

MINUTES OF THE ANNUAL TAX LEVY and BUDGET HEARING
I.C.R. SANITARY DISTRICT
JUNE 30, 2011

Approved: 8/25/11

Date: Thursday, June 30, 2011

Time: 10:00 a.m.

Location: Talking Rock Ranch House, Windmill Room

I.C.R. Sanitary District Board of Directors

Bob Hilb, Chairman

Brian Ray, Director

Scott Robbins, Director

Guests

Leslie Pryor	Dayne Taylor	Marless Taylor
Vickie Fogarty	Jim Regelbrugge	Willi Regelbrugge
Michael Stevens	Sandy Ford	Eileen McGowan
Al Wittenberg	Charlie Turney	Leo Sullivan
Hugh Pryor	Charles O'Brien	Dick Tracey
Gordon Jenkins	Trish Jenkins	Jim Carlin
Harvey Roberts	Paula Green	Bob Ansbach
Richard Ostrenlour	Mike Andrews	John Payne
Linda Atchley	Russ Hubbard	Jane Kowalewski
Hillary Peterson	Kirk Atchley	Craig Brown
Cynthia Wallace	Mr. C. Anderson	Mrs. C. Anderson
Chris Stone	Rick Hodson	Gin Stone
John Freeman	Jack Erceg	Charlene Erceg
Mark Metzinger	Clint Poteet	

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1. **Call Board Meeting to Order.** The meeting was called to order at 10:03 a.m. by Mr. Hilb. A quorum was present for the purpose of conducting business.
 2. **Introduction of Attendees.** Present were the guests listed above. Only the front table was introduced as there were too many attendees present to conduct the meeting in a timely manner.
 3. **Pledge of Allegiance was not accomplished as there was no flag available to do so.**
 4. **Changes to previous Budget Proposal:** Mr. Hilb read provided copies of/ and read the changes made to prior Budget Proposal as follows:
 - **Line Item 6110-** \$328, 735 was the new figure.
 - **Line Item 6130-** 135,000 was the new figure.
 - **Line Item 7170-** \$0.00 was the new figure.
 - **Line Item 7722-** \$100, 000 was the new figure.

5. Addressing the audience: Mr. Hilb reminded the audience members that only written questions provided to the board would be allowed. The questions had to pertain strictly to the budget. Four members of the audience provided written questions.

6. Reading of Prepared Speech by Mr. Hilb:

Pursuant to A.R.S. §48-2026 the ICRSD Board of Directors is holding its annual tax levy and budget meeting. The purposes of this meeting are to outline the Fiscal Year 2011/2012 District tentative budget and to set the yearly tax levy and fees. The District members have residential properties in Inscription Canyon Ranch, The Preserve at the Ranch, Talking Rock Ranch, Whispering Canyon, and we also serve the Talking Rock Ranch Compound. Any owner of real property or of a mobile home within the district has the right to submit a written comment or question on the proposed levy amount and fees.

The three board members were sworn in June 6th just a little over 3 weeks ago. We have worked very hard during that brief period to understand the revenue and expense side of our business, and to forecast expenses and income for this next year. However, that original budget that you saw we had to have within 3 days of taking office so it really only reflects a continuation of the budget from last year. Because we were also unable to locate a number of documents such as agreements that are important in preparing our budget we were unable to include those in our budget.

Although we have been attempting to locate those documents they are still not in our possession. Therefore a number of items on the budget are strictly based on last year's actual expenditures. Part of this process is relatively stable and predictable, another part is less so. If any documents are found or other facts changed before our submission to the county, which is required by July 11th, it could result in minor adjustments to the budget.

Recent events affecting next year's budget:

Litigation: In May the Court ruled that the moratorium (Resolution 2009-1) on new hook ups was not legally implemented, and the moratorium was lifted. The positive effect for the District is that some construction has resumed with new applications for hook-ups. The downside is that we have had significant legal costs to bear, some continuing into the next fiscal year. A second suit against the District for damages is still in litigation, with staggering financial implications.

Unfortunately, the previous board spent close to a half a million dollars in lawyer's fees. They have left the District in a precarious financial situation. We project that if we rely on only tax revenue that we will be unable to pay our bills prior to tax revenues being available late in the year. In districts throughout the state and in this district prior to the previous board, user fees were used to operate sewer plants and taxes are used to pay for infrastructure. Because of our lack of cash and the high cost of continuing litigation we have decided to return to a combination of taxes and user fees. User fees provide us a means to gap the revenue shortage until tax revenues are available and we start receiving payment for the effluent we sell to the golf course. We are thus proposing to reduce taxes

by approximately \$45,000 and instituting a \$25 a month user fee bill and that for each connection to the plant.

We are in negotiation with the developers to settle the various lawsuits that resulted from the previous board's illegal moratorium. We expect to reach a very favorable settlement within the next few months which will significantly reduce our legal costs and provide us the cash flow we need to reduce users' fee. When that occurs we expect the revenue needs of the district will decrease significantly. Next year we expect to continue with a combination of taxes and users fees with user fees remaining stable and taxes to continue to drop.

Now for a summary of the **Predictable** aspects of the budget: Plant Operations: Since Pat Carpenter and Derrick Scott became primary operators in early 2011, the current plant has operated smoothly with minimal variations in expense.

Therefore, the expense items for depreciation, operations and maintenance and forecast expenses are fairly straightforward and consistent with last year. Based on engineering reports conducted in early 2010, and monitoring monthly flows, we have capacity for at least a few years of moderate growth in units hooked up to our system.

Fees: Given the extremely slow sales of lots, we anticipate minimal impact on hookup fee revenue. Pursuant to A.R.S. §48-2026 the ICRSD Board of Directors is holding its annual tax levy and budget meeting. The purposes of this meeting are to outline the Fiscal Year 2011/2012 District tentative budget and to set the yearly tax levy and fees. The District members have residential properties in Inscription Canyon Ranch, The Preserve at the Ranch, Talking Rock Ranch, Whispering Canyon, and we also serve the Talking Rock Ranch Compound. Any owner of real property or of a mobile home within the district has the right to submit a written comment or question on the proposed levy amount and fees.

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Less predictable:

Litigation: As stated before we are in active negotiations with the developers to minimize and mitigate our financial exposure to the damages suit. In addition to negotiating to stabilize our income stream for effluent used on the golf course we expect to gain commitments for plant expansion and an eventual new plant when the demand is proven and set the stage for a long term agreement with the developers to cover certain operational costs. Since this process started on June 9th, it is too early to predict with any degree of certainty what the outcome will be. Therefore, our "reimbursement income" and "Professional Services" (legal) expense is difficult to forecast.

The Board remains committed to the principles we outlined several weeks ago:

- Negotiate an agreement that is enforceable
- Make the board open and effective
- Put in place a long-term, financially-sound, cost-effective plan

In order to help you keep up with events affecting our District, we will be preparing a Newsletter for periodic publication. It will be available on our website, and for those requesting it will be emailed or mailed to your residence. Let us know how you would like to receive the information. We plan to transition to a new web site shortly where you will be able to make your selection. When it is active we will publish the new address. In addition, the old site will have a link to the new site.

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7. Public Comments/Questions.

Gene Leasure:

1. Why is there no column for "Carryover Dollars"?

- Mr. Hilb stated that they hadn't reached the end of the fiscal year. Once the figures were in, they'd be put on the spreadsheet and turned into the county and posted on the website.

2. Line Item 6110 "Why is increase required?"

- Mr. Hilb stated that the reason for the increase was because this year's budget is much more than last years. Actual numbers projected for this year are \$696,000 in comparison to last years \$493,000. No choice but to increase due to the previous board using the reserve fund to cover excesses.

- Craig Brown asked who was proposing the changes to the budget. Mr. Hilb stated the Board Members came to an agreement in a meeting the day before that user's fees were required.
- Mr. Hilb continued in answering the question on how those user fees would be acquired: perhaps by Direct Deposit or billed Quarterly.

3. Line Item 6131 "Late Fees"

- Mr. Hilb couldn't go into any detail about this item due to ongoing litigation against the district. Information would be made available pending the outcome of the litigation.

4. Line Item 6510 "Reimbursement"

- Mr. Hilb couldn't go into any detail about this item due to ongoing litigation against the district. Information would be made available pending the outcome of that issue.

5. Line Item 6520 "Kabota" Plant

- Mr. Hilb would look into this line item as he thinks this is a carry over item from the previous budget. If it has to, it will be deleted.

6. Line Item 7120 "Capital Improvement"

- Mr. Hilb did not have a list of proposed capital improvements. He'll make that available once it is finalized.

7. Line Item 7170 "Santec Plant"

- This was actually an error. It should have gone under "Legal Fees" on the budget. It was corrected.

8. Line Item 7230 "Depreciation"

- There was a discussion with Cynthia Wallace on this matter. She said last year's depreciation was in error and it was correct this year.

9. Line Item 7300 "Manager Services"

- There was discussion concerning the need for a manager who had previous experience. This fee was to cover the person who was helping with the transition and also for the person who was later chosen to be the manager through the rest of the year. The information regarding that person would later be posted on the website.

10. Line Item 7375 "Web Hosting Increase"

- Mr. Hilb explained that there were two line items on the previous budget and that this fee would be all inclusive, therefore needing only one line item. Mr. Hilb also stated that this Website had an initial start up fee. He would inquire to make sure of that.

11. Line Item 7581 and 7582 "Increase for District Engineer"

- Mr. Hilb and the board would look into this matter. It is based on the anticipation of the acceptance of the infrastructure figures from Talking Rock and Whispering Canyon. The results made available later.

12. Line Item 7590 "Increase for Generator Maintenance"

A service contract is needed. That service will have to be paid for. Mr. Leasure made a comment and Mr. Robbins mentioned that this budget was worked on with a short suspense without the proper information forwarded to the present board members and these are the figures they arrived at with the information they had to work with. The board would look into it.

13. Line Item 7600 "Sludge Hauling"

- Mr. Robbins spoke regarding this item. Ideas were being worked with the operators to reduce this expense.

14. Line Items 7601 and 7602 " Influent Hauling"

- Mr. Robbins spoke and mentioned that these items were carried over from last year and would be looked into. Cynthia Wallace was part of this discussion in regards to what budget information was available to the present board.
- Mr. Leasure then made comments regarding this issue to the board. The board responded by stating that this budget was worked on with what little information was forwarded to them by the previous board members. Audience members made comments that were unclear to transcribe.
- Mr. Hilb stated that if in fact according to Mr. Leasure, this line item was unnecessary, it would be removed.

15. Line Item 7722 "Litigation Fees"

- The figures in that line item were originally on a different line. That figure is \$100,000 as previously stated.

16. Line Item 8000 "Kubota Expansion"

- Mr. Hilb stated that this was a carry over item and would be looked into.

Harvey Roberts:

1. "Is there no income from effluent sales projected?"

- This was previously discussed under Gene Leasure's questions.

2. "What are the current Assets and Liabilities?"

- Mr. Hilb stated that these figures were on a different spreadsheet and would be posted on the website at a later date.
- Mr. Roberts asked if the district was in precarious position in which Mr. Hilb answered "Yes".
- Mr. Robbins then asked if anyone wanted clarification on how the Ad Valorem taxes came to the district. Mr. Harvey answered that he did.
- Mr. Robbins proceeded to explain it in detail, suggesting that since taxes weren't received until October the district would run out of monies.

3. "Is there a conflict of interest for the selection of web provider?"

- Mr. Hilb did not answer as this is not a budget question and would be deferred.

4. "Can a resident committee familiar with the operation of the plant provide the manager function?"

- This question would be looked into.

5. "Will the account receivables be pursued?"

- This was covered in previous discussions. Mr. Hilb asked Mr. Harvey if he needed further discussion, to which he answered "No".

Dayne Taylor

1. Line Item 6131 "Penalty and Late Fees, \$1,579,031.25 (what is owed to the District), and you have \$100 budgeted for this. EXPLAIN".

- Mr. Hilb briefly conversed with the other board members. It was determined would be \$0 pending the outcome of the legal negotiations.

2. Line Item 6150 "Miscellaneous Income, zero dollars for effluent sales. Is this to assume you are going to give Talking Rock FREE effluent?"

- Mr. Hilb stated it was part of the settlement negotiations that in the future we expected income from effluent sales, and

depending on the timing it may not be necessary to charge user fees.

- Dayne Taylor asked about the status of the negotiations. Mr. Hilb said the board met with the attorneys for both sides approximately two weeks prior and negotiations continued.
- Mr. Hilb said the attorney would continue to be Harold Watkins until further notice.

3. Line Item 7212 "Mandatory Publishing, \$5,000. This equates to \$417 a month.

1) Explain the reason for this. 2) What is mandatory?"

- Mr. Hilb stated that this matter would be further looked into, and results would be posted on the website.

4. Line Item 6500 "Reimbursable Income, Zero dollars"

- See answer for Line Item 6150

5. Line Item 7500 "Operating and Maintenance Reimbursables, \$22100. How can you have zero dollars income and expenditures of \$22,100, both for reimbursables?"

- Cynthia Wallace explained in detail the reason for the figures.
- Mr. Taylor needed further explanation. Mr. Hilb stated that those figures were split: half into reimburseables and half into expenditures.
- Mr. Hilb stated that ALL the expenses were accounted for in the budget. He would confirm that and any changes would be available on the website.

6. Line Item 7230 "Depreciation, you have increased the ICR-owned assets. Have you purchased something that would account for this amount?"

- This question was answered earlier in the meeting and Mr. Taylor acknowledged that it was.

7. Line Item 7300 "Manager Services, please explain how \$40,000 is going to benefit the District."

- Mr. Hilb explained that this fee would cover the person who would temporarily serve as a manager until they found his replacement. The replacement would carry out the term for the remainder of the year.
- Gene Leasure asked if this person would have signature authority. Mr. Hilb answered that perhaps he would, for small

checks. Anything with a substantial amount would require board approval.

8. Line Item 7310 "Operator Contract Fee, \$38,000 and Line Item 7631, "Contract Fee 50%, you have \$38,000. Why two fees of the same amount?"

- Mr. Hilb explained that half was listed as an expense and half was listed as a reimbursable.

9. Line Item 7375 "Web Hosting. \$1,500. Please justify over the \$540 spent last year (which still has an unused portion on a contract.)

- Mr. Hilb explained that this includes the set up fees for the new and improved website.

10. Line Item 7380 "Elections. \$200. Do you plan on an election in 2011? Two terms expire in 2012 but not 2011. Or do you know something we don't?"

- Mr. Hilb stated that there would be no election in 2011. He then deferred the question to Scott Robbins and Cynthia Wallace.
- Cynthia Wallace explained that that figure should cover the district until the end of the fiscal year, which goes into 2012.
- Mr. Hilb said that this matter will be looked into and confirmed.

11. Line Item 7510 "Accounting Services, Talking Rock, \$1,400. Explain"

- Mr. Hilb stated that this was the cost of the billing process for Talking Rock.
- Cynthia Wallace spoke regarding this issue, in the same respect as did Mr. Hilb, and this was the cost of that billing.
- There was a comment made by Leo Sullivan regarding his concern about not being able to ask questions without prior written submission. Mr. Hilb went on to reiterate the rules for the asking of questions at this meeting.

12. Line Item 7600 "Hauling Sludge, 30% reduction from actuals. Explain."

- Scott Robbins offered to set up a meeting between the Operators and Mr. Taylor so that there would be a better understanding of that process. Mr. Taylor was in agreement.
- Mr. Taylor asked if this was going to be a board meeting. It would not be a board meeting, rather a meeting between him and the operators. He objected. He wanted it to be a board meeting. The board disagreed. The clerk, with permission from the board, asked if Mr. Taylor was accepting or refusing this meeting with the Operators. He wanted the meeting to be public in nature, not private.

13. Line Item 7722 "Zero dollars for litigation. Explain"

- This line item was previously discussed earlier. This figure is \$100,000.
- Mr. Hilb explained that we had two attorneys. One for help in the running of the district and one for litigation. He stated that these were just estimates. He explained that those figures would be hard to make at this point.

14. Line Item 7740 "Engineering Services. What are you having done for \$10,000?"

- This item was a contingency, dependent on whether or not the district accepts the infrastructure from TRR and WC.
- Mr. Taylor asked if the board was ignoring the reports of the Civil Tech, to which Mr. Hilb stated that this was not a budget question and would be discussed in a future meeting.
- The question about how much it would cost to administer the monthly fees. The board members stated that it would be approximately \$25.00 billed quarterly with approximately \$2.25 for cost to bill.

Questions from Chris and Jimmy Stoner

1. "Do you, the current Directors, fully understand your fiduciary responsibilities in submitting your proposed 2011/2012 Budget to the County asking for additional Ad Valorem Tax?"

- At the request of Mr. Stoner, the board skipped this question.

2. "Why have you eliminated from the 2011/2012 Budget the \$120,000 for O & M reimbursable revenue (item 6510) when the projected expense is over \$129,000? Why doesn't this Budget item at least cover the projected expenses?"

- Mr. Hilb stated that this was already discussed. He said he would confirm to make sure that all figures were on the bottom line.
- Mr. Stoner then asked about outstanding payments, Mr. Hilb confirmed about billing reimbursable expenses pending the outcome of litigations.
- Mr. Hilb asked Mr. Stoner if the question he asked was answered. He agreed it was.

3. "Why have you deleted from the 2011/2012 Budget the \$1.79 Million receivable for late payments and penalties from Harvard and WC? These amounts are valid accounts receivable incurred by HI & WC in accordance with the District Ordinance and the subject of ongoing litigation."

- Mr. Hilb stated that he had already answered this and Mr. Stoner agreed and was ok with moving on to the next question.

4. **"Does the District intend to initiate legal action through the courts to enforce the agreement between the District and Developers to obtain full payment owed?"**
 - Mr. Hilb stated that if negotiations fail, appropriate legal action would be pursued.
5. **"If not, why not, and when will the District take legal action?"**
 - Question was answered above.
6. **"What is the current outstanding amount owed by Harvard (4/30/11 nearly \$764,000)?"**
 - Mr. Hilb stated that the total numbers were only through May. He would request a breakdown between Harvard and Whispering Canyon for the June number and make them available at a later date.
7. **"What is the current outstanding amount owed by Whispering Canyon (4/30/11 it was nearly \$1.03 million)?"**
 - Same as no. 6
8. **"If these developers fulfilled their obligations paying their portion of the operational costs why would it be necessary to increase the Ad Valorem Tax?"**
 - Mr. Hilb answered that it would go to replenish the reserve fund. And as far as decreasing the Ad Valorem Tax, the district would have to wait on the pending resolution of the litigation.
 - Mr. Stoner then rephrased the question with that in mind: Would it be then necessary to have a user fee? Mr. Hilb answered "No".
9. **"How can the District justify pursuing more income (Tax) from property owners vs. taking legal action to get all customers to pay their bills in a timely manner?"**
 - Mr. Stoner agreed that this question has already been answered and was ok to move onto the next question.
10. **"Do you plan to simply forgive these debts and, if so, under what authority?"**
 - Mr. Stoner was satisfied that this question was already answered and was ok to move onto the next question.
11. **"When will the long term financial plan supporting your proposed 2011/2012 Budget be available for review?"**
 - Mr. Hilb answered that it would be available at a later date.
 - **Mr. Stoner asked that the board go back to answering question 1.**

1. "Do you, the current Directors, fully understand your fiduciary responsibilities in submitting your proposed 2011/2012 Budget to the County asking for additional Ad Valorem Tax?"

- Mr. Hilb spoke on behalf of the board and answered that they do.

8. Adjournment of the meeting

- Mr. Ray moved to adjourn the meeting. Mr. Robbins seconded the motion, motion passed unanimously.

Meeting was adjourned at 11:08. There was a 15 minute break between meetings.