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1 Trustees of Eastside Water Association  
2 Midway City  
3 California

4 Gentlemen:

5 Through your manager, you have submitted to me several  
6 questions to which I have given careful consideration and will answer  
7 as follows:

8 1. It must be remembered that all of the rights and powers of  
9 the members of Eastside Water Association and of its Trustees are set  
10 forth in the indenture dated April 17, 1933. That document constitutes  
11 a contract binding upon all of the members of your association, and it  
12 contains an explanation of why the association was formed and shows that  
13 the water system, well and pumping plant and distributing lines as then  
14 existing were transferred to your association by the Hill Cattle Corpora-  
15 tion without any compensation to it other than your agreement to take  
16 charge of and operate the water system.

17 2. It must also be remembered that during the 12 years which  
18 have elapsed since the formation of your association the members have  
19 expended a large sum of money in repairs and improvements of the water  
20 system; including the drilling of an additional well, installing an  
21 additional pump and replacement of worn-out pipe by new pipe in many  
22 places. At the present time, the water distributing system is in such  
23 condition that in order to maintain proper service to the members, it  
24 will be necessary as soon as practicable to install approximately  
25 12,000 feet of new water mains. Also about 22 division valves must be  
26 installed. This improvement will necessitate the expenditure of about  
27 \$16,400.00 and without it the distributing system will cease to be  
28 effective, and in all probability a large portion of it will cease to  
29 function within the next year. This condition will result even though  
30 repairs are made when possible, because some of the lines are rapidly  
31 reaching a condition which makes them beyond repair.

32 3. It is my understanding that in order to meet this con-  
dition and with the approval of a large majority of your members you

1 have acted as follows:

2 (a) The owners of vacant lots in the tracts served by your  
3 as to those lots, and as to them  
4 system are not members, have not paid anything toward the acquiring and  
5 improving of the property above mentioned and will not pay anything  
6 until they want water furnished on the lots. When that time comes,  
7 they should pay a fair portion of their share of the cost of acquiring  
8 this water system and making delivery of domestic water to their lot  
9 possible. In order to cover that situation, you have adopted a resolu-  
10 tion increasing the amount required to be paid by new members to \$80.00,  
11 that requirement to become effective July 1, 1945. Of course, it does  
12 not apply to the lots of those who are members prior to that date.

13 (b) Article 6 of your indenture of association gives the  
14 Trustees the power and makes it their duty to fix a water rate from  
15 time to time to be paid by those members to whom water is furnished  
16 and provides that the rate shall be such an amount as necessary to  
17 provide the cost of operating and maintaining the water system and in  
18 addition provide a reserve fund to meet repairs and emergency expenses.  
19 Heretofore, your rates have not been sufficient to enable you to  
20 accumulate a sufficient reserve fund to meet the extraordinary expenses  
21 above referred to. I am informed that you have only about \$3,500.00 in  
22 your reserve fund and as above stated you are faced with the need within  
23 a short time of expenditures amounting to about \$16,400.00. Under these  
24 conditions, only three things seem to be possible: first, apply the  
25 amount in the reserve fund as far as it will go; second, borrow the  
26 balance of the money needed; third, levy sufficient rates so that  
27 within a reasonable time, say not more than six years, the income will  
28 enable your association to pay off the debt. You have met that situa-  
29 tion by adding \$1.00 per month to your water rate of \$1.50 per month  
30 heretofore existing, the new rate to commence June 1, 1945, and members  
31 given the privilege of paying the extra dollar per month one year in  
32 advance, which many are doing. *\$2.50 per month is less than I  
pay in Santa Ana.*  
4. I am informed that you are arranging a loan to your

1 association by a private individual of \$12,000.00 with interest at the  
2 rate of six percent per annum, the money to be advanced as needed and  
3 not bear interest until it is advanced, the loan to be repaid in annual  
4 installments of not less than \$1,000.00, with the privilege of making  
5 additional payments. The property and income of your association must  
6 be pledged to secure that loan. I consider that you are fortunate to  
7 arrange such a loan on such liberal terms. I am quite sure that you  
8 will not be able to deal as advantageously with any bank or loaning  
9 agency.

10 5. This loan will be negotiated and the papers signed by  
11 your Trustees, not as individuals, but as Trustees of Eastside Water  
12 Association. They will do so by authority given them in your indenture  
13 of association to hold title to the property of the association, manage  
14 the property and the business of the association in accordance with the  
15 terms of the indenture. They can <sup>borrow on</sup> the property of the association  
16 and its income without involving personal liability on their part. In  
17 other words, the \$12,000.00 note would be executed for the association  
18 by the President and Secretary of the association authorized to do so by  
19 resolution of its Board of Trustees. The instrument given to secure  
20 payment can provide, and I think should provide, that the lender of the  
21 money shall have the right to levy upon and receive the income of the  
22 association to meet payments due on his note, if they are not made by  
23 your officers, and it also should become a lien upon your pumping plant,  
24 motor pumps, wells and water system as security for payment of the loan.  
25 You cannot expect to borrow money without giving proper security for its  
26 payment.

27 6. Under the terms of the indenture of association, if any  
28 member fails to pay the monthly rate of \$2.50 as fixed by your last  
29 adopted resolution fixing the rates, within 15 days after notice of  
30 delinquency, he ceases to be a member; water shall be disconnected from  
31 his premises, and he is liable to be sued and have a judgment rendered  
32 against him for the payment due for, costs of suit and for attorneys' fees.

1           7. I am under the impression that some confusion exists in  
2 the minds of some of your members, because they fail to realize that  
3 Eastside Water Association is not a corporation and is not subject to  
4 certain rules and regulations that apply generally to corporations.  
5 As I have pointed out, you are an unincorporated association, and all  
6 the rights, powers and duties of the members and of the officers of the  
7 association are set forth in the indenture of association constituting  
8 a contract between and among all of your members. I might add in this  
9 connection that there are many advantages in not being incorporated,  
10 particularly, in the avoidance of the considerable expense involved in  
11 forming and maintaining a corporation and in payment of annual franchise,  
12 income tax, etc. Your association has been operated less expensively  
13 to its members than any similar domestic water supply system of which I  
14 have knowledge. Some of your members have asked me if it would not be  
15 much better to form a county water district, not realizing that those  
16 districts are subject to payments of taxes to cover the very large  
17 outlay involved in installing and maintaining their systems and those  
18 taxes are paid in addition to the monthly water rates. In other words,  
19 the organization expenses and the maintenance and operation expenses of  
20 county water districts is far greater than the expenses incurred by the  
21 members of your association.

22           8. If any member undertakes to interfere with the perform-  
23 ance of his duty by any officer or member of your association, he will  
24 not only commit a civil offence but a criminal offence and be subject  
25 to arrest, a fine and imprisonment. The members should realize that  
26 contracts are binding and cannot be ignored or broken without serious  
27 consequences resulting.

28           I believe I have answered the various inquiries that have  
29 been made of the present situation. I will take the liberty at this  
30 time of suggesting that it probably would be to the advantage of your  
31 association and its members to adopt an amendment to the indenture  
32 relating to the number of members required to constitute a quorum for a

1 membership meeting and relating to method of amending the indenture.  
2 Experience frequently results in changes in such papers being advisable,  
3 and they should be made possible without being made too difficult. As  
4 the indenture now stands, it has been almost impossible to get a quorum  
5 present at a membership meeting. That must be because members have been  
6 fairly well satisfied with the way your affairs have been conducted.  
7 Otherwise they would have turned out better at the meetings. Some amend-  
8 ment might be made that would make it easier to get a quorum in attend-  
9 ance at meetings of the members. If you desire me to do so, I can  
10 prepare papers for that purpose.

11 Respectfully submitted,

*Z.C. Head*

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