

Hello Neighbor,

In mid-October of 2008 Economists.com provided a cash flow and rate impact analysis to the PSWID board. The conclusions of that analysis were that there would not need to be any changes to the current Pine and Strawberry rates in 2009 and 2010. Starting in 2011, all rates would be consolidated to the Pine summer rates. Rates would increase 15% in 2012 and then see smaller increases in the later years.

The Economists.com analysis contains several serious errors which invalidate those conclusions. I informed Economists.com and the board about those errors in early November. At the November PSWID meeting, Economists.com and the board claimed that the numbers in the report are good.

I have attached a document in which I explain the errors and provide a corrected cash flow and rate impact analysis. I have summarized the results in the numbered items below.

Comment: This community deserves to be provided with accurate information so that we can understand and evaluate what is going on and how the purchase will affect us. The board is here to serve the interests of the entire community and the most basic aspect of that is to provide information to the public that can be relied on. For whatever reason, the board is choosing to stand behind a report that they know is incorrect.

I am working on another analysis that takes the corrected cash flow analysis and looks at how changes in interest rates, loan terms, and acquisition price will affect water rates. That analysis should be available in the near future.

The Payson Roundup has an interview with Mr. Hardcastle discussing the water issues. It can be found here:

http://www.paysonroundup.com/news/2009/jan/09/oneone_hardcastle/.

1. The errors in the Economists.com analysis.

- The analysis starts from the 2006 annual ACC reports for Pine Water Company (PWCo) and Strawberry Water Company (SWCo). In 2006, 8,245,000 gallons of water were sent from Strawberry to Pine. The Economists.com report does not correct water usage and revenues for that transfer.
- The 2006 ACC reports include the sales taxes collected as part of Metered Revenue and then subtracts them out as Taxes Other Than Income in the operations expenses. The Economists.com analysis uses the Metered Revenue, but it also uses the operations expenses estimated in a Coe and Van Loo (CVL) report which did not include Taxes Other Than Income. As a result the Economists.com analysis is counting sales tax receipts as operational revenue.
 - Comment: I met with Mr. Haney last summer to talk about the problems that I saw with the CVL reports. Mr. Haney agreed that this was an error, but it was never fixed.

- The Economists.com analysis says that operations expenses will grow “by approximately 4% per year”, but in 2011 the growth in the Economists.com analysis is only 1.24%.
- Salaries and Wages are understated in the CVL operations expenses report. They do not take into account the extra overhead expenses of hiring an outside company to run the water system and the need for an administrative assistant.
 - Comment: At the meeting with Mr. Haney, his view was that Salaries and Wages would be much higher than the adjustment I was proposing because he felt there needed to be two crews. This was never fixed.
- The Economists.com analysis uses a three tier rate structure. The Pine rate structure is three tiers and the Strawberry rate structures are two tiers. To merge them properly, there needs to be a four tier structure in the Economists.com analysis.
- In order to correct for errors in the 2009/2010 portion of the rate analysis, the water sales are heavily skewed towards the highest cost tier. When the errors being corrected for go away in 2011, the skewed data remains.

2. Rate Impact Based on Corrected Cash Flow Analysis

- The corrected cash flow analysis shows the need for an immediate rate increase in 2009.
- For Pine, the initial rate increases for 3000 gallon usage are \$1.85 (4.9%) for summer bills and \$7.99 (25.5%) for winter bills.
- For Strawberry, the initial rate increases for 3000 gallons of usage for the Williamson rates is \$8.45 (27.4%), for the United rates is \$16.70 (73.9%), and the E&R rates is \$10.65 (37.2%). Strawberry’s rate increases are much larger than those for Pine because Strawberry currently pays much less for water than Pine. Consolidating the rates will produce a large initial increase for Strawberry rate payers. After that, everyone’s increases are the same.
- For 5000 gallon usage, Pine residents will see increases of \$1.85 (3.6%) for summer bills and \$12.07 (29.3%) for winter bills.
- For Strawberry, the initial rate increases for 5000 gallons of usage for the Williamson rates is \$15.45 (40.8%), for the United rates is \$24.65 (86.0%), and the E&R rates is \$15.30 (40.3%).
- Years 2011 and 2012 will each see increases of approximately 12% and years 2010 and 2013 will see increases of approximately 3%.

3. Cost of Creative Financing

- In order to keep the purchase of the water companies “free” for those first two years, Economists.com had to resort to using creative financing by having interest only payments for the first two years on the loans and a 25 year loan term. Using that creative financing adds \$1,037,932 over the life of the first two loans, compared to using the standard municipal 20 year loan.

This email is from the group Water For Pine Strawberry. We will be sending out an email after each of the PSWID meetings with a summary of what the board did, additional facts that are relevant to what went on, and some commentary. Please forward this email to friends and neighbors that are interested in the local water issues. If you would like to be added to or removed from the list for these emails, please reply to

WaterForPineStrawberry@hotmail.com. Emails on earlier meetings are available on our website: www.WaterForPineStrawberry.com .

Water For Pine Strawberry is a group of residents who are concerned about the communities water issues and how they can best be resolved. Visit our web site, www.WaterForPineStrawberry.com, for more information. The website for PSWID is www.pswid.org .

Clarifications can be submitted by anyone who is explicitly named, implicitly identifiable, or a board member to items in this email. Clarifications will be posted on our website. We reserve the right to post a response. Clarifications must deal with the topics discussed in the email that relate to the individual or the board. They must be in family friendly language and be non-abusive. When the clarification is accepted, it will be posted to the website and notice of that posting will be added to the next email.