This SETTLEMENT AGREEMENT AND RELEASE (hereinafter "Agreement") is entered into between the STATE OF CALIFORNIA AIR RESOURCES BOARD (hereinafter "ARB") 1001 I Street, Sacramento, California 95814, and WATER RECLAMATION EQUIPMENT, INC. (hereinafter "WATER RECLAMATION"), 10500 N Russell Ave, Firebaugh, California 93622.

I. RECITALS

(1) California Health and Safety Code (HSC) section 44011.6 established the Heavy Duty Vehicle Inspection Program (HDVIP). It authorizes ARB to inspect on-road heavy-duty vehicles for excessive smoke emissions and engine tampering and to issue citations, accordingly. The program also requires the vehicle owner to repair its engines that exceed the prescribed ARB smoke opacity standards, perform a post-repair opacity test, and submit proof of repairs and any assessed penalties under the Regulations of the Heavy-Duty Smoke Inspection Program, chapter 3.5, sections 2180-2188, title 13 California Code of Regulations (CCR).

(2) HSC section 43701 provides that ARB shall adopt regulations that require owners or operators of heavy-duty diesel motor vehicles to perform regular inspections of their vehicles for excessive smoke emissions.

(3) Title 13 CCR, section 2190 *et seq.* was adopted under the authority of HSC section 43701 and, with limited exceptions, which are not applicable here, apply to all heavy-duty diesel powered vehicles with gross vehicle weight ratings greater than 6,000 pounds that operate on the streets or highways within the State of California.

(4) Title 13 CCR, section 2190 *et seq.* authorize the Periodic Smoke Inspection Program (PSIP) which requires the owners and operators of California based vehicle fleets of two or more heavy duty diesel motor vehicles with gross vehicle weight ratings greater than 6,000 pounds that operate on the streets or highways within the State of California to conduct annual smoke opacity inspections of their vehicles that are four years older than the model year of the vehicle's engine.

(5) Title 13 CCR, section 2192(a) requires inter alia that the owner of the vehicle "[t]est the vehicle for excessive smoke emissions periodically according to the inspection intervals specified in section 2193(a), (b), and (c)", "[m]easure the smoke emissions for each test…", "[r]ecord the smoke test opacity levels and other required test information as specified in section 2194…" and "[k]eep the records specified in section 2194 for two years after the date of inspection."

(6) HSC section 43016 states, "Any person who violates any provision of this part, or any order, rule, or regulation of the state board adopted pursuant to this part, and for which there is not provided in this part any other

specific civil penalty or fine, shall be subject to a civil penalty of not to exceed five hundred dollars ($500.00) per vehicle."

(7) The ARB considers testing, measuring, recording, and recordkeeping to be critical components in reducing excessive smoke emissions from these heavy-duty vehicles.

(8) ARB contends WATER RECLAMATION failed to test, measure, record, and maintain records of smoke emissions from a portion of its fleet of heavy-duty diesel vehicles for years 2011 and 2012 in violation of title 13 CCR, sections 2190 *et seq*.

(9) The ARB, has documented that WATER RECLAMATION failed to provide evidence that their vehicles have emission control labels (ECL) attached to the engines of heavy-duty diesel vehicles in its fleet in violation of HSC, section 44011.6, and title 13 CCR section 2183, *et seq*. Civil penalties for violation of the regulation covering emission control labels have been set per title 13 CCR, section 2185 (a)(2)(B) at $300 per vehicle per violation.

(10) Health and Safety Code, Section 39650-39675 mandates the reduction of the emissions of substances that have been determined to be toxic air contaminants (TACs). In 1998, following an exhaustive 10-year scientific assessment process, the Air Resources Board identified particulate matter (PM) from diesel-fueled engines as a toxic air contaminant. In-use On-Road diesel vehicles are powered by diesel fueled engines that emit toxic particulate matter. On-Road vehicles are controlled under section 2025 within title 13 of the California Code of Regulations (CCR).

(11) Title 13 CCR, section 2025(e)(1)(B) states: "Starting January 1, 2012, for all vehicles with GVWR greater than 26,000 lbs, excluding school buses, fleets must meet the requirements of section 2025(g) or fleets that report may instead comply with the phase-in option of section 2025(i)."

(12) Failure to comply with the requirements of title 13 CCR, section 2025 is a violation of state law resulting in penalties. California HSC sections 39674(a) and (b) authorize civil penalties for the violation of the programs for the regulation of toxic air contaminants not to exceed one thousand dollars ($1,000) or ten thousand dollars ($10,000), respectively, for each day in which the violation occurs.

(13) WATER RECLAMATION has elected to meet the requirements of the Engine Model Year Compliance Schedule provided for in title 13 CCR, section 2025(g).

(14) Title 13 CCR, section 2025(g) requires that owners of diesel vehicles with a GVWR greater than 26,000 lbs. meet PM BACT requirements for all 1996 through 1999 engine model years by January 1, 2012, and 2000 through 2004 model years by January 1, 2013.

(15) The ARB has documented that WATER RECLAMATION failed to meet PM BACT requirements for all 1996 through 1999 engine model years by January 1, 2012.

(16) California HSC, section 39650-39675 mandates the reduction of the emission of substances that have been determined to be toxic air contaminants (TACs). In 1998, following an exhaustive 10-year scientific assessment process, the Air Resources Board (ARB) identified particulate matter (PM) from diesel-fueled engines as a toxic air contaminant. In-use Off-road diesel vehicles (off-road vehicles) are powered by diesel fueled engines that emit toxic particulate matter. Off-road vehicles are controlled under sections 2449 within chapter 9, article 4.8, title 13 CCR.

(17) Title 13 CCR, section 2449 (b) states except as provided in section 2449 (b)(2)(G) this regulation applies to any person, business, or government agency who owns or operates within California any vehicles with a diesel-fueled or alternative diesel fueled off-road compression-ignition engine with maximum power (max hp) of 25 horsepower (hp) or greater provided that the vehicle cannot be registered and driven safely on-road or was not designed to be driven on-road, even if it has been modified so that it can be driven safely on-road.

(18) Title 13 CCR, section 2449 (g) sets forth the requirements for reporting all vehicles with engines subject to the regulation.

(19) Failure to report equipment is a violation of state law resulting in penalties. HSC, section 39674, authorizes civil or administrative penalties not to exceed one thousand dollars ($1,000) or ten thousand dollars ($10,000) for each day that the violation occurs.

(20) The ARB, has documented that WATER RECLAMATION failed to report equipment prior to the August 1, 2009 deadline.

(21) In order to resolve these alleged violations, WATER RECLAMATION has taken, or agreed to take, the actions enumerated below under "RELEASE". Further, the ARB accepts this Agreement in termination and settlement of this matter.

(22) In consideration of the foregoing, and of the promises and facts set forth herein, the parties desire to settle and resolve all claims, disputes, and obligations relating to the above-listed violations, and voluntarily agree to resolve this matter by means of this Agreement. Specifically, the ARB and WATER RECLAMATION agree as follows:

II. TERMS AND RELEASE

In consideration of the ARB not filing a legal action against WATER RECLAMATION for the alleged violations referred to above, and WATER RECLAMATION's payment of the penalties set forth in Section 1 below, the ARB and WATER RECLAMATION agree as follows:

(1) Upon execution of this Agreement, WATER RECLAMATION shall pay a civil penalty of eleven thousand eight hundred fifty dollars ($11,850.00). Payment shall be made in check form as described below, and payments shall be made in 3 payments beginning on **October 28, 2013**.

SETTLEMENT AGREEMENT AND RELEASE ARB AND WATER RECLAMATION:

Payment Due Date:		**In the Amount of and Paid to:**	
(1)	October 28, 2013	**$ 988.00** **$ 2,962.00**	paid to **Air Pollution Control Fund** paid to **Peralta Colleges Foundation**
(2)	January 28, 2014	**$ 3,950.00**	paid to **Air Pollution Control Fund**
(3)	April 28, 2014	**$ 3,950.00**	paid to **Air Pollution Control Fund**

Please submit the signed settlement agreement and checks to:

Mr. Gerald Berumen, Air Pollution Specialist
Air Resources Board, Enforcement Division
P.O. Box 2815
Sacramento, CA 95812

(2) Effect of Untimely Payment. If any payment is more than 15 days late, the entire remaining balance becomes immediately due and payable. In addition, if the Attorney General files a civil action to enforce this settlement agreement, WATER RECLAMATION shall pay all costs of investigating and prosecuting the action, including expert fees, reasonable attorney's fees, and costs.

(3) It is agreed that if WATER RECLAMATION, including its subsidiary or parent company, at any time becomes insolvent, or makes an assignment for the benefit of creditors or similar action adversely involving WATER RECLAMATION, its subsidiary, or parent company, or a proceeding or petition under any bankruptcy, reorganization, arrangement of debt, insolvency, readjustment of debt, or receivership law or statute is filed by or against WATER RECLAMATION, its subsidiary, or parent company, or a trustee in bankruptcy, custodian, receiver or agent is appointed or authorized to take charge of any of WATER RECLAMATION'S, its subsidiary, or parent company's properties, or if any deposit account or

other property of WATER RECLAMATION, its subsidiary, or parent company be attempted to be obtained or held by writ of execution, garnishment, attachment, condemnation, levy, forfeiture or other legal process, or WATER RECLAMATION, its subsidiary, or parent company takes any action to authorize any of the foregoing, the entire remaining balance becomes immediately due and payable without notice or demand.

(4) It is further agreed that the penalties described in "Terms and Release", paragraph 1 are punitive in nature, rather than compensatory. Furthermore, the penalty is intended to deter and punish WATER RECLAMATION for violations of state environmental statutes, and these penalties are payable to and for the benefit of ARB, a governmental unit. Therefore, it is agreed that these penalties imposed on WATER RECLAMATION by ARB arising from the facts described in recital paragraphs (1) through (20) are non-dischargeable under 11 United States Code § 523 (a)(7), which provides an exception from discharge for any debt to the extent such debt is for a fine, penalty or forfeiture payable to and for benefit of governmental unit, and is not compensation for actual pecuniary loss, other than certain types of tax penalties.

(5) WATER RECLAMATION shall not violate HSC sections 43701 *et seq.*, 44011.6 *et seq.*, and title 13 CCR, sections 2183, 2190 *et seq*, and 2485 *et seq*.

(6) WATER RECLAMATION shall comply with one or both of the following options to attend the California Council on Diesel Education and Technology (CCDET I) class, (SAE J1667 Snap Acceleration Smoke Test Procedure for Heavy-Duty Diesel Powered Vehicles) as described on the ARB webpage at http://www.arb.ca.gov/enf/hdvip/ccdet/ccdet.htm. This class is conducted by various California Community Colleges and instructs attendees on compliance with the PSIP, ECL and the HDVIP.

(a) WATER RECLAMATION shall have the fleet maintenance manager (or equivalent) and all staff performing opacity tests for compliance with PSIP and the HDVIP attend the CCDET I class. Proof of CCDET I completion shall be provided to ARB within six months of the date of this Agreement and be maintained in each applicable employee's file for the term of his or her employment.

(b) If WATER RECLAMATION uses a contractor to perform the annual smoke opacity testing required under the PSIP, in addition to having the fleet maintenance manager (or equivalent) attend the CCDET I course, WATER RECLAMATION shall obtain proof that the contractor's staff conducting the smoke opacity tests completed the CCDET I course within the past four years. This proof of CCDET I completion shall be provided to ARB with PSIP records as required by this Agreement and be maintained with the annual PSIP records.

(7) WATER RECLAMATION shall comply with one or both of the following options to attend the CCDET II class (Diesel Exhaust After Treatment and Maintenance), described on the ARB's webpage http://www.arb.ca.gov/enf/hdvip/ccdet/ccdet.htm. This class is conducted by various California Community Colleges and instructs attendees on California's emission regulations and the proper care and maintenance of diesel exhaust after-treatment systems (DEATS).

(a) WATER RECLAMATION shall have the fleet maintenance manager (or equivalent) and all staff responsible for maintenance of DEATS attend the CCDET II class. Proof of CCDET II completion shall be provided to ARB within six months of the date of this Agreement and also be maintained in each applicable employee's file for the term of his or her employment.

(b) In case WATER RECLAMATION uses a contractor for the maintenance of DEATS, in addition to having the fleet maintenance manager (or equivalent) attend the CCDET II course, WATER RECLAMATION shall obtain proof that the contractor's staff maintaining the DEATS device(s) completed the CCDET II course within the last four years. This proof of the CCDET II completion shall be provided by WATER RECLAMATION to the ARB within six months of the date of this settlement and be maintained with the DEATS installation and maintenance records.

(8) WATER RECLAMATION shall submit copies of all PSIP compliance records for the two years (2013 and 2014) after the close of the audit to the ARB by January 31 of the following year. Copies shall be addressed to the attention of Mr. Gerald Berumen at the California Air Resources Board, Enforcement Division, P.O. Box 2815, Sacramento, CA 95812. The ARB reserves the right to visit any WATER RECLAMATION fleet location at any time to conduct compliance audits for the HDVIP and PSIP, or any other applicable ARB program.

(9) WATER RECLAMATION shall complete Low NOx Software Upgrades (reflash) on all applicable heavy-duty diesel engines operating in California and report to the ARB within 45 days of this Agreement.

(10) Each 1974 or newer diesel powered heavy-duty vehicle in WATER RECLAMATION's fleet shall comply with the ECL regulation as codified in title 13 CCR, section 2183. Within 45 days of the execution of this Agreement, WATER RECLAMATION shall submit the proof of compliance to Mr. Gerald Berumen/Air Pollution Specialist, Air Resources Board, Enforcement Division, P.O. Box 2815, Sacramento, CA 95812.

(11) WATER RECLAMATION shall instruct all employees who operate diesel-fueled vehicles to comply with the idling regulations set forth in title 13 CCR section 2485, within 45 days of this Agreement.

(12) WATER RECLAMATION shall not violate the Truck & Bus regulation as codified in title 13 CCR, section 2025 et seq.

(13) WATER RECLAMATION shall comply with the Truck & Bus regulation as codified in title 13 CCR, section 2025 et seq. Within 60 days of the execution of this Agreement, WATER RECLAMATION shall submit the proof of compliance to Mr. Gerald Berumen/Air Pollution Specialist, Air Resources Board, Enforcement Division, P.O. Box 2815, Sacramento, CA 95812.

(14) WATER RECLAMATION, by December 31, 2013, shall submit proof of compliance with the January 1, 2014 Truck & Bus deadline, for all regulated heavy-duty diesel vehicles, to Mr. Gerald Berumen/Air Pollution Specialist, Air Resources Board, Enforcement Division, P.O. Box 2815, Sacramento, CA 95812.

(15) WATER RECLAMATION shall comply with the requirements for off-road equipment set forth in title 13 CCR, section 2449. Within 45 days of this Agreement, WATER RECLAMATION shall submit the proof of compliance to Mr. Gerald Berumen/Air Pollution Specialist, Air Resources Board, Enforcement Division, P.O. Box 2815, Sacramento, CA 95812.

(16) WATER RECLAMATION shall not violate the Off-Road Diesel Vehicle regulation as codified in title 13 CCR, section 2449.

(17) This Agreement shall apply to and be binding upon WATER RECLAMATION, and its officers, directors, receivers, trustees, employees, successors and assignees, subsidiary and parent corporations and upon ARB and any successor agency that may have responsibility for and jurisdiction over the subject matter of this Agreement.

(18) This Agreement constitutes the entire agreement and understanding between ARB and WATER RECLAMATION concerning the subject matter hereof, and supersedes and replaces all prior negotiations and agreements between ARB and WATER RECLAMATION concerning the subject matter hereof.

(19) No agreement to modify, amend, extend, supersede, terminate, or discharge this Agreement, or any portion thereof, is valid or enforceable unless it is in writing and signed by all parties to this Agreement.

(20) Severability. Each provision of this Agreement is severable, and in the event that any provision of this Agreement is held to be invalid or unenforceable, the remainder of this Agreement remains in full force and effect.

(21) This Agreement shall be interpreted and enforced in accordance with the laws of the State of California, without regard to California's choice-of-law rules.

(22) This Agreement is deemed to have been drafted equally by the Parties; it will not be interpreted for or against either party on the ground that said party drafted it.

(23) Senate Bill 1402 (Dutton, Chapter 413, statutes of 2010) requires the ARB to provide information on the basis for the penalties it seeks (see Health and Safety Code section 39619.7). This information, which is provided throughout this settlement agreement, is summarized here:

The manner in which the penalty amount was determined, including a per unit or per vehicle penalty.

Penalties must be set at levels sufficient to discourage violations. The penalties in this matter were determined in consideration of all relevant circumstances, including the eight factors specified in HSC sections 42403 and 43024.

PSIP Violations

The per vehicle penalty for the PSIP violations involved in this case is a maximum of $500 per vehicle, per violation, per year. The penalty obtained for the PSIP violations involved in this case is $4,125 for 11 violations involving 6 vehicles, or $375 per vehicle, per violation.

The penalty was discounted based on the fact that this was a first time violation and the violator made diligent efforts to comply and to cooperate with the investigation.

ECL Violations

The per vehicle penalty for the labeling violations involved in this case is a maximum of $300.00 per vehicle per violation. The penalty obtained for the ECL violations involved in this case is $225 for 1 vehicle, or $225 per vehicle.

The penalty was discounted based on the fact that this was a first time violation and the violator made diligent efforts to comply and to cooperate with the investigation.

Truck and Bus Violations

The per unit penalty for the Truck and Bus violations involved in this case is a maximum of $1,000 per vehicle per day for strict liability violations or $10,000 per vehicle per day for negligent or intentional violations.

The penalty obtained for the Truck and Bus violations involved in this case for failure to meet the requirements of the Engine Model Year Compliance Schedule is $6,750 or $375 per month of violation for 1 vehicle with a 1996 through 1999 model year engine (18 months in violation).

The penalty was discounted based on the fact that this was a first time violation and the violator made diligent efforts to comply and to cooperate with the investigation.

Off-Road Vehicle Violations

The per vehicle penalty for the Off-Road violations involved in this case is a maximum of $1,000 per vehicle per day for strict liability violations or $10,000 per vehicle per day for negligent or intentional violations.

The penalty obtained for WATER RECLAMATION violations involved in this case is $750 or $375 per vehicle for 2 vehicles not reported into the Diesel Off-road On-line Reporting System (DOORS) at the initiation of this audit.

The penalty was discounted based on the fact that this was a first time violation and the violator made diligent efforts to comply and to cooperate with the investigation.

The provision of law the penalty is being assessed under and why that provision is most appropriate for that violation.

PSIP Violations

The penalty provision being applied to the PSIP violations is HSC section 43016 because WATER RECLAMATION failed to test, measure, record, and maintain records of smoke emissions from its fleet of heavy duty diesel vehicles for the years 2011 and 2012 in violation of the PSIP regulation in title13 CCR sections 2190 *et seq*, for 6 vehicles. Since the PSIP regulation was adopted pursuant to authority granted in Part 5 of Division 26 of the HSC and since there is no specific penalty or fine

provided for PSIP violations in Part 5, HSC section 43016 is the applicable penalty provision.

ECL Violations

The penalty provision being applied to the ECL requirements set forth in title 13 CCR, section 2185(a)(2) because WATER RECLAMATION failed to provide evidence that 1 of their vehicles has an ECL label attached as required.

Truck and Bus Violations

The penalty provision being applied for the Truck and Bus regulation (title 13 CCR, section 2025) violations in this case is HSC section 39674 because the Truck and Bus regulation is a Toxic Air Contaminant Control Measure adopted pursuant to authority contained in HSC section 39002 et seq., 39650-39675 and because WATER RECLAMATION failed to bring their diesel fleet into compliance by the deadlines set forth in title 13 CCR, section 2025(g).

Off-Road Vehicle Violations

The penalty provision being applied for the In-Use Off-Road Diesel Regulation (title 13 CCR, section 2449 et seq.) violations is HSC section 39674 because the Off-Road rule is a Toxic Air Contaminant Control Measure adopted pursuant to authority contained in HSC section 39660, *et seq*. and because WATER RECLAMATION failed to register 2 vehicles as required by the In-Use Off-Road Diesel Regulation.

Is the penalty being assessed under a provision of law that prohibits the emission of pollution at a specified level, and, if so a quantification of excess emissions, if it is practicable to do so.

PSIP Violations

The PSIP provisions cited above do prohibit emissions above a specified opacity or level of g/hp-hr. However, since the hours of operation of the non-compliant units involved and their individual emission rate are not known, it is not practicable to quantify the excess emissions.

ECL Violations

The penalty is not being assessed under a provision of law that prohibits the emission of pollution at a specified level.

Truck and Bus Violations

The provisions cited above do prohibit emissions above a specified level of g/hp-hr. However, since the hours of operation of the non-compliant trucks involved and their individual emission rates are not known, it is not practicable to quantify the excess emissions.

Off-Road Vehicle Violations

The provisions cited above do not currently prohibit emissions above a specified level of g/hp-hr. Emission standards for the off-road regulation have not gone into effect at this time. WATER RECLAMATION failed to register 2 vehicles as required by the In-Use Off-Road Diesel Regulation.

(24) WATER RECLAMATION acknowledges that ARB has complied with Senate Bill 1402 in prosecuting or settling this case. Specifically, ARB has considered all relevant facts, including those listed at HSC section 43024, has explained the manner in which the penalty amount was calculated, has identified the provision of law under which the penalty is being assessed and has considered and determined that this penalty is being assessed under a provision of law that prohibits the emission of pollutants at a specified level.

(25) Penalties were determined based on the unique circumstances of this matter, considered together with the need to remove any economic benefit from noncompliance, the goal of deterring future violations and obtaining swift compliance, the consideration of past penalties in similar cases, and the potential costs and risk associated with litigating these particular violations. Penalties in future cases might be smaller or larger on a per unit basis.

(26) The penalty was based on confidential settlement communications between ARB and WATER RECLAMATION that ARB does not retain in the ordinary course of business. The penalty is the product of an arms length negotiation between ARB and WATER RECLAMATION and reflects ARB's assessment of the relative strength of its case against WATER RECLAMATION, the desire to avoid the uncertainty, burden and expense of litigation, obtain swift compliance with the law and remove any unfair advantage that WATER RECLAMATION may have secured from its actions.

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(27) Now therefore, in consideration of the payment on behalf of WATER RECLAMATION to the Air Pollution Control Fund and the Peralta Colleges Foundation, the ARB hereby releases WATER RECLAMATION and their principals, officers, agents, predecessors and successors from any and all claims, the ARB may have or have in the future based on the circumstances described in paragraph (1) through (20) of the Recitals. The undersigned represent that they have the authority to enter into this Agreement

California Air Resources Board		**WATER RECLAMATION**	
Signature:		Signature:	
Print Name:	James Ryden	Print Name:	Ricardo Ram
Title:	Chief, Enforcement Division	Title:	Controller.
Date:	12/2/13	Date:	9-30-13