wash Plan implementation with meeting obligations of the promissory notes.

Mr. Mitrovich provided an update on key elements of the Preserve Management Committee. He explained that during their June meeting, the Committee reviewed the accomplishments from the past year and agreed on important measures for continued implementation. There was consensus among the Committee members on the key elements that should be prioritized as the plan moves forward. He noted that the list includes a variety of contributors: District staff working on multiple projects, contractors such as Origin Biological and Dudek, and agencies like the U.S. Geological Survey and the Santa Ana Watershed Authority. The timing for some activities will vary, with certain projects slated for 2025 and others, such as SBKR trapping by Origin Biological, scheduled for this fall. The cost for the trapping is approximately \$60,000, and they are confident they can move forward with that given current funding.

Mr. Mitrovich emphasized the commitment not to accrue additional debt without first consulting the board. He then requested board approval for an annual budget, not to exceed \$375,000 for Wash Plan implementation, with an additional \$100,000 to the District for the promissory note payment, as required. He explained that if full payments from the miners come in, the District will be well-positioned to proceed with the work and meet financial obligations. However, due to the uncertainty of when payments will be received, they are prepared to scale down expenditures, if necessary, while adhering to the agreement not to accrue debt without board approval. Discussion ensued.

A motion was made by Director Kielhold and seconded by Vice President Corneille to approve the fiscal year 2024-2025 budget, not to exceed \$375,000, with instructions to staff not to spend above revenues from the existing endowment. This includes authorizing a \$100,000 promissory note payment, and any spending beyond the endowment's income for management activities must first be approved by the Board. The motion carried 4-0, with all Directors present voting in the affirmative.

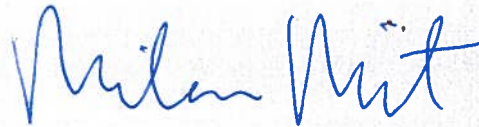
**President Longville: Yes**  
**Vice President Corneille: Yes**  
**Director Earsom: Yes**  
**Director Kielhold: Yes**

9. ADJOURN MEETING –3:00 pm.

A motion was made by Vice President Corneille and seconded by Director Kielhold to adjourn the meeting. The motion carried 4-0, with all Directors present voting in the affirmative.

**President Longville: Yes**  
**Vice President Corneille: Yes**  
**Director Earsom: Yes**  
**Director Kielhold: Yes**

The next Board of Director's meeting will be held on Wednesday, October 16, 2024, at 2:00 pm at 1630 W. Redlands Blvd., Redlands, CA, via teleconference and Zoom.



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Milan Mitrovich  
Executive Officer/Secretary