

Hello Neighbor,

Another three hour plus meeting, but for the most part the time spent was useful. This email ended up being pretty long, but there is interesting information throughout.

Some general observations/comments that I have:

- The board's main goal has been to get new sources of water on-line before next summer. Based upon where they seem to be at in the process, it doesn't look like they will make it. It is probably a reasonable bet that they will start to have additional water available mid to late summer. In my view, they aren't helping themselves by having a bunch of other activities going on like deep-well drilling plans, renegotiating water sharing agreements, and listening to proposals to buy Solitude Trails DWID. They only have so much time and energy and these other items aren't time critical.
- If they don't have additional water available for this summer things may get dicey since there are no longer any enforceable water restrictions. With no way to suppress demand and no new water sources, there could be problems in water service.
- The board doesn't seem to understand what the assumptions are in the Economists.com rate analysis that led to the declaration that there would be no need for a rate increase for two years. When I asked them about whether the rate stabilization fund has been funded, to the tune of \$277,000, I just get blank looks. Then they will start talking about the interest rate stabilization fund that Compass Bank required for the variable rate portion of the loan. That is something completely different. The interest rate stabilization fund is intended to cover Compass Bank against the risk that the variable rate interest rate will spike (it adjusts monthly). The rate stabilization fund proposed by Economists.com would subsidize water rates for many years. If the board does not establish this fund, then they will have to make up the difference in the future with either higher property taxes than currently planned or higher water rate increases than advertised. I think it is better to do that than use borrowed money, but the fact that they don't even know what the recommendations are from the "professionals" that they hired is yet another example of the board's lack of attention to what is important.
- There seems to be a building frustration amongst the board members. It was most evident during the meeting when talking about the slow pace of progress on various topics. Prior to the purchase of the water companies, the board would have unanimous votes on important topics with little or no discussion. Either they were having the discussions in the backroom or someone was directing the effort and the voting. The backroom discussions are illegal under the open meeting law. In any case, whatever directed them in the past seems to be absent or less influential now.

February 3, 2010 PSWID Meeting (Delayed January 21 meeting)

Next regular PSWID Meeting: Thursday February 18, 2010 7:00 PM at the Pine Cultural Center

1. District Rules/Regulations. The board has been trying to finalize the rules and regulations that the district will operate by. In the meeting they went through several issues:
 - a. The ACC rate schedule requires the payment of 6% interest on security deposits. The board decided not to pay interest on security deposits.
 - b. The district will require proof of the security deposit payment if the district does not have a record of it. Otherwise they won't refund it. The records that the district has are probably not complete.
 - c. Accounts that have been off for less than a year will have the monthly fee for the months that it was off added to the turn-on fee. This is to keep people from turning off their water during periods of time that they are gone.
 - d. Discussed at length whether to impose an availability fee which is basically any lot owner that was not on the water system and is within 100 feet of a PSWID pipe would have to pay a yearly fee. The idea being that the availability of future access to water adds value to the lot.
 - i. The alternative it was weighed against is a higher tap in fee and/or property taxes.
 - ii. Mr. Haney indicated that there might be about 1000 lots that fell under this.
 - iii. Difficulty in determining impacted lots and collecting.
 - iv. Charge per lot would not be dependent on size of the lot.
 - v. Mr. Haney stated that "We are going to get your money one way or the other." Comment: Mr. Haney said that in the context that how they take the money from us is a philosophical question of what is the best balance between base monthly rates, usage fees, property taxes, and other fees. He is correct that they will take all the money that they want. They can't run a deficit.
 - vi. Audience was pretty negative about it and the board decided not to pursue it.
 - vii. Comment: Not sure why this is a rules and regulation issue. They can create whatever fees, etc. when they do the rate schedules.
 - e. Customer cannot rely on the meter as the emergency shutoff value to the house.
 - f. Discussed the idea that a meter that hasn't been used for a year, even if the account is up to date, could be removed by the district. Ultimately the board decided not to include that rule.
2. Ground Water Exploration Plan
 - a. Mr. Mike Ploughe, the hydrologist employed by PSWID, provided a presentation on the ground water exploration that he is proposing for PSWID. A copy of that recommendation can be found here: <http://www.waterforpinestrawberry.com/data%20pages/BudgetDocs.htm> .
 - b. He showed some interesting well camera pictures of the caverns that the well holes for the recently drilled Portals 4 deep well and the Strawberry Hollow well. The video actually showed the Portals 4 well causing the

drainage of the shallow aquifer. Mr. Ploughe said that the well has since been fixed to prevent drainage of the shallow aquifer and that the shallow aquifer is in the process of recovering.

- c. The proposal lists first step as acquiring existing deep wells such as the Milk Ranch and Strawberry Hollow wells for immediate needs and a second step of a multiyear deep well exploration effort. Mr. Ploughe's presentation dealt with this second step.
- d. In general the proposal is to spend about \$500,000 a year for the next three years drilling three to four test wells a year, with another \$1,000,000 per year to develop one of those test wells into a production well. This would be done in three phases, with the first phase focusing on Pine, the second phase on Strawberry and the third phase on Hardscrabble Mesa. Drilling would be fall through spring to avoid using water for the drilling in the summer. The test wells could be used as low volume (20-50 gpm) sources of water until they are developed into production wells.
- e. The board approved having Mr. Ploughe move forward with lining up the driller and other preparation activities.
- f. Comment: Where is the money coming from for this? According to the district, they have about \$1,600,000 of capital improvement money from the initial set of loans and that money needs to cover the next two to three years. So they have identified \$250,000 in small capital improvement projects and it will probably cost about \$1,000,000 to purchase, fix, and connect the Strawberry Hollow and Milk Ranch wells into the system. That doesn't leave enough funds to cover the exploration proposal that was made. The board needs to keep track of the commitments they are making and the money that they have to cover them.

3. Water Storage

- a. One of the on-going themes of the meeting was requests from the public to put in more water storage. Currently the system has about 1.3 million gallons of storage capacity. People advocating increased storage see that as a way to store water during the winter and use it to bridge the gaps in the summer. The board indicated that Tetra Tech will be putting together a master plan for how the water system capacity, both storage and pumping capacity, should evolve.
- b. Comment: Storage is there to handle peak periods when the amount of water being used is higher than what can be pumped during that period. The typical cycle would be to drawn down storage during the day and then refill it a night when usage is lower. For Pine-Strawberry, the cycle is based on weekends during the summer, where storage is drawn down over the weekend and then recharged during the week in preparation for the next weekend. The worst weekend of the year is the July 4th weekend where it can easily turn into four or five days long.
- c. Comment: Storage is only useful when you can pump enough water to fill it back up before the next peak that will need to draw it down. The problem with the current system is that the capacity to pump water is limited. The usage restriction stages (1-5) were tied to the amount of water

in storage because that is an indication of how well the water system is keeping up with demand. So putting in place the additional capacity to pump water has to come before increases in storage.

- d. Comment: There is already some additional storage built into the system when the additional water pumping capacity comes online. In the summer, storage levels would typically run at about 70%. With additional pumping capacity, storage levels could be kept close to 100%. That additional 30% of stored water would be 390,000 gallons. The additional pumping capacity would also mean that storage would be drawn down less rapidly during peak usage, which increases the effectiveness of the storage that is already in place.

4. PSWID Officer Election

- a. The board elected the following officers:
 - i. Chairman: Mr. Bill Haney
 - ii. Vice-Chairman: Mr. Tom Weeks
 - iii. Secretary: Mr. Richard Dickinson
 - iv. Treasurer: Mr. Mike Greer

5. Renegotiation of water sharing agreements

- a. Mr. Haney stated that one of their priorities in acquiring the water system was to renegotiate the water sharing agreements with local well owners. He said that even before he ran for office that people were complaining to him about the bad deals that the water sharing agreements were for well owners.
- b. Mr. Haney said that they want to renegotiate the agreements so that they are fair and uniform. Mr. Jones said that this will be difficult because there is a lot of variation in price and conditions between the various water sharing agreements.
- c. Half of the water in Pine and Strawberry is obtained from water sharing agreements. Mr. Haney said that over time the water sharing agreements will be phased out as district owned wells replace that capacity.
- d. Comment: If PSWID comes up with a price for water that it wants to apply uniformly to all water sharing agreements, it is hard to see how the board would be meeting its fiduciary duty to the community to renegotiate to a higher price for some water sharing agreements. It is equally difficult to see why those with water sharing agreements that pay more would be willing to renegotiate to a lower price. There doesn't seem to be any real gain for the district by having a common agreement for all water sharing agreements. It results in a lot of legal costs and effort that won't provide any benefit to the community, especially since they will be phased out over the next couple of years.
- e. Comment: What I have heard is the problem with some of the water sharing agreements is that there is not an inflation adjustment. For those agreements where the well owner pays the electricity, over time the rising electricity costs eat into the amount paid for the water. I think it is fair to look at adding an electricity cost escalator to those, but it doesn't make

sense to have a wholesale effort to renegotiate all water sharing agreements.

6. Capital Improvement Plan
 - a. Mr. Jones discussed at length the kinds of low-level improvement activities that are needed. He stated that for each of the district's sites an estimate of the improvements needed has been put together.
 - b. Mr. Jones stated that the planned capital improvement expenses over the next four quarters are: \$25,400, \$53,800, \$115,100, and \$136,100, for a total of \$330,400 over the next year. The board voted to approve the expenditures for the first two quarters.
 - c. Comment: I have just received a copy of the plan. I'll look at it and post it to the website at a later date.
7. Proposal to Purchase Solitude Trails Domestic Water Improvement District (STDWID)
 - a. Mr. Mark Fumusa, the developer of Solitude Trails and the current Chairman STDWID, gave a pitch for PSWID to buy STDWID. The handout that accompanied it can be found here: <http://www.waterforpinestrawberry.com/data%20pages/BudgetDocs.htm>
 - b. The basics of the proposal would have PSWID spend \$500,000 for 49 customers and potential service for 29 additional customers. The price would be paid interest free over a period of 15 years. Included is a well that can produce a million gallons a month, a five gallon per minute well that currently isn't in use, a 10,000 gallon booster tank, and a 100,000 gallon storage tank. There is a restriction that the 100,000 gallon tank be maintained at maximum capacity at all times to satisfy fire insurance conditions.
 - c. Currently there is a water sharing agreement with STDWID which sells water to the District for \$1.00 per thousand gallons. STDWID pays all electricity and repair costs. In 2008, Brooke used 6,379,000 gallons and STDWID used 1,033,000 gallons. The water going to STDWID goes through PSWID pipes. An additional aspect is that once the last lot is sold all of the assets go to PSWID at no cost. Mr. Fumusa has held the last lot so that Brooke would not get the assets and he indicated at the meeting that he will continue to hold the lot to prevent the water assets from transferring to PSWID.
 - d. Comment: The proposed price of \$500,000 is way too high. That works out to \$10,200 per customer. PSWID purchased Brooke for about \$1100 per customer. According to the Coe and Van Loo valuation, the average per customer price for water systems in Arizona is about \$2500. That would put the price in the range of \$50,000 to \$120,000. In any case, if the board went ahead with this there would have to be an appraisal done to determine the value of the STDWID system.
 - e. Comment: It is hard to see the motivation to do this. It doesn't change the amount of water that PSWID has access to. The water is fairly cheap now and with PSWID having to pick up the costs for electricity, maintenance, and servicing the new customers, it is probably breakeven at best from an

operational cost point of view. At some point Mr. Fumusa may get tired of being in the water business and the assets will transfer to PSWID at no cost.

- f. Comment: It also doesn't appear to make sense if, as the board has stated in the past, that the plan is to do away with water sharing agreements and rely on deep wells for the community's water supply.
- g. Comment: Two of the assets, the 5 gpm well and the 100,000 gallons of storage, would have little or no value to the operation of the water system. The 5 gpm well doesn't produce enough water to be of any real use. With the restriction that the storage tank must be kept full at all times it essentially doesn't exist from an operational point of view. The purpose of storage is to provide extra water to cover peak usage that outstrips the pumping capability. For storage to be useful, it must be capable of being drawn down during those periods.

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.