

REGULAR MEETING
BOARD OF DIRECTORS

March 13, 2018

The Board of Directors of Lake Chelan Reclamation District met for their regular Board meeting at the office of the District on March 13, 2018. The meeting was called to order at 8:00 a.m. by Board President Robert Christopher. Those in attendance were:

BOARD

Bob Christopher
Dave Clark
Paul Mogan
Todd Jeffries
Nathan England

STAFF

Rodney L. Anderson
Mary Lou Brooks

GUESTS

Larry Jungk
Mary Stutzman
Len England
Randy Gleasman
Phyllis Gleasman
Jean Haerling
Fred Miller
Tyson Willey
Jared England
Bob Siderius
Scott Sandum
Travis Schoenwald
Tory Wulf
Jonathan Kludt
Steve Kludt
Kris Sather
Brandon McPherson

MINUTES – FINANCIAL REVIEW – STATUS OF FUNDS

Director Mogan made a motion and it was seconded to approve the February 13, 2018 minutes, budgets, trial balances and investments, as mailed. Motion carried unanimously.

ACCOUNTS PAYABLE

Secretary-Manager Anderson presented the accounts payables for review and approval. Accounts payable checks 14814 through 14877 (including EFT payments) totaled \$418,479.31 and were broken down as follows:

Irrigation O & M Investment	\$154,581.05
Irrigation Construction	\$ 82,686.55
Domestic O & M Investment	\$144,183.25
Domestic Construction	\$ 5,187.53
Sewer O & M Investment	\$ 27,874.81
Sewer Construction	\$ 3,966.12

A motion was made by Director Clark and was seconded to approve the accounts payables as listed. Motion passed unanimously.

MANAGER'S REPORT

Irrigation: The pump control panels and radio upgrades have been completed and tested at LC pumping plant, while G and H pumping plants will be finished in the coming two weeks.

We will begin filling the irrigation system on Monday, March 19th. We will begin opening turnouts on April 2nd, unless we encounter any unforeseen issues.

Manager Anderson showed the Board members a valve hub that is believed to have been hit by a plow truck and sheared off. The valve is for a 20" mainline and has been temporarily fixed for the irrigation season. The parts have been ordered for a permanent fix, which will be accomplished this fall, after the irrigation season.

The pump and motor for LC-5 have been delivered and are ready for startup.

Domestic: The contract has been awarded to Chaparral Fence Co. for the new security gate at the Water Treatment Plant.

One of our last old steel mainlines on Boetzkes had a leak a couple of weeks ago. We are reminded that we need to be replacing that section as soon as we can, and we may contract the work out, depending on how busy our field crew is.

Sewer: The office HMI is currently being upgraded.

Manager Anderson is working with the City of Chelan to put in place a contract for our sewerage needs that reflects our current handshake agreement. We have not had a current contract with the City since the Northshore Interceptor was installed although we have continued pumping our effluent to the City for many years. Within the contract, the City will take over maintaining Lift station #4.

Administrative: Nothing to report at this time.

OLD BUSINESS

Purchase price of additional water was suspended to be discussed during Public Comment.

NEW BUSINESS

Resolution 2018-07 increasing the Revolving Fund from \$125,000 to \$150,000, as our monthly dollar amount for the fund continues to increase. A motion was made by Director Clark and seconded approving Resolution 2018-07 increasing the Revolving Fund amount to \$150,000, which includes the Impress Fund. Motion carried.

Resolution 2018-08 authorizing delivery of additional USBR water, which includes the policies and procedures governing applications and processing of additional water requests. This was advertised in the Mirror and The Wenatchee World, as well as letters mailed to all customers on the waiting list in the Reclamation District's possession. Director Clark recused himself from all discussion regarding this matter, as well as the subsequent vote. A motion was made by Director Mogan and seconded to approve Resolution 2018-08 Authorizing Delivery of Additional USBR Water as provided to the Board members. Motion carried, with one abstaining.

Chelan County is reviewing a partnership for the bigger entities in the area to procure better aerial photos. The last photos we have were taken in 2001 and cost the District approximately \$80,000. With the partnership, the total will be a lot less, as well as much higher quality photos taken.

Manager Anderson explained to the Board members that we have an account that is severely delinquent and it has been recommended by our attorney to being foreclosure procedures. All avenues to reach the customer has gone unanswered for over 1 ½ years, and we cannot locate their current residence.

PUBLIC COMMENT

Manager Anderson introduced the District's attorney, Bob Siderius. He further explained to the customers in attendance that the Washington State Auditor's office will be scrutinizing our additional irrigation water price justifications. Both Manager Anderson and attorney Bob Siderius have spent several months trying to procure a value for the water rights from several avenues, all with no success. Therefore, we are looking at a fair and equitable price, as well as justification of the price and asking for public input.

Jared England: How many acres are used today? How many acres are available? How many customers are on the current waiting list? How will the water be made available to the individual customers upon purchase? Manager Anderson: The customers on the current waiting list are first in line, then any others will be put on a second list as first come, first served. At the end of April, which is the deadline for the pre-applications and deposits, we will have a better idea at the number of customers requesting additional water. If anyone needs reclassification of their land, they will be on the waiting list for as long as it takes the Bureau to finalize this part. After the pre-application and deposit process, we will look at who has responded and evaluate each pre-app case by case, including potential costs to the customer and see if they would like to go forward with the purchase. If they decide they no longer want the water, they will receive a complete refund. Nobody is dropped off the waiting list unless they opt out or they are unable to proceed for any reason. We are trying to satisfy everyone on the list, and anyone else desiring the water rights who meets the designated criteria.

Phyllis Gleasman: What type of infrastructure needs to be put in and who's responsible for the costs? Manager Anderson: We will go over every detail with each customer individually, but the cost of any infrastructure will be 100% the customers' responsibility. We will provide the water, but it's up to the costumer to get it to their place of use.

Jared England: Has water been removed from impervious surfaces on properties? Manager Anderson: Yes, we pull water off house footprints, roads, driveways, but we do not take water rights away because of development. Approximately 30% to 40% can come back to the District after an area is developed into housing as a result of impervious surfaces.

Randy Gleasman: What does it cost me to buy water? Manager Anderson: That is what we need to establish. Bob Siderius and I have tried numerous avenues, but nobody would give us a dollar amount. It boils down to fair market value, what is the market for these water rights?

Randy Gleasman: We've been waiting since the 1980s for 13 acres. What do you need to hear from us for market value? Affordability for farmers? How do we come up with a fair value for us to buy the water? Manager Anderson: This discussion is open for anyone to help determine fair market value. We are looking for real input. We are providing payment plan options of four to five-year payments, but water will be available as soon as the contract is signed.

Bob Siderius: We understand that you'll have no crop for several years with a large payment, so we're trying to help any way we can.

Randy Gleasman: How do we get to the fair market rate? Bob Christopher: What is the value of the property after purchasing the water rights as opposed to no water rights?

Len England: Will you be taking into account that you'll be receiving income with the assessments every year? A small farmer can't pay \$30,000 for the land, \$30,000 to plant, then more for the water rights. Selling crops can be in the negative depending on the market from year to year. After planting, the first four years there will be no crop at all and the first few crops will not be enough to cover the costs of the water.

Larry Jungk: Would the District consider a 2-tier payment plan? One for orchards that are already planted, and one for non-planted orchards? Bob Siderius: Our issue is with the State Auditor's office. They will be making sure the price is at fair market value. If the price is set too low, we will have issues with them, but we do have discretion on setting payment plans. We do not believe a two-tier system is allowable.

Larry Jungk: Could you possibly have interest only payments until after the crop starts producing? Bob Siderius: That should not cause a problem from the State Auditor's office.

Travis Schoenwald: Would having a well on the property make a difference in valuation? Bob Siderius: We would have to look at the overall picture for each circumstance. We are unable to look at one piece over another.

Tory Wulf: Did you look at District water vs State water rights for value? Manager Anderson: We have talked about it, but because we are different, we are having problems getting the price set. Our water rights stay with the land and cannot be moved.

Tory Wulf: Where do we go to get a fair and reasonable price? What's the number going to be? What are we looking for? Where did you get the \$3800 valuation? Manager Anderson: The \$3800 is from the last time the District sold water rights, plus adding the rate of inflation since then. The \$10,000 valuation came from a realtor in our area.

Johnny Kludt: So this is non-transferrable water that you can't move? Manager Anderson: That's correct.

Tory Wulf: What was the fair market value from other Districts? Manager Anderson: No one was willing to put a price on the water for us. Even the ranges we obtained varied significantly, because our situation is so unique. The appraisers I contacted either didn't call me back at all, or wouldn't give me an amount.

Jared England: If water is in use, that's a value to the District in increased assessment fees. All components of farming need to be factored into the equation. The use of the water needs to be factored in for the value.

Bob Christopher: The price of the land after the water rights are purchased needs to be assessed on the property. Economics of the use has to be a factor for the price as well.

Paul Mogan: What is the problem for the District if the Auditor thinks the price is too low? Bob Siderius: They will void the price and fine the District.

Larry Jungk: Has any math been done on value of the land with and without the water rights?
Manager Anderson: There are a lot of variables for each scenario, so hard to do but yes I have tried.

Phyllis Gleasman: When you get the money in the bank, what do you do with it from there?
Manager Anderson: It goes back into the 10-year capital improvement plan upgrading the system.

Len England: If the District builds any infrastructure, it's considered a gift. We need the price as low as possible to keep the value and farming as it is, without a lot of farms being pulled out. We're trying to figure out how to live off of what we're producing, and we need to have a cost that's not exorbitant for us.

Jared England: Getting the water into the system and being paid for will help the District in the future. Chelan has a lot less orchards and it's moving this way. Affordability will help keep the agriculture industry in the valley. That's why the District is here, to help the success of the customers.

Phyllis Gleasman: When was the last time water was sold and what was the price?
Manager Anderson: In 1990, a couple of acres of water sold for \$2,500 per acre.

Phyllis Gleasman: You should use that amount as the base price and move forward.

Bob Siderius: If we set an under-assessed value, the District will be fined.

Travis Schoenwald: Do you know what each system can handle?
Manager Anderson: Yes, and after we receive all the requests, we will go through each scenario with the customer. The District will have a better idea of the numbers after the deadline on April 30th. We can then sit down with each customer individually and look at their particular set of circumstances.

Jared England: Is there over-use on acres already planted?
Manager Anderson: Yes, the turnouts are limited to 8 gpm/acre. If we start having issues with overuse on the system we do police the lines and shut off the turnouts that are overusing.

Jared England: Is it related to how many lines are running at one time?
Manager Anderson: Yes.

Randy Gleasman: The \$3,800 would be a good number to start with and it's justifiable.

Jared England: The 1990s may have had a different economic environment. The price should be related to the land value, and there needs to be a viable interest in the purchase price. If only one or two guys get it for the high price, that would not be fair and equitable (i.e. highest bidder sets the higher price). If 30 or more people purchase the water for the \$5000, then that's a viable number to purchase the water for. Can you lower the price if the water doesn't get purchased at the higher rate?
Manager Anderson: Yes, we can redo contracts to the lower rate. Approximately 75% of the customers responding so far have not said anything about the price. They received the price range in the paperwork mailed to them, and maybe the price for two acres is doable for them. Ten acres is a large investment and may not pencil out as well.

Jared England: How do you decide who receives the water?
Manager Anderson: The District has a waiting list that dates back to the 1970s. The customers on that list have opportunity to purchase an amount up to equal to what was requested when put on the waiting list. If they want more water

than what was originally requested, then they go on the second list that was started for any new customers requesting water that's not on the original waiting list. The District's goal is to fill all the requests for water.

Scott Sandum: Is there a concern to not over-stretch the individual systems? Manager Anderson: Yes, we will go through the applications in detail after the deadline of April 30th. We will look at what they are requesting and what system they are on. We will look at the current delivery system available to them to determine if it's adequate or not. If any infrastructure needs to be added, we will let them know the price to see if they would like to continue or not. We will also determine at that time if the particular system can sustain the additional usage. We will discuss everything with the customer to determine if they wish to continue or drop out. If they decide to stop at that point, they will receive a full refund of their deposit.

Larry Jungk: have you taken out all the impervious footprints from the properties? You can take out the footprints from my property and add that to the pot. Manager Anderson: You're on the domestic irrigation system, which cannot be added to the federal system. We have taken about 95% of footprints out so far, and will continue to do so as properties are developed. When we get new aerial photos, we will remove anything new at that time.

Phyllis Gleasman: Can we please table this meeting and make a decision at the next meeting?

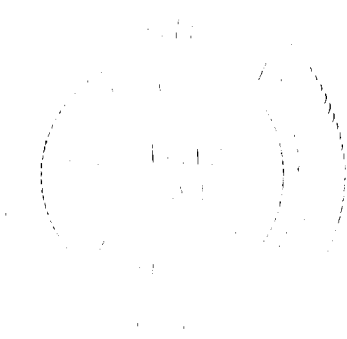
Bob Christopher: We appreciate all the input and the price will be determined at next month's Board meeting. As growers, you will have to consider if you want the water rights and if it's viable for your use.

Manager Anderson: If you have anything further for the Board to consider, please get it to me by the first Thursday in April so I can get it to the Board members in their packets for their review.

ADJOURNMENT

Being no further business to come before the Board, Board President Robert Christopher adjourned the meeting at 9:27 a.m.

Signed: David E Clark Acting President
President
John Jeff
Nathan
Palpy



Attest: [Signature]
Secretary-Manager

March, 2018