

ICR WATER USERS ASSOCIATION
Board of Directors Meeting, Talking Rock Ranch House
September 22, 2009

Approved

Public Comments

Those Present:

Board Members

Hugh Pryor, President
Hal Lobaugh, Vice President
Bill Meyer, Treasurer
Jimmy Stoner, Secretary
Shirley Lilien, Director

Contract Staff

Bob Busch - Manager
Chris Williamson - Water System Operator

Member Guests

Dayne Taylor	Marless Taylor	Gene Leasure	Shirley Leasure
Peggy Stair	Eileen McGowan	Chuck O'Brien	John Payne
Russ Hubbard	Leo Sullivan	Lee Gibson	Chris Stoner

Public Comment Session

The following are questions/comments from the membership, and responses by Board members:

Lee Gibson: I've got two questions You're talking about \$300 for (sign). The last meeting we had here, somebody come up with the fact that we lost 27,000 gallons of water. Nobody has any idea where it went. Which seems insignificant, right? About \$300. Did anybody ever notice that 27,000 gallons of water is just about enough to lay a pad for a home? Did somebody take water that didn't belong to them? Have we checked on it, Bob or Chris? I don't know if anybody has an idea of this, but of course, it's only \$300.

Chris: Okay, I'm not sure. They're supposed to get a meter before they start watering their pads and stuff. There isn't enough construction around here to not miss something like that.

Lee: So, basically it's a wash.

Hugh: You know, there is criteria for unaccounted for water that's a rule of thumb. And it's some number that I don't like, it's 10%. If you look at how much water we pump, not having 10% of it accounted for can be pretty disastrous. It's not 27,000 gallons, it's 270,000 gallons, or something on that order.

Bill: Let me take a crack at this.

Lee: So this is something that can never be solved.

Bill: What I think is going on Lee, is that all water infrastructure leaks. Every water and supply system has leaking joints. The number 10% is the absolute maximum that the ACC will accept. What you want to be within is 5% or less. We're down to, I think Bob is reporting, what 1% on one system and 4% on the other.

Hugh: But in total, it's pretty small

Bill: Yeah, 1% on 18,000,000 gallons, I think, that's bigger than the number you're talking about. We're going to lose that.

Lee: What concerned me, Bill, was just the fact that it was lackadaisical, like, "oh, well."

Bill: We have been trying to address our water loss on infrastructure for over four years. But we've been getting better at it.

Hugh: A lot of it had to do with synchronizing meter readings.

Bill: Right, because we're pumping a lot of water and reading it the next and trying to compare the two, and it didn't work.

Lee: Water is the lifeblood of Arizona.

Bill: But basically, what we know right now is that on this side, where we're pumping about 18,000,000 or so last month, we're about 1.4%, or something like that, loss. That's extremely good. Well, 1.4 times 18,000,000... That's really good.

Lee: 1.5% doesn't mean squat to me.

Bill: That's very good. And each joint along the way on these pipes is probably going to leak some. Prescott runs like 5% loss right now.

Hugh: On a whole lot more water.

Bill: Well, not much more. Actually, it's less in the summer.

Lee: You guys are doing such a good job, that's why we're living out here.

Bill: The ICR side for this month, from the water tanks through the pumping system to delivery, we only lost 7,000 gallons. That's even less than 1%.

Jimmy: It's 0.2%.

Bill: And we lost about 140,000 between the well field and the tanks. We know we have a fire station there, but they don't account for all of that. But that's still, what was it, 4% Bob? That's really not an acceptable number. Are we still ejecting water out of the well, too?

Hugh: Yes.

Chris: We always lose a little with every start and stop. Every time the well starts and stops, to keep the water hammer effect down. It's not that much anymore. We had a period where it was quite a lot. That's been adjusted out. We've disconnected that connection at Blockberger's house and now we'll see what vegetation dies. There was an illegal connection that was apparently put in by some developer some time ago. It was for irrigation. It was a poly line, and we disconnected, we capped it.

Shirley: Does he know you capped it?

Chris: I think we might have mentioned it to him. But it was before his meter, which was an illegal connection to begin with. As we find these things, we take them out.

Hugh: Another interesting thing is that sometimes, month to month, you get negative loss.

Bill: We get more money than we pumped.

Lee: Well, that answered my questions. I feel a whole lot better.

Chris: It's revenue and _____.

Lee: Second question. This pertains to something you guys were talking about earlier. I asked Bob last week, the last time we had a meeting here. I asked him about those sheds out there. Who does it belong to? Don't know.

Lee: All the questions were no, didn't know.

Hugh: What sheds?

Lee: The pump houses. I see you've added, it was four and now you added one more. Up to \$7,000 now. My question is, is Harvard handing off those buildings to the Water Board?

Hugh: The property and everything on it belongs to us now.

Lee: And you took it over from Harvard?

Hugh: A long time ago.

Lee: Before '03?

Bob: In '03.

Lee: Well, I went to Senior Inspector Kathy Hutchson down in Prescott and she went back 10 years for me. And there never was permits pulled on any of the buildings here. All commercial property, all, no matter what size the building, is required to have a building permit. You guys seems like you're going to be spending money on buildings that might not be yours. That might not be legal. That might have to be brought back and disclosed. There are no footings on any of the slabs out there. Some of those machines you have out there are pretty heavy. And as far as bringing them up to snuff, I inspected them myself. I looked over them and I found one door with a hole knocked through it, and walls not there. And a chain running through it for a lock. Keep the rodents out? That's like a freeway going through there. One of the drains in the bottom of the floor goes out, there's no cap on it to keep rodents out. And as far as stopping them, you're not going to stop them unless you seal that place up. And if you don't seal that place up, we're going to have the same problem 2 or 3 years down the road. A rodent will eat through a steel wall. They will not stop at anything. It doesn't matter if it's 3/8" or 1/2". It doesn't matter. They'll go through that puppy. And we're spending more and more money on these things. And \$7,000 is a lot of money for re-insulating. Pulling down side walls, re-insulating. I think I'd put more money into the electrical panels out there, put a brace up behind it before it falls down. We get a fire, shorted out, lose power, lot of money in that service box that's out there, that's 4 foot X 4 foot. So, what we're doing is we're getting a little ahead of our game here. I think Harvard ought to step up and come back in here, fix them buildings, bring them back up to snuff, and bring them up to code. Because the County is probably going to be looking down your neck right now. And I talked with every inspector there was, and they went back 10 years, and not one iota of any legal paper they found at all was done. So, I checked to find out if it's ranch land. You don't need that. It's got wells on it which pump out and maintain to humans, not cows. So, it is required, no matter what square footage you got, you are required to bring those things up to code. You've got to have a permit pulled. You've got to have an inspector on the job, somebody to sign it off. And somebody paid for the job, he didn't know who paid for the job. Now if you want to pay for this job, if somebody paid for the job, or was it a freebie. Was somebody giving a favor to somebody else? What were they doing? Is that why such poor construction and poor insulation. The other thing everything is poor construction. I mean, they are wasting away in three years time, no, six years time. They are wasting away. And you are going to go in and start patch up buildings that are leaning over, falling over. Power panels falling over. It doesn't make sense. It just doesn't make sense.

We're trying to save money to put this booth out here. \$300 ain't nothing compared to what \$7,000 is out there. And if you put it into the buildings and the county comes along later and says. ... Guess what, guys. Them slabs. Gotta have footings. All doors must be sealed with metal doors, not wood doors. I mean, a rodent can run right through them doors.. So, if they come along and do all of this, we're just taking money and throwing it in the toilet and flushed it. Why don't we go back to square one, put a bug in Harvard, and say, "Look guys, you built crap." That's what it really is. I mean, I could hit those buildings and they'll move. So, why don't we just dial it back a little bit and save some money around here, if nothing else. I can give a better bid than that. And do a better job.

Hugh: Are you licensed?

Lee: A general contractor.

Hugh: Maybe you ought to give a bid.

Jimmy: Let me ask a question about back up cost statement. Do we have any back up cost statement in the package that Harvard turned over to us that had cost information relative to the buildings?

Bob: On the well sites, there is. They're lumped as an item, like building, \$10,000, or whatever. That's the extent of it. I mean, it's not materials and details.

Bill: I think Lee's comments reinforce the idea that Bob needs to look into whether or not we need permits and where to go with that.

Hugh: We'll certainly look into it. I mean, there's no reason not to make a few phone calls and find out what the situation is.

Jimmy: Hopefully, we don't find ourselves in a position where the inspectors now come out and say, "Hey, guys, bring them up to code."

Hal: We just put fences around those buildings, they weren't even fenced.

John Payne: What kind of criteria are you using to determine owner vs. tenant? There's more than one person that I know of who is registered with the County Assessor's Office, the name that's on the deed, are not the name of the people living there. Yet the people living there own the home.

Bob: Just looking at county records. And we come across a difference, we're trying to contact the customer to get a confirmation whether they are an owner or a tenant.

Shirley: If it's on a contract of sale, that wouldn't be recorded.

John: If the home was bought by someone who later got married, then they change it, but the County hasn't changed the name. It's not changed on the tax assessor's role.

Shirley: Maybe they have it as separate property.

Hal: I just went through all that, the whole thing. Every home here. And we found about 11 to 20 differences.

John: I got contacted by Dee. I haven't answered her back yet.

Bob: That's the only criteria. We look through the County tax roles, and compared that to the customer list at that address. Then, we said, well maybe this is a potential renter.

John: In my case, my wife bought the property before we were married. Since we got married three years ago. The county is not help trying to change the name on the records.

Shirley: Well, that's between you and your wife if you haven't changed it. If it was hers before you were married, it's separate property. If she chooses to include you as owning half the property, that is between the two of you to change, but the County doesn't have legal authority to do that.

John: Who then is registered to vote?

Hugh: In that specific instance, I'd say she is.

Bob: Well, what we would do is we'd go through the records, we identified that property as a potential renter, we contacted to find out if it's an owner or renter situation, and if you actually own it, if the customer owns the property, whoever's listed as the customer would get the ballot. I think that's the only way to handle that.

Jimmy: It sounds like me that you ought to put it in your wife's former name and have her pay the bill.

Hugh: I don't think the records ever get changed unless you re-deed the property. I just went through that myself. And right now, the tax people have the lender as the owner of the property, so when I get the property bill, I'm going to send it to them and have them pay it.

Russ Hubbard: I went through a similar situation where I bought a property for a spec home and then transferred the property into an LLC. I had to go back to the title company, the title company re-deeded to the County. You can't just go straight to the County.

Lee: One last point. This is a plot map of the area out there. It shows an easement that goes right through the middle of that little diamond-shaped property. Butting up against this property is R1, L2A, which don't mean squat to me, but she explained it. You can't run commercial property up against real estate for a single residence home without a right of way. There is no right of way. There's an easement, not a right of way. So, this might be another can of worms that we're opening up here because, today, this belongs to Talking Rock. The Golf Club, the LLC.

Hugh: Not anymore.

Bob: Not anymore.

Lee: Well, according to 3 weeks ago, it does.

Bob: It hasn't transferred yet. It's been recorded.

Hugh: It recorded the 8th of September.

Hal: It takes about 30 days

Hugh: It usually takes about 2 -3 weeks before it shows up in the County records.

Bob: I just got the recorded copy back.

Lee: So, that puts us on the hook for that.

Hugh: Yes.

Lee: So, whatever happens, they may have other problems, we have this problem too. The County says that's a no-no. You can't do that. But nobody's ever complained before. Swayze didn't complain. I know because Swayze's a friend of mine. And Harvard didn't complain because they had the right of way straight ahead. No problem. I hope you don't turn those worms over. Because, they're liable to be all over us.

Shirley: How many years has it been there?

Hugh: I don't know.

Shirley: 10? 15? Since ICR was developed?

Bill: No, since 2002, about 8 years.

Gene Leasure: I have a question about correspondence that was sent to the Water Co. by the Sanitation District regarding boundaries. I know it's not on the agenda, so the question I have is what is the plan for the Board to address that issue?

Hugh: You're talking about the fence?

Gene: The fence and some other issues listed in the letter.

Hugh: When did we get the letter, Bob?

Bob: The 18th, I think. The 17th or 18th.

Hugh: The date on the letter is July?

Gene: Yeah, that was a screw-up on my part. I didn't change the header from a previous format that I used.

Hugh: To be honest with you, we haven't addressed that. I only got the letter a day or two ago. Or a week maybe? But we will address that.

Gene: Okay.

Hugh: Were not going to ignore it. We will sit down and address it.

Gene: And I take it you'll get back to the District on setting up a talking session or discussion?.

Hugh: Sure. That needs to go on our agenda for our meeting of the whole.

Jimmy: Actually, it's part of the Whispering Canyon assets. The boost station to boost the water up to Whispering Canyon tank. So, it falls into Whispering Canyon assets.

Gene: There's two parts to that boost station. What's being used for the right of way to the property and the fence and another issue is the longstanding pipeline that goes through the old pressure system for ICR.

Bill: Wasn't that in the list of things that we said had to be discussed with regard to assets?

Jimmy: Yes, I believe it was. Not the pipeline. And the easement, the access to our property is in there, but there was nothing in there about the old pipeline.

Gene: That's an old ICR thing.

Shirley: How old?

Gene: Probably when the development of ICR was first plotted by Swayze. He built all that. In a period of time, there's gonna be major construction in that area, which probably could very well affect that pipeline, so we've got to get something going on what's going to be done about it.

Hugh: You're talking about building the new sewage treatment plant, Gene?

Gene: Yeah, if we ever get permission. And there's a lot of construction work that's off there by the road that's gonna have to take place. So, we've got to address some kind of paperwork about what we're gonna do about that pipeline. If you're going to keep that thing we need some kind of easement or right of way paperwork. Because when they start digging, it will become very apparent that its there

Bill: Why don't we have Jimmy and I meet with Gene and Dayne to look at these issues and bring them back.

Hugh: Sure.

Shirley: With some diagrams, so we can understand.

Bill: What I'm suggesting is that Jimmy and I meet with you and Dayne, and look at these issues and bring that back to the Board so that we can take action. Bring some diagrams.

Gene: That works.

Bill: Jimmy, is that okay?

Jimmy: Yeah, that's great.

John Payne: I went to the Town of Williamson Valley meeting and I'm just curious how you felt that would affect us, if they're successful in their efforts. They're looking at collecting sales tax off commercial businesses. That's one of the things they're looking at for revenue income. And we sell water.

Hugh: I don't know the answer to that question.

John: I'm just curious if you thought that will affect us in any way.

Hugh: It's gonna affect us individually, for sure, I think.

John: If they're successful.

Hugh: If they're successful. Did you go to the meeting?

John: Yeah.

Hugh: It was, at least in my view, it was clear that they had a lot of homework left to do.

John: They've done some.

Hugh: They've done some. They have a lot more to do, I think.

John: They have a lot of convincing to do. I haven't talked to anybody who's in favor of it.

Hugh: There were a few people in that room that seemed to be in favor. And the one thing I did notice is whoever made a little speech was basically, I'm opposed to this, got the loudest applause. I don't know whether that means anything or not.

John: Possibly the owner of the Outer Loop store?

Hugh: It could have been. But that's a good question. I have no idea whether we'd have to tack on that city tax if they're successful.

Shirley: Our sewage is taxed.

Bob: Any tax that would apply would have to be passed on, so we'd have to add that to the bill.

Hugh: And then, I can think the biggest source, and I think this was mentioned in the meeting, would be builders.

John: Yeah, they want to go after them, but to me, it probably wouldn't bother the residential guys too much. It's the commercial builders. I don't think they really want commercial out here.

Hugh: No, no, no. The builders that build houses have to charge tax. So, if there's a city tax on top of that, then that's going to affect the price of a house by whatever that tax is. That, to me, would ultimately be the biggest source of revenue is building, not the store, and not somebody who's running a business out of their home.

Gene: I think the biggest source of revenue is from the state. They talked about 1.9 million dollars.

Shirley: It comes from someplace.

Dayne: Bill, I have a question for you. The financial loss that you have shown from the two water systems, how long can we continue?

Hugh: Well, we can continue indefinitely until something breaks, and then we don't have any money to fix it because there's no reserve, there's no funding and depreciation. There is a little light at the end of the tunnel, in that eventually, we quit paying the attorneys, and whatever we're paying them per month could go into a fund like that. But if one of these million dollar pump stations blows up, we're in big trouble.

Dayne: For example, \$122,000 loss for July, August was \$116,000.

Hugh: But that's all depreciation.

Dayne: But that's all depreciation, you're just eating up depreciation?

Hugh: Well, the cash flow is positive, but there is no depreciation being funded and there is no reserve fund.

Bob: We're maintaining about an \$80,000 balance in the bank, in the account right now, and unfortunately, we've had more repair costs the last four or five months than we expected. We've to put a new radio control for the wells and tank controls, right? That's been about \$15,000 right there. We're looking at – we spent \$5,000 killing mice and rats, and we're going to spend another \$5,000 putting insulation back in. So, there's another \$10,000 that we didn't really expect to spend. So, our bank account is very precarious.

Bill: To answer you in the sense that Hugh did, we are not building up a depreciation account. The year to date net loss if all depreciation, and that's only for this year. We had a net loss in depreciation last year and the year before. And so, really, our loss in depreciation is much bigger than the figure I gave for the end of August.

Hugh: There's another cost that will go away at the end of this year, and that's catching up with the return to developers. Nobody bothered to pay them the 15% gross up until this year, and we have started that.

Jimmy: Wasn't that a conscious decision?

Hugh: I have no idea.

Bill: It only kicked in last year, though.

Bob: It was a conscious decision by the Board at that time.

Hugh: But the point is, that's an expense that will go away at the end of this year.

Jimmy: Be reduced.

Hugh: We have to pay the continuing developer repayment, but at least the attorneys and the catch up, if you will, will go away, and so, on paper, the cash flow will improve a bit, and if no disasters happen, we could take that money and put it into a reserve account or start funding depreciation, which is what any normal, ordinary business would do. There's a lot of things, at least when I came on, that would just boggle my mind. I mean, some of these issues that you guys have raised, and I'm not picking on you, I'm just say, why the hell weren't these solved years ago? I mean, all of this stuff should have been resolved many years ago.

Lee: Well, isn't the bottom line that we're in the red, and that we're still going into the red more and more. We're not Obama, we can't just print money. We calculated all of our fees and all of our money and depreciation, and fixing this and fixing that, on build-out. And on build-out, which estimated at this time of day, Talking Rock will be built out. ICR will be built out. Whispering Canyon, they were not on plan at the time. They were added later. Just our two entities right here are probably maybe have a 40% of build out. Maybe. So, if you take your estimate of the fees coming in, it's gonna eat us alive, no matter how you look at it. And the only other bottom line is to act like the federal government – boost taxes, boost our fees, raise our water price. I'm not recommending this, but that seems like the only that is going to bring this number back in the black.

Hugh: We have only one alternative, and that is to go to the Commission, if we get to the point where we can't operate as a company, the only thing we can do is go back to the Commission and beg for a rate increase. That's kind of the bottom line.

Lee: And go bankrupt

Bill: No, you go for an emergency rate, and you get it.

Gene: How long is that process for emergency rating?

Hugh: You know, Gene, we've never been through that, to my knowledge, but the attorneys say is that can happen pretty fast. They don't like to let companies go under. The Commission doesn't like.

Gene: Can we define pretty fast? Is that a month?

Hugh: My understanding is weeks to get that to happen.

Bill: And all it takes is for the Company to project it's going into the red. We don't have to go into the red. So, if we project that we're going to go into the red, in terms of cash flow, which is why we're watching that very closely, if we project that, we can go ask for an emergency rate.

Lee: Do we lose control of our costs if the Commission buys us out? Is all of our fees non-regulated except by the Commission, and they'll regulate fees. They're just making a loan is what they're doing?

Bill: The emergency rate is a rate increase.

Hugh: The emergency rate means your water bill goes up to help pay.

Lee: If the Commission comes in, everything is going to go up.

Bill: They don't come in.

Hugh: We go to them; they don't come to us.

Bill: They just grant the rate increase. That's all.

Lee: But they'd have a say-so about a lot of things.

Bill: No, they just look at your rates and they'll say, you asked for the rate increase. You have to show that that's what you need, and then you get it. And they did tell us, it's fast. Because that was specifically something we discussed.

Lee: Well, we're not going to build any houses for a long time. Thank You.

End of Public Comments