

Hello Neighbor,

I was not able to attend the March meeting. The summary below is based on a recording of the meeting. Some parts were hard to hear, but I have done the best I can with it.

I have reviewed all of the PSWID water sharing agreements and will provide some discussion of those in a later email.

Mr. Harry Jones is also the general manager for the Pine Creek Canyon Domestic Water Improvement District which services Portals IV. In their February meeting minutes (<http://www.pccdwid.org/Meetings/2010/meetings2010.html>), Mr. Jones lays out PSWID's position with regard to hooking into Pine Creek Canyon's recently completed deep well. An excerpt:

“Mr. Jones presented information about the Pine/Strawberry Community. The PSWID is the main purchasing agent for water. Pine/Strawberry has a \$1,700,000 line of credit to move forward. Pine/Strawberry wants to purchase 300 gal/min. ASAP. They presently have 150 gal/min and want another 150 gal/min. They want another 300 gal/min for a total of 600 gal/min for future use. PSWID is the only buyer in the area. Harry Jones believes they are willing to assume the risk cost of installing the pumping system (pump, motor, column, pipe, electrical panel and filtration system if needed). PSWID would probably be willing to pay a proportional cost of expenses. If PSWID uses 90% of the water, they would pay 90% of the expenses. Harry Jones felt the PSWID would be willing to pay for the hook-up.”

We were told that vital information could not be made public during negotiations with Brooke because it would hurt PSWID's negotiating position. Here we have Mr. Jones laying out PSWID's negotiating position to his other employer. Basically, this creates a floor for any actual negotiations that might officially take place. Was this disclosure authorized by the PSWID board or is it just another conflict of interest that the PSWID board doesn't care about?

March 17, 2010 PSWID Meeting

Next regular PSWID Meeting: Saturday April 17, 2010 1:00 PM at the Pine Cultural Center

1. Mr. Gliedge's Passing
 - a. Mr. John Gliedge, the attorney for PSWID died of pancreatic cancer on February 21st. His daughter Stephanie, who was the other attorney in Mr. Gliedge's office, will be closing the office over the next few months. She will be wrapping up critical items and will assist in finding the next attorney for PSWID.
2. Treasurer's Report
 - a. Mr. Mike Greer, PSWID's Treasurer, expressed some frustration with the financial information being provided by Mr. Harry Jones, the interim General Manager. He feels that the information being supplied is confusing and does not map easily to the budgets prepared by Coe and Van Loo and Economists.com. The information also doesn't map well to the budgets prepared by Mr. Jones just prior to the acquisition.

- b. In the discussion, Mr. Jones said that all engineering costs have been moved out of the operations budget and will now be included in the capital spending. There is a line in the Statement of Financial Position that says “Assets To Be Capitalized-WIP” with a value of \$23,936.27. The detail can be seen here:
<http://www.waterforpinestrawberry.com/data%20pages/SOACompass.htm>
 - c. Mr. Jones indicated that he prepared an internal budget which he is working to. A copy can be found here:
<http://www.waterforpinestrawberry.com/data%20pages/SOACompass.htm>
 - d. The financial data for PSWID can be found here: <http://www.pswid.org/>. The financial data being discussed in the meeting is for the February 28, 2010 documents.
 - e. The net income as of February 28th is show as -\$130,955.01. It should be remembered that the district purchased the August revenues from Brooke for \$100,000 and there has been \$198,784.06 in property tax subsidies, so far this year, added in, so the real net loss on water system operations is - \$429,739.07. That is for the first 8 months of the fiscal year and five months of actual operations. Comment: It will take some mighty big rate increases to close that gap.
 - f. Comment: A lot was made in the meeting that the spending is on track with Mr. Jones’ internal budget. In looking at the budget, it looks like it was created based on actual spending rather than as a forecast. So by definition the budget will track actual spending.
 - g. Comment: It seems to be dawning on some of the board members that the Economists.com spending estimates are wrong. That fact has been pointed out to them for more than a year.
3. Executive Session: Water Sharing Agreement Negotiation
- a. Comment: It appears that Mr. Mark Fumusa and Mr. Brent Weekes are behind the push to renegotiate the water sharing agreements. Since neither of their water sharing agreements are up for renewal/termination at this time, it will require that both sides agree to tear up the agreements and start over. Mr. Fumusa and Mr. Weekes must see a gain for themselves in doing so, so that means a loss for the district. How can the board fulfill its fiduciary duty to the community if it negotiates new water sharing agreements that are less favorable to the district?
 - b. Comment: Both of their water sharing agreements provide above normal compensation when compared to the other existing water sharing agreements. I will have more on those in a later email.
4. Groundwater Exploration and Development
- a. Board is still waiting for the appraisal from Tetra Tech for the Strawberry Hollow well. There was some testing of the well and 33 gpm was achieved, but the water has sand in it and will require filtering. Well slots look fairly clear. Will take a couple of weeks to hook up the Strawberry Hollow well once an agreement is reached.

- b. Comment: I got a copy of the appraisal the other day, but haven't had time to look at it in detail. The appraisal came out at \$243,000.
- c. Still trying to clear the sand out of the slots in the Milk Ranch well. Planning on using RainForRent (pipes that are rented and laid on top of the ground) for the initial hookup. Hookup will take 10 to 12 weeks after agreement is reached. ADEQ will fast track their approvals for additional money.
- d. As of the end of March, the district has spent \$28,025.37 on fixing and evaluating the Milk Ranch well. Cost to fully repair/investigate the Milk Ranch well will approach \$100,000. Future work on Milk Ranch well includes installing new perforations in the casing, removing the sand from the well, and re-installing the pump. Mr. Mike Ploughe, the district's hydrologist, stated that there might also need for an additional \$46,000 for the installation of a well screen. He considers this risky and to be avoided if possible. Details of the spending can be found here:
<http://www.waterforpinestrawberry.com/data%20pages/SOACompass.htm>
- e. The question arose about whether it was a good idea to spend public money fixing a private well. Mr. Ray Pugel, one of the owners of the Milk Ranch well, got up and defended the district's expenditures to fix his well. He said that we aren't throwing money down a hole and that it needs to be done. Mr. Pugel argued that it was better to spend the money on a "proven" well instead of the unproven test well. Mr. Haney said that he had talked to Ms. Gliege and that she had not found anything that made spending public money to fix private property illegal, but she told him that it was a bad business practice for the board. Some board members claimed that they needed to spend this money as part of the board's due diligence and to reduce risk.
- f. Comment: Mr. Pugel and his surrogates, several of whom currently serve on the board, had a hissy fit over the idea of PSWID providing public money for the private K2 well. Now that Mr. Pugel's private well is receiving the public money all there is silence. How is this supposed to work? We pump \$100,000 into refurbishing a well that doesn't work and then have to buy it from him at the higher appraisal value of an operating well?
- g. Comment: Certainly the Milk Ranch well was a central prop for the "We Have Water Now" recall campaign, but the board needs to accept that it may end up only being a prop. Due diligence means that you investigate all aspects so that you can make the right choice. It doesn't mean that you repair it to make it something that you can buy. You don't pay to fix the roof of a house before you buy it, we shouldn't be paying to repair a broken well before we buy it. The board needs to stop going to such extremes to rescue a campaign prop. The only thing "proven" about the Milk Ranch well is that you can pump dirty water out of it for awhile and then it plugs up. If this well is "proven", why isn't Mr. Pugel spending his

own money to make it sellable? Like any mirage, this appears to be turning out to be more sand than substance.

- h. Comment: Over the months, Mr. Ploughe has repeatedly told the board that the Milk Ranch well will be a good well once the problems are overcome. I don't doubt that he is sincere, but it is like asking a father to judge his daughter in a beauty contest. Mr. Ploughe has been deeply involved in the Milk Ranch well from determining where to drill to seeing the first water come from it. The Milk Ranch well made him locally famous as the "man who found water in Pine". If the board wants to pass the due diligence test, they need to get a second independent evaluation of the Milk Ranch well. They waved off that point when they selected Mr. Ploughe to do the evaluation of the well. They need to reconsider that decision, just like it doesn't make sense to go to the same doctor for a second opinion, it doesn't make sense to ask the man who created the well for an independent opinion.
 - i. The application to drill the test hole has been filed. Access and water (from the drilling) distribution is being worked. Estimate of 30 to 90 days to drill and determine whether it can be used. Will take an additional three months to get it hooked into the system. Test well is expected to hit water below the sand, so sand should not be an issue with this well.
 - j. Board is starting to worry about spending all the money before they finish. Board voted to put a \$200,000 cap on the test well spending.
 - k. By replacing pumps in existing wells the water system's pumping capacity has increased by 30 gpm since the acquisition.
5. Selection of new PSWID Board Member
- a. Mr. Gary Levetro was selected to fill the remainder of Ms. Schleizer's term which ends in 2012. Mr. Levetro is the owner of Arizona Gun Runners and has a background in business, real-estate, and mortgage banking.
6. PSWID 2010-2011 Budget
- a. Board wants to start the 2010/2011 budget process which would include the preparation of a detailed budget, identification of revenue enhancements (rate increases and property taxes), and would include converting contract employees to district employees. The budget must be published at least 30 days before the last meeting of the year. The fiscal year ends June 30th.
 - b. Mr. Haney had wanted to setup a committee of staff and board members to develop a budget, but backed away from that when he found out it would be subject to open meeting laws. Instead, the staff will develop the budget and meet on occasion with board members to discuss progress.
 - c. Comment: A thread that ran through the meeting is the growing realization by the board members that they are over-running the budget expectations that are in place, particularly in the area of personnel costs. Not that it hasn't been pointed out to them in the past that the budget was wildly optimistic (or criminally negligent depending on your point of view), but it is nice to see that reality is beginning to make itself heard.

7. Personnel Issues

- a. The board agreed to set up a personnel relations committee for management/staff interaction. Mr. Jones is to establish the committee and it should have at least one staff member, but Mr. Haney would like a cross-section. Board members are allowed to be on this committee.
- b. Comment: With about ten employees, it is hard to see what the point of this is. It isn't like they couldn't just talk to the staff directly.
- c. The board extended the contracts of Ms. Becki Sigeti, Ms. Judy Slightham, and Mr. Steve Stevens to June 30th. Ms. Sigeti and Ms. Slightham were apparently working under contract to Mr. Jones. In shifting the contract over to the district, they both apparently got raises. Mr. Haney indicated that if/when they shift to non-contract district employees that their wages may go up or down.
- d. The board has been collecting information on the pay/benefit packages offered by other local municipal entities and private companies in an effort to determine appropriate wage scales.
- e. There was a great deal of sticker shock on the cost of providing medical coverage for these future district employees. Lot of discussion on how/where to look for savings.
- f. Discussion on whether the employees would be under the Arizona retirement system, which would cost both the employee and the district 9.8% of wages, or to have a 401K plan with some kind of match program.
- g. Suggestion was made to use a professional service to establish comparable wage scales and find affordable benefit packages. Not pursued at this time due to cost.
- h. Comment: In my view, since the district is a creation of the county, that district employees should be treated comparable to county employees. If it would be possible to join the county's insurance pool that might take some of the sticker shock out of it.

8. Miscellaneous

- a. Mr. Haney stated that they would be applying for a 50/50 grant to cover technical services, with a value up to \$35,000
- b. Mr. Haney said that in the latest "stimulus" that Arizona is receiving \$20 million for water projects. WIFA will be determining how to administer that money in the near future. PSWID would apply for exploratory well drilling funds.
- c. Mr. Haney said that SRP is interested in PSWID's CAP allocation. They may be willing to trade for water rights associated with Pine Creek.
- d. General Manager search will be closing in a month. There has been one expression of interest. Suggestion was made to use a search firm, but cost of that approach is expected to be very high.

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.