

REGULAR MEETING
BOARD OF DIRECTORS

April 10, 2018

The Board of Directors of Lake Chelan Reclamation District met for their regular Board meeting at the office of the District on April 10, 2018. The meeting was called to order at 8:00 a.m. by Board President Robert Christopher. Those in attendance were:

BOARD

Dave Clark
Paul Mogan
Todd Jeffries
Nathan England

STAFF

Rodney L. Anderson
Mary Lou Brooks

GUESTS

Jean Haerling
Phyllis Gleasman
Kris Sather Nolen
Larry Jungk
Bob Siderius

MINUTES – FINANCIAL REVIEW – STATUS OF FUNDS

Director England made a motion and it was seconded to approve the March 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 14878 through 14934 (including EFT payments) totaled \$342,062.96 and were broken down as follows:

Irrigation O & M Investment	\$ 67,999.23
Irrigation Construction	\$137,026.71
Domestic O & M Investment	\$ 91,538.85
Domestic Construction	\$ 107.62
Sewer O & M Investment	\$ 45,390.55
Sewer Construction	\$ 0.00

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

MANAGER'S REPORT

Irrigation: The City of Renton uses the same RUG6 pump control system that we are in the process of replacing. They have stated their desire to purchase the ones we are replacing, as they are unable to obtain parts and would welcome what we have until they are in a better position to replace their system. Manager Anderson will be discussing purchase prices with them.

Pump control panels have been installed at LC, G and H pumping plants, as well as new radios at each and solar panels for the ones without power. Transducers have also been relocated off the reservoirs to alleviate lightning concerns for the crew. Three sites are finished, with a fourth to be finished soon. The irrigation pumping plants are currently running on two different communication systems.

Irrigation startup went well, with only four leaks reported. The system is on in its entirety, and the first week of May we will be turning off any customers who have not paid their assessment fees.

The deadline for pre-applications to be placed on the list for additional USBR water is set for April 30th. At that time Manager Anderson will have a better idea of who wants the water and where it will be going.

Domestic: Nothing to report at this time.

Sewer: Manager Anderson is working with City of Chelan employees to get the contract finalized before Dwayne Van Epps retires in June. Everything is agreed upon, but working out the wording in the contract to reflecting what has been in place from the beginning.

Administrative: Manager Anderson presented a Termination Contract with a former employee for approval and acceptance from the Board. After some explanation from Manager Anderson, a motion was made by Director Mogan and seconded to approve the Termination Contract as presented. Motion passed unanimously.

OLD BUSINESS

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

NEW BUSINESS

Nothing to report at this time.

PUBLIC COMMENT

Manager Anderson thanked Phyllis Gleasman for her input since the last Board meeting. She provided a list of water sales in the State of Washington at the website acrevalue.com. West Water Research LLC provided the valuation of the water rights for each sale. After some discussions with them, Manager Anderson was told that our situation was unique, due to our infrastructure and the fact we pump it directly to our customers.

As of today, we have 18 pre-applications requesting 130 acres of the 162 available. The requests range from 0.5 of an acre to 20 acres. There is a cap of 10 acres per request on any new pre-applications submitted.

Nate England: Is there anyone requesting more than 10 acres? Rod Anderson: Currently there are three pre-applications that are requesting more than the 10-acre maximum.

Nate England: Are they all commercial agriculture? Rod Anderson: Yes. Bob Siderius: It has to be recognized from the Bureau as agriculture, or it has to be developed within five years into agriculture.

Nate England: Could the water be transferred after purchased? Rod Anderson: Yes.

Nate England: If we sell the water and they do not keep the property as agriculture, can we take it back? Rod Anderson: If they keep the land as agriculture, or put agriculture in for the first five years, that's okay. If they remove the agriculture aspects and develop the land after ten years, we will not take the water rights back from the landowner. We haven't in the past and that has set a

precedent for us going forward. In that instance, the property owners have the option to either keep the water rights and remove the impervious areas, or give up the water rights all together. Whatever they choose, the water then goes back to us.

Phyllis Gleasman read out loud paragraph 1.3 in the Ownership Contract. Rod Anderson: There have been eight to ten ownership changes that were on the waiting list. They fell off the list, if the new property owner has not asked for the additional water when they purchased the property. If the property went to a spouse or estate, they are still on the list.

Rod Anderson: Previous manager Carr attempted to sell additional water with a minimum bid of \$8,000 per acre to a select group of property owners. He received eight offers, but it didn't work out how he wanted it, so the matter dropped with nothing going forward.

Larry Jungk: What's the value of the irrigation system infrastructure? I see issues with people buying into the system. Rod Anderson: I don't have those numbers readily available.

Paul Mogan: How much did it cost to put the system in? Rod Anderson: I believe the amount was \$18,000,000 and we were over 80% subsidized by the USBR. Bob Siderius: The original contract was for approximately \$3,000,000, and that amount has been paid down over the years, with 18 years to pay.

Paul Mogan: It's been depreciated over time? Rod Anderson: Yes.

Bob Siderius: Did West Water Research LLC give you a timeline in obtaining a valuation if we hired them? Rod Anderson: No, they did not. I tried getting further information from them, but told they would do a valuation for us at a price.

Phyllis Gleasman: Has a valuation been done on land without water rights vs. land with water rights? Rod Anderson: I tried looking at every scenario, but there are too many variables to obtain a definitive answer. I spoke with the Chelan County Assessor, but they didn't have any answers for me either.

Larry Jungk: What about looking at assessed value of properties? Rod Anderson: I did ask that question, but didn't get any answers.

Larry Jungk: Assessed value is not the same as sales price anyway. Need to look at increase in future value in fairness to the existing property owners. How many property owners have filled out the pre-applications? Rod Anderson: Eighteen different owners. There are also five pre-applications from people not currently on the waiting list. Bob Siderius: It's one pre-application per each individual owner.

Dave Clark: There are 18 pre-applications for 130 acres so far? Rod Anderson: Yes, as of today.

Larry Jungk: The price should motivate people not to water spread in the future. How many pre-applications are from property owners who are currently over planted? Rod Anderson: Five, but we don't know for sure who has wells, and we won't know until after the pre-application deadline has passed.

Jean Haerling: How many irrigation districts in Washington State are the same as our system?
Rod Anderson: Ours is a unique distribution system.

Jean Haerling: If the Auditors can't prove the value, then you are the ones that will ultimately set the price. They will have to disprove the valuation you come up with. Rod Anderson: That is right.

Jean Haerling: I believe paying \$10,000 to \$20,000 for a valuation on the price of water would be a waste of the District's money. Bob Siderius: The Bureau has placed the responsibility to the District, and our only risk is the State Auditor and their determination of the price. We have to be able to prove the valuation we decide on.

Todd Jeffries: Can the District get fined for having a too low or too high valuation? Bob Siderius: Only if too low, they would consider it a gifting of public funds. The Auditors can void all sales and fine the District.

A motion was made by Director Paul Mogan to fix the price for the additional USBR water at \$5,000 per acre. With no second, the motion failed.

Larry Jungk: Since you were offered \$8,000 in 2009, that price may be problematic. What about offering a bid process?

Bob Siderius: How long would it take the West Water Research LLC to come up with a valuation on the water rights? The Auditors may scrutinize anything we come up with, and I believe six months would be too long.

Phyllis Gleasman: Would they consider valuations in California? Bob Siderius: They would not. They would consider this location, this region, as well as our unique system. If we can obtain a full report with everything spelled out, the Auditors would have less to criticize. Rod Anderson: Every sale on the acrevalue.com website had West Water Research LLC as the valuation company.

Nate England: I believe we could justify our price to the Auditors by having someone come in for a valuation. Rod Anderson: I can call West Water Research LLC and obtain a timeline for their services.

Bob Siderius: In the meantime, Rod can do all the work needed on the current pre-applications that can be accomplished, so we can continue moving forward.

Dave Clark: The motion died for lack of second. Do we need to make a motion to hire West Water Research? Rod Anderson: I will obtain more particulars on a fee and timeline. If they say their price would be less than \$20,000, would you like me to move forward with them? Bob Siderius: Tell them you were authorized to pay \$10,000 for a water rights valuation.

Todd Jeffries: Are we behind on any process? Rod Anderson: No.

Todd Jeffries: The water will not be used for this year? Rod Anderson: We will start in 2019 after assessment rolls are established in November.

Todd Jeffries: We need to make sure we do our due diligence so we don't run into any issues with the State Auditor.

Nate England: We need to have the definition of commercial agriculture definitely spelled out in the contract. Rod Anderson: No one besides agriculture has shown an interest in the water.

Dave Clark: Do you need a verbal authorization of \$10,000 for West Water Research LLC to prepare a valuation of the water rights? Rod Anderson: I need a directive from the Board as to how you wish me to proceed. At the next regularly scheduled Board meeting I can update you on my progress.

After considerable discussion, it was the consensus of the Board members present to direct Manager Anderson to hire West Water Research LLC in payment of \$10,000 to prepare a valuation of the water rights available to customers for purchasing and to have it done in a timely manner which we will ask to be 90 days.

Larry Jungk: Will the amount agreed upon be at a public meeting? Bob Siderius: The report has to be made public record.

Phyllis Gleasman: I would like to thank you all for the work you are doing. I appreciate being kept aware of the process and everything you do.

ADJOURNMENT

Being no further business to come before the Board, Board President David Clark adjourned the meeting at 8:59 a.m.

Signed: Bob Christopher
President
David E Clark
Todd Jeffries
Nate England
Phyllis Gleasman

Attest: [Signature]
Secretary-Manager

April, 2018