

INSCRIPTION CANYON RANCH SANITARY DISTRICT

P.O. Box 215 Chino Valley, AZ 86323

~PUBLIC SESSION MINUTES~

August 1, 2018

Revised 8/6/18

Date: Wednesday, August 1, 2018

Approved August 14, 2018

Time: 1:00 p.m.

Place: The meeting was held at the Days Inn, 688 Fletcher Ct., Chino Valley, AZ

1. CALL TO ORDER.

The Governing Board for the Inscription Canyon Ranch Sanitary District convened into public session at 1:01 p.m.

PUBLIC HEARING ON THE BUDGET

Mr. Barreira commented that this budget shows:

Total Revenue for 2018-2019: \$1,322,023.00

Total Funds available: \$1,502,438.00

Operating Expenses: \$635,838.00

Restricted Capital A/C: \$554,000.00

Unrestricted Capital A/C: \$102,600.00

Total Expenditures: \$1,502,438.00

Since we posted that budget, we have an alternative proposal and that was put together by Mr. Dickrell. I'll let him go over his assumptions for the proposed budget that he has come up with and go over the numbers.

Mr. Dickrell said, first of all, as I understand it, we've been told that when you publish a budget, you can detract (delete) from it, but not add to it, once it is published and posted to the public. I will read the numbers, and run through the assumptions I put together, because they weren't well thought out going out to publishing our initial budget. I wanted to do a more thoughtful analysis of what we would assume and how that relates to the numbers that we would budget for next year. There was a lot of consternation about the Capacity Fee for Inscription Canyon (\$7,000.00) versus Talking Rock (\$3,250.00). I assumed we would make both \$3,250.00. We're not generating a lot of revenue of of it and it wasn't the consternation in my mind to have this disparity between the developments for the lot fee. I also felt the plant capacity should be increased from 62,500 to 90,000 gallons per day planned capacity, based on the engineering reports we are receiving and the daily numbers . I'm assuming it will take about two years from today to get that in place. I assume that would cost \$400,000 to get this 90,000 capacity in two years. A lot of that depends on what engineers find, our dealing with ADEQ. The district has the funds to do that currently. In two years that gets us to 90,000 but I don't anticipate that will last a good long time. By the end of 2023 we may anticipate up to 125,000 gallons per day. We have current engineering data that tells us with \$2,000,000 to expand, but we don't have that currently. I'm looking at that out in the future being completed in June, 2023 at a cost of \$2,500,000, with some inflation figured in. How we get there, in anticipating being able to get approved and get a bond for \$1.5 million at the end of June, 2021, and in order to do that, there are still things we need to do: submit engineering reports, the bond issue, where you're headed,

what you're doing, ADEQ approval. So I'm assuming at the end of 2021, we can bond out \$1.5 million towards the \$2.5 million cost of the 125,000 gallon plant. We would need to work with our bond attorneys and make sure we are ahead of the curve this time. Then we will have, I'm anticipating to phase in capacity fees in the remainder in our restricted capital account after we build a 90,000 capacity situation, that we'd have about \$400,00 remaining in the restricted capital account that would be available. I am wanting to raise about \$600,000 over the next three years in ad valorem taxes, which is about \$200,00 a year. I took out the User Fees we had in the Budget. My preference would be to do this all through ad valorem, the administrative cost of dealing with User Fees on a monthly/quarterly basis, collecting them. From a legal perspective at this minute, I thought the \$300,00 we had in there a little high. I reduced that to \$150,00 in my assumption that would be sufficient to get us through the year. When you incorporate all that, this sheet shows ad valorem taxes at \$648,000 versus \$744,000 and the User Fees of \$451,000 come out. The revenue would be \$763,000 total as opposed to \$1,322,000 under this scenario. The expenses are pretty much in line with what was posted in the budget, except for the legal fees. In putting this in perspective, I've been on the Board 5 or 6 years now. When I started, the ad valorem taxes were north of \$400,000. We were trying to recoup from some legal expenses in prior years. This capacity issue situation issue came upon us very quickly. We didn't anticipate needing capacity this soon. We thought we could get bonding quickly, but that didn't happen. As a Board Member, I wish we could have gotten ahead of this better. We haven't done anything for future plant expansion in the budget. The lot fees, I would estimate are no more than \$100,000 total for the time I have been on the Board. The lots previously sold before the development agreement are now changing hands and people are building on them. That's where the additional capacity to plan is coming from. A lot of homes at Talking Rock were bought as investments, and now they are being sold, and full time residents are living in them. That has increased the capacity going into the plant. That is the background of my perception for the revised Budget.

Mr. Barreira gave the proposed, revised budget numbers for those who would like to add them to their copies of the original proposed budget that was published:

Revenue: original budget \$1,322,438 - revised budget \$763,420

Total Funds Available: original budget \$1,502,438 - revised budget \$943,420

Operating Expenses: original budget \$635,838 – revised budget \$439,570

Restricted Capital A/C: original budget \$584,000 – revised budget \$232,500

Unrestricted Capital A/C: original budget \$102,600 – revised budget \$91,350

Total Expenditures: original budget \$1,502,438 – revised budget \$ 943,420

Someone asked a couple of questions. In 2009, Talking Rock agreed to make the expansion of the sewer plant as necessary? Mr. Barreira replied that wasn't the case. What they agreed to in the restated amended agreement was Talking Rock would pay \$150,000 for modifications to or improvements to the plant. They have a limit of \$150,000. They've already paid approximately \$50,000 for modifications. We have the ability to bill them for \$100,000. We have work in progress now that we call Phase One of getting ready to expand the plant; putting a new generator in, doing work to the electrical system. When that work gets done, they will pay 50% of what the deal is, so we'll have less than \$100,000 left before we start any other expansion. The second question asked regarded the cost for increasing capacity to 90,000 gallons or 125,000 gallons per day. Mr. Dickrell explained it is a totally new technology. We can get to 125,000,

and from there to 250,000 for a lot less. It will cost \$2.5 million for the first phase and we can double that capacity for a fraction of that \$2.5 million in the future.

Mr. Poskanzer asked the Public to hold questions about plant expansion while dealing with the Budget questions at this time.

Mr. Poskanzer asked for the floor for a few minutes. I have a very serious problem with this budget. I can understand an increase in ad valorem taxes, but this budget calls for an almost double increase in ad valorem taxes, which on the average now are about \$600 per taxpayer. That's a serious increase in this budget. It makes me wonder what affect that would have on real estate in the community. People trying to sell their homes their taxes go up by \$600. I can almost understand why we would want an increase in ad valorem taxes to pay for a plant expansion. That probably would be justifiable. The problem I have though, is that this district currently is being sued. To a great extent it's deja vu from what happened nine years ago. Our legal fees so far on our side are somewhere between \$80,000 and \$90,000, and increasing every month. The other side has already petitioned the court for us to pay their legal fees as well, which they claim thus far are \$160,000. So this lawsuit so far is likely to cost this District upwards of about \$300,000. If the Court does award them their legal fees, it could easily cost \$300,000. It's not ending there. It can go higher and higher. The difference in the increase of ad valorem taxes is in the same order as what our legal fees are. In my opinion, we're not asking you to pay that increase in ad valorem taxes to pay for a plant expansion, but to pay for the lawsuit. That, was entirely preventable, which the record suggests. It was completely unnecessary and could easily have been forestalled. Frankly, I'm embarrassed that this has to have happened at this point. I think if we had to raise the money to pay for this lawsuit, I think User Fees would be easier on the public.

Mr. Barreira interjected, as far as what Mr. Poskanzer has said, first, it is not a \$600 increase in ad valorem taxes. It's less than a \$400 increase. Second, you made an assumption Talking Rock has petitioned the Court for their legal fees, which they have a right to do, but what you failed to tell the Public is that we've petitioned the Court for our legal fees, and there is no decision yet. There is no reason to believe Talking Rock has won their case. Mr. Polk suggested discussing this further is the Executive Session.

Mr. Hilb had a question about the revised Budget. About 6 or 7 years ago, we were faced with the same problem. What we did was not raise the ad valorem tax significantly, but we also knew we could put in the User Fees anytime if we needed more money if we lost additional money in the lawsuit or ordered to something with that. For an unknown like \$300,000. it makes more sense not to put it in the ad valorem taxes but to wait to see what happens and put User Fees into effect for whatever you need to cover. The other thing I don't like, what was said here, is that \$1.3 million in cash in your accounts right now. I don't see that reflected in any of this budget process. Mr. Dickrell said it is reflected. There's the Operating Capital, the Unrestricted and the Restricted. You can't throw those into one lump sum, and say that you have enough. Mr. Hilb said it was legal to move money between accounts. Nothing is broken down in the accounts. Mr. Dickrell said, the reserve study we did, are well aware of money for money when things start breaking down, and you want us to use all that money now, and then do what? Mr. Hilb said you are making all kind of assumptions. You need to know the actual capacity and the number of houses built, before you say we need 90,000 or 125,000 or when you will need it. I haven't seen

anything to say when you are actually going to need money and how much. The other thing I disagree with is you want to go to 125,000 in the plant. Another more doable thing would be to say we go to 90,000 and the next phase is 125,000. You build in 25,000 increments along the way and you would have the money from lot fees and other things, so you wouldn't have this big upfront hit to the public. I would say drop the ad valorem tax or go to the County and certify that these are actual expenses. Mr. Dickrell said all budgets are based on assumptions. We can adjust that number if things change throughout the year.

Mr. Hewitt asked the next question. What is your current capacity as of today, and what do you expect it to be by year end? Mr. Barreira answered that it is 62,500 gallons daily. As far as the ADEQ is concerned, the rated capacity of this plant according to our permit is 62,500. Mr. Hilb disagreed with the number, and it is noted in the minutes. Mr. Dickrell answered Mr. Hewitt that our engineering study is trying to determine that. Mr. Poteet stated that two days recently have gone over 115,000. The Board stated that number was over a two day period. Mr. Barreira said we were two days over peak in July of last year, and the plant handled it. Mr. Hewitt mentioned there is a possibility of a system failure between now and year end. You are talking about real estate values, and this is a real issue. Mr. Poskanzer said we have peaked very high over our rated capacity. The fact is we don't know for sure what the real capacity is of this plant. We put in a holding tank a couple of years ago, and the purpose of it was to modify/equalize the flow from peak periods to non-peak periods. So if the flow during a peak period was too high, the holding tank would hold it and discharge that flow into the treatment plant during off-peak periods to equalize the flow. Our flow has peaked several times over the past few months, well over 62,500 gallons a day. It's peaked as high as 90,000 gallons a day. When it peaked that high, we still have not had a problem with the quality. Mr. Poteet mentioned that in July 2017 he did analysis of the SMRF reports, and for 5 days, it averaged 90,000 gallons a day.

Mr. Johnson asked about the reserve study referenced. Will that study be updated to reflect the current conditions? Mr. Dickrell responded that without knowing what we're updating at the plant or how we're doing it currently, I hesitate to say we'll reduce the amount we need in reserve. When we get to that point, we can update it. His second question was about not using any of the money in the Capital Account for the plant expansion. Mr. Dickrell responded that they will use that money. We will use the whole amount for the 90,000 expansion in the Restricted Capital Account and what's left over for the 125,000 gallon expansion. We are not planning to use any Unrestricted Capital at this time. There are assets throughout the properties we need to be cognizant of. Mr. Barreira mentioned the Unrestricted Capital Account is also used for repairs and replacement of the pumping plants that are not part of the processing plant. All the facilities that are intertwined within the system, the money comes out of the Unrestricted Account. Mr. Johnson mentioned there were funds originally collected from Pivitol, that were for plant expansion, in the Unrestricted Funds that was the genesis of your big deposit in this account you are not using. Can you check that? Mr. Dickrell replied he had not seen those funds come in during his tenure on the Board or where they have gone. The only money going into the Restricted Capital Account right now to my knowledge, are from lot fees and capacity fees that we're charging to the developers. If there was something in there before, I don't know. One last question from Mr. Johnson. Could you walk me through Bill's proposed revised budget versus the original budget. Mr. Dickrell responded that the budget we published was kind of a "throw everything at the wall" budget because if we had to go north of that, we couldn't until next year. It was my attempt to say, let's make some assumptions because we don't have a perfect view of the future. It was not with the concurrence of the rest of the Board. It was sent to Bob Busch as a possible start of talks regarding the Budget. Mr. Barreira explained we were told by our legal

counsel when we put our original budget together, once it was published and released to the public, we could decrease it but increase it. We decided to go on the high side before we got into a lot of detail to get the proposed budget out there. Because of the Open Meeting Law, Bill put a proposal together that was lower than the proposed budget but he couldn't discuss that with us because of the Open Meeting Laws. So he sent it to Bob, it was sent to the individual Board Members. We only saw Bill's assumptions and proposed budget when Bob sent it out to us. What I was attempting to do originally was to read the numbers to you because you don't have a copy of Bill's proposal.

There was a question - There seem to be a lot of increases in some areas, and I'm just trying learn what's going on. As a property owner, I don't know whether to say, yes that's great, or increase it. Members of the Board said that we have a time limit to submit the budget to the County, and we need to vote on the budget. Mr. Polk said the law allows the Board to make a decision today to adopt the published budget or something lower. Mr. Barreira said whatever budget is adopted will be published on the website.

Bill Laubner visited the former Chairman ten years ago and brought him a DVD of technology that was available by friends he went to college with that would guarantee 50% increased capacity on their leased equipment. That Board Member said he had no interest in the plan. As recently as 30 days ago, I gave Derrick Scott a brief CD of this company's abilities. You're not spending capital monies, you spending operating monies. It will increase your costs but it will be way less than your \$2.5 million plant expansion. I'm just throwing that back on the table. There is technology out there to enhance your capabilities at a nominal cost, not a capital improvement, leased equipment that is maintained by a reputable company that is nationwide. I just wanted to bring this back to the Board's attention. Mr. Barreira thanked him for his input.

A question about the increase of the professional services in the budget from \$25,000 to \$224,000 regarding what it is made up of. Mr. Dickrell responded that most of it is from litigation fees expended. It also includes engineering and legal advice we get on a meeting by meeting basis as well

Mr. Barreira moved on to the Rates and Fees. 2018-19 Rates and Fees as proposed are:

Activation and Transfer Fee: \$35.00

Administrative Fee: \$35.00

Copy Fee: \$0.25/per page

Copies of Public Records: \$7.00 for an audio tape

Capacity Fee: \$7,000.00 (Inscription Canyon)

Interest Rate for Delinquent Payments: 10% per annum

Late Fee: \$5.00 after 15 days

Inspection Fee: \$250.00

Returned Check Fee: \$35.00

Mr. Poskanzer asked whether the capacity fees listed were for Inscription Canyon only. Mr. Barreira stated that the capacity fees for Talking Rock and Whispering Canyon are covered as part of the amended and restated agreement.

Someone asked where we got the number for the interest rate. Mr. Busch said he got the number from our attorney.

Is the availability fee a new fee? Mr. Dickrell stated it was taken off. We can't legally charge it. It was from an old budget.

What method will be used to collect the Inspection Fee? Mr. Busch stated that when someone applies for a sewer connection, they have to pay it.

The current capacity fee is \$1,000 and it will be raised to \$7,000? Mr. Barreira said the change would go into effect if and when the rates and fees are approved and would change then. Mr. Busch said the \$3,250 in Talking Rock only applies when the developer sells a lot. It's not a connection fee. It's a developer option. When someone in Talking Rock or Whispering Canyon wants to hook up to the sanitary system today, if they are not already a customer, they pay a \$35.00 administrative fee and a \$225.00 inspection fee. That's all. If the lot is in Inscription Canyon, there is a \$1,000 and an inspection fee of \$225.00.

Mr. Barreira closed the public hearing and called to order the regular meeting.

2. ROLL CALL.

Present were: David Barreira, Board Chairman; Al Poskanzer, Board member; and Bill Dickrell, Board Member. Also present were Stephen Polk, legal counsel; Bob Busch, District Manager and Carol Morrissey, Clerk.

Members of the Public: Bob Hilb, Bab Klauer, Blake Hewitt, Dean Humphrey, John & Sue Terwilliger, Cole Johnson, Sterling Johnson, Clint Poteet, Bill Laubner, Dave Prinzhorn

3. CALL TO THE PUBLIC.

Mr. Barreira asked that if there are questions relating to anything on the agenda, that they wait until we bring that item up. Questions now will be regarding the Budget.

4. POSSIBLE VOTE TO GO INTO EXECUTIVE SESSION.

Mr. Barreira moved that the Board go into Executive Session for: discussion or consultation for legal advice with the attorneys of the Inscription Canyon Ranch Sanitary District pursuant to A.R.S. Section 38-432.03 (A)(3) and discussion or consultation with the attorneys of the Inscription Canyon Ranch Sanitary District in Order to consider its position and instruct its attorneys regarding the District's position regarding contracts that are the subject of negotiations, in pending or contemplated litigation or in settlement discussions conducted in order to avoid or resolve litigation pursuant to A.R.S. Section 38-431.03(A)(4)re:

A. Legal advice regarding pending litigation with Talking Rock Land, LLC, and future proceedings and filings, and additional litigation.

B. Notice of Claim served on the District by Talking Rock Land, LLC: Notification of insurance carrier.

C. Response from insurance carrier and notification in regard to pending litigation, possible future communication by counsel.

D. Mediation process, status, future actions and issues per provisions in Section 12 of the Amended and Restated Development Agreement.

E. Moratorium process, status, future actions and issues per A.R.S. Section 48-2033.

Mr. Barreira made a motion to go into Executive Session, after reading the items to be discussed there. Mr. Dickrell seconded the motion. The motion passed unanimously without discussion.

During the Executive Session, the public will be asked to leave the Board meeting room until the general session is re-convened

CONVENE INTO EXECUTIVE SESSION at 2:10 p.m.

RECONVENE INTO PUBLIC SESSION at 2:52 p.m.

The Public Session started out of order, per Mr. Barriera to accommodate the Civiltec Engineer who was there to make a short presentation. We started with Old Business, D. Moratorium process, status, future actions and issues per A.R.S Section 48-2033.

5. REPORTS

Report from District Manager

* Status of Plant Operations

* Plant treatment daily averages/Plant Capacity Chart

We have 56,487 gallons per day going through the plant in July. We had 9 days over 60,000. The high day was July 5th at 67,700. The Plant Operator took chloroform tests every day during the month and all days in July were in compliance. Mr. Barreira asked Mr. Busch to send an email to all the Board Members with those numbers.

* Status of construction of Phase 1 improvements to the WWTP

The transfer switch has shipped, and arrived. The generator is due to ship sometime this week. We are waiting on the generator permit from Yavapai County. APS held it up, but we finally got it to the County and are hoping to get it in the next week or 10 days.

* Record requests

We have 2 record requests pending. One is from Open the Books. I have not responded yet, I'm waiting for the salary data from MDI. I should have that in a few days. The other is a new request we got from Mr. Craig for the report and proposal from Civiltec that we received. The report will be on the website tomorrow if I can get the administrator to put it up.

6. CONSENT AGENDA (Routine items that may be approved by one motion)

Minutes of Meetings

Minutes of Public Meeting of June 22, 2018

Minutes of Public Meeting of June 27, 2018

Minutes of Public Meeting of July 9, 2018

Executive Session Minutes of July 9, 2018

Mr. Busch said Mr. Lynch wanted the Executive Session Minutes pulled from the Consent Agenda. Mr. Poskanzer said he doesn't ever remember having an attorney want to edit our Executive Session. I don't understand why we're going to entertain the attorney's recommendation that he edit the minutes before adoption. There is an audio transcript of these Minutes and I found them to be fairly accurate. Frankly, I don't think it's appropriate. Mr. Barreira said one thing you may not realize is that in the past Mr. Wittington would review them and edit every one of them before they became final. So we will scratch off the Executive Session Minutes for July 9th.

Mr. Barreira asked for a motion to approve the Consent agenda without the Executive Session Minutes of July 9, 2018. Mr. Dickrell so moved. Mr. Barreira seconded. The motion passed unanimously.

7. OLD BUSINESS – DISCUSSION & POSSIBLE ACTION RE:

A. Possible legal action regarding pending litigation with Talking Rock Land, LLC, and future proceedings and filings, and additional litigation.

Mr. Barreira reported that both legal teams have recently filed new pleadings with the court and there is nothing else to report but waiting on the judge to make a ruling on those pleadings.

B. Possible action regarding mediation process and issues per provisions in Section 12 of the Amended and Restated Development Agreement.

Mr. Barreira reported that he was informed during the Executive Session that there is communication going on between the legal teams to determine the mediation process from this point forward.

C. Setting a time and place for future meetings of the District Board.

Mr. Barreira skipped this for now. We will set the next meeting at the end.

D. Possible approval of an offer to ICR Water Users Assn in connection with the use of its building near the WWTP in exchange for an access easement across District property.

Not discussed. Stricken from Agenda.

E. Moratorium process, status, future actions and issues per A.R.S. Section 48-2033.

Mr. Barreira stated that Civiltec was hired to perform an analysis of the plant and the operations of the plant. We'd like the engineer to give us an overview of the report that he produced for the district.

Mr. Prinzhorn from Civiltec began his presentation. I took a look at the plant: waste water treatment plant flows, average monthly flows, maximum monthly flows, capacity of the plant. Basically the plant right now is sized for 62,500 gallons a day. In the peak month, which was July of last year, you had a flow rate of 59,000 average gallons per day. The average over the past 15 months was 47,400 gallons. In the peak month, at 59,000 gallons, you are only about 375 gallons from the 95% threshold, you need discussions with ADEQ about what to do next with the plant. Mr. Poskanzer asked, at the threshold of 62,500 where did you get that number? Mr. Prinzhorn said we had a lot of discussions with SanTec folks who originally put the plant in. We went through and analyzed the APP and the old APP before that. The first phase was for 62,500. There were other subsequent phases that were supposed to take it ultimately to 455,000 gallons. The figure is official as far as ADEQ is concerned. Mr. Poskanzer asked what the plant can really handle right now. Mr. Prinzhorn said that is what comes out in Phase 2, which we have submitted a proposal for. He ran process calculations based on information available at the time. It's right at the cusp. There's biological capacity and hydraulic capacity. Biologically, I can make this thing do tricks, upside down and backwards; move air, re-pipe this and that. You can change the whole dynamic biologically. There are 3 pipes coming into the lift station, and it can move only so much water. They are limited. Then you have treatment modules. To get all the biological stuff to work properly in order to meet your permit requirements. That hydraulic process going through all those pipes and those treatment modules is what is restrictive to you. Mr. Poskanzer asked if you can tweak the biological capacity by making some adjustments in chemistry, can you modify the hydraulic capacity of the plant? Mr. Prinzhorn replied that is what Phase 2 is supposed to take a look at. We'll look more in detail at the plant units, the different components in there. What we can physically move through those units and what we can move through there. The permit right now is 62,500 for the number we report to the state. The operator has to report numbers, so SMRF reports are quarterly reports submitted to the state. That's how we calculate the numbers for the average flow for the past 15 months, peak month, minimum month. Mr. Poskanzer stated, we have a rated capacity of 62,500, but we really don't know what our physical capacity is. Mr. Prinzhorn said what we do know is, we can push 59,000 through the plant. The operator indicated he had higher numbers going through at times. What happens is shove any number through there, and if you send enough water through there, you're going to upset the biology, it's going to wash out the backside, the permit will be violated, and you'll have a big headache on your hands. Mr. Barreira said they have made a proposal for a Phase 2 study, which will give us the physical capacity, not the rated capacity, from a

registered engineer's perspective, not from a consultant's view. Mr. Prinzhorn said ADEQ is not driving this. It is to satisfy your own information about where you're at with your plant, and the potential options you have. In 375 more gallons, ADEQ may be driving this. When you hit 95% of your plant rating, you have to talk to ADEQ, based on a whole month's average. 59,375 is your threshold. Mr. Barreira said ADEQ has not ordered to do any of this. It's part of the fiduciary responsibility of the Board to make sure that we don't get in trouble with ADEQ and that we have a plant that is capable of serving the community as it grows. If we don't do that, we have failed within our fiduciary responsibility. Mr. Prinzhorn said we need to deal with where we are today; you're approaching the 95% threshold.

Mr. Hilb asked, we're being very careful about being at capacity. At what point do we have a system failure? Mr. Prinzhorn said, you don't really have a system failure, but when you cross that maximum level of 100%, now you're in permit violation. If you exceed the plant flow for a whole month, or, if you send out the back side, that violates the permit. According to what we've been able to decipher what the plant is rated for, we've done some analysis but we really need to get some real, hard data for Phase 2. Everything coming into the plant biologically, everything going out of the plant biologically, different places in the plant we gather data. Then we mix all this stuff to say this plant is operating a certain way. I still need to look at the hydraulics part of the whole thing. That's what concerns me more than the biological. Mr. Barreira said, basically this report stands as it is. You have a proposal to us for a Phase 2 study that will give us the actual capacity of the plant, not the permitted capacity. But what the plant can perform under its own current conditions. So, we have that as an action item later on.

Mr. Busch asked Mr. Prinzhorn to read his conclusions 4, 5, and 6, and discuss them a little bit. Basically, the plant is rated for 62,500, add 10% to that, subtract the 59,000 and that tells you what your new cushion factor is. This difference 9,750 gallons per day equates to about 100 additional lot connections. The way the rule is written in state law right now, is that we wouldn't have to do a significant APP amendment, but, ADEQ is continually changing issue there. Our goal is to try and keep you guys from doing a big permit modification. Mr. Busch asked for an explanation of number 7. Mr. Prinzhorn explained the existing waste water treatment plant is administratively over committed for connections by 67,169 gallons per day, based on the average daily flow value or 78.35 gallons per day per lot. You are over committed by almost 99,000 gallons per day based on the peak monthly flow which is 97.50 gallons per day per lot.

Mr. Hilb asked if other engineers are being entertained for giving a bid on this proposal for the plant. Mr. Barreira said no. What we are having action on here is awarding an engineering contract to engineer that, not to perform the construction. Mr. Busch mentioned he asked for three bids. A discussion started about getting RFP's for bids for the project between the public and the Board. Mr. Poskanzer made a motion that we prepare a fully detailed RFP and send it out with requirements, to multiple engineering firms. Mr. Barreira ruled the motion out of order. The issue being discussed is item E. You can make that motion when we get to the appropriate agenda item.

Mr. Barreira reported to the public that we have this engineering report. There is some other data that we have to look at. We've asked the Plant Operator to do daily readings for the entire month of July, and we don't have those yet. Once we get all that information, it'll give us more data to make a decision on where we want to go on the moratorium process.

Mr. Barreira thanked Mr. Prinzhorn for his time.

8. NEW BUSINESS – DISCUSSION & POSSIBLE ACTION RE:

A. Approval of financial reports for June, 2018.

Mr. Busch did a budget versus actual for the month of June, based on as much information as we have available at this time. The reason we don't have full financials is because the District uses accrual basis for accounting and depreciation schedule has not been incorporated into the financials, so we can't do an income statement yet. We received several attorney bills at the end of the month for services earlier in the month that need to be applied to the financials. The revenue numbers are pretty much straightforward. The ad valorem taxes are a fixed number. We have some application transfer fees, inspection fees. There is a lot sale in there. As far as expenses go, everything is pretty much routine all the way through, of course, until you get to the consulting expense on page 3. In the month of June we booked \$20,589 in District Operations attorney fees and \$74,955 in litigation fees. That does not include bills that came in yesterday from Mr. Lynch for another \$32,000. So the actual consulting numbers were like \$120,000 for the month. As a result, our consulting expenditures for the year are approximately \$185,000 versus the \$25,000 budgeted.

Mr. Barreira stated that since there wasn't a full report, there was no need to approve.

B. Approval and adoption of Rates and Fees for 2018-19 fiscal year.

Mr. Barreira went back to the rates and fees. We've read and had discussion and answered questions on this. Mr. Dickrell as part of his revised budget proposal, you wanted to change the Capacity Fee to \$3,250. The only other question was about the 10% per annum, but that number was from our law firm.

Mr. Poskanzer made a motion to modify the Capacity Fee which is now proposed at \$7,000 to \$3,250 and accept the rest of the Fees and Definitions. Mr. Dickrell seconded the motion. It passed unanimously without further discussion.

C. Approval and adoption of District Budget for fiscal 2018-19 and setting and certifying the the tax levy amount for fiscal 2018-19.

Mr. Dickrell threw his thoughts out there earlier, with Mr. Hilb's comments about holding the User Fees. We use those and reduce the ad valorem by some amount. As need arises, we can asses User Fees at some point during the year. Mr. Barreira asked if there was a number in mind for the ad valorem. Legal fees, I'm proposing \$150,000. We could move some of that out and assess it as User Fees if the need arises. Mr. Barreira stated that last year we were at \$266,820 for ad valorem. Mr. Bush pointed out that the ad valorem tax includes \$448,720 which also covers expenses, with \$200,000 for capital formation. Mr. Dickrell suggested taking the \$200,000 out, wait until we get the Engineering Report, then bill it on the back end of the yea, if that's the direction we go. Mr. Poskanzer spoke about real estate taxes and the impediment it could be to buying a house. The affect the increase in ad valorem taxes would have is on the real estate community and secondarily on the real estate values. If the market goes down, because of high real estate taxes, it's a serious problem. I'm opposed to any increase in ad valorem taxes. Put in a system of User Fees payable on a semi-annual or quarterly basis, to make up the difference.

Mr. Poteet commented that he agrees with Mr. Dickrell's operating expenses. In addition, a monthly service fee of \$35.00 equates about \$250,000+ per year. It's a way to increase your capital structure account over the next 3-5 years. Mr. Poskanzer said there are lots of areas where the water company and the District are somewhat aligned. You pay for what comes in and for what goes out. Mr. Barreira agrees we should lower the ad valorem tax to minimally what our operating expenses are. We need to go back to the User Fees that we had proposed earlier:

Residential Lot: \$35.00,

Light Commercial Lot: \$100.00

Heavy Use Commercial Lot: \$150.00

Mr. Dickrell suggested taking \$200,000 capital formation out of the ad valorem, and figure out what we need to charge in User Fees. That will go into the restricted capital account when we collect it from User Fees. If we charge \$35.00 to get \$250,000 we'll do that. Mr. Busch said that expenses will go up charging the fees. Someone suggested billing quarterly and offering a discount people who want to pay on an annual basis. Another member of the public voiced his opinion about the unfairness of the fees to the property owners. Mr. Barreira explained that the money is to raise capital to expand the plant, and for future growth.

Mr. Barreira is looking for the number to ad for ad valorem taxes. Mr. Dickrell suggested adding a number to include all operating expenses (\$448,720, without any billing costs). Mr. Busch said with the billing cost added in, it would be \$466,720. Mr. Barreira made a motion to adopt the revised proposed budget submitted by Mr. Dickrell, modified for the ad valorem tax of \$466,720. The Board mentioned that User Fees, etc. still need to be added.

Mr. Polk suggested to modify it back from the published budget with the ad valorem and User Fees already listed in it.

Mr. Barreira said the ad valorem tax needs to be voted on to get it to the Count tomorrow. Mr. Busch asked for a vote on another motion to specify the tax levy. We can give them a copy of the budget later.

Note: Mr. Poskanzer left the meeting. Only two Board Member votes were cast on the remaining agenda items.

Mr. Dickrell made a motion to approve ad valorem taxes for the 2018-19 budget year of \$466,720. Mr. Barreira seconded the motion. The motion passed without further discussion.

We need a motion to table the balance of the Budget to a further date. Mr. Barreira made a motion to table the District Budget, with the exception of the ad valorem tax, which we've already approved. Mr. Polk said it will be a motion to recess it to a future date, and pick it right now. Mr. Barreira set the date for Friday, August 3rd at 2:00 at the Real Estate Office.

Mr. Barreira moved to recess the District Budget action, until Friday, August 3rd at 2:00 pm at the Inscription Canyon Real Estate Office. Mr. Dickrell seconded the motion. The motion passed without further discussion.

Mr. Barreira went back to the Rate Schedule. Mr. Busch repeated the User Fees for the record.

Mr. Barreira moved to modify the previously approved recent fee schedule to include Residential Fees of \$35.00 a month, and Commercial and User Fees for high user of \$150.00 and low user of \$100.00. Mr. Dickrell seconded the motion. The motion passed without further discussion.

Mr. Busch explained that Commercial low user is one fixture and Commercial high user is more than one fixture.

Mr. Dickrell made a motion to define for High Commercial user as more than one fixture and a Low Commercial user as one fixture. Mr. Barreira seconded the motion. The motion passed without further discussion.

D. Approval of letter cancelling contract with Granite Basin Engineering.

Mr. Barreira made a motion to approve the letter notifying Granite Basin Engineering that we are cancelling our contract with them for engineering services. Mr. Dickrell seconded the motion. The motion passed without further discussion.

E. Approval of contract with Civiltec Engineering to Serve as District Engineer.

Mr. Barreira moved that we accept the proposal from Civiltec Engineering to serve as the District Engineer, and the Chairman sign the agreement. Mr. Dickrell seconded the motion.

Mr. Polk mentioned that there had been public comments to get a request for proposal. Mr. Barreira said we are cancelling our contract with Granite Basin Engineering because they serve as engineer to Talking Rock Ranch. It doesn't appear it would be appropriate for us to have the same engineer that is doing work for a developer we serve. There is too much chance for a conflict of interest. Because of that, that's why we're proposing to bring on Civiltec.

*Mr. Barreira called for a vote on the motion. **The proposal was accepted unanimously.***

F. Approval of contract with Civiltec Engineering for design of improvements to expand the WWTP to approximately 90,000 gallons per day. Cost of the contract is approximately \$73,710.

*A significant discussion was had, to have an RFP sent out. **Mr, Barreira moved that we prepare an RFP and send it out to a minimum of 3 organizations with a quick turn around (20 day response period) as part of the motion for the RFP. Mr. Dickrell seconded the motion. Mr. Busch suggested the Board meet to review and approve the RFP before it is sent out. The motion passed without further discussion.***

Mr. Barreira said that since we are going out for pricing, he asked Mr. Busch not to post Civiltec's proposal as that is divulging their proposal to all the other bidders.

G. Approval of proposal to add a Variable Frequency Drive (VFD) to the Flow Equalization Tank(s) at a cost of \$1,360.61.

Mr. Barreira said this is something recommended by engineering. Mr. Busch said it allows the more even control of flow the flow from the FEQ tank.

Mr. Barreira made a motion to accept the proposal for the VFD. Mr. Dickrell seconded the motion. The motion passed without further discussion.

9. ADJOURNMENT

Therefore, the meeting was adjourned at 4:26 p.m.

Date:

Date

Board Clerk:

Board Clerk