

Hello Neighbor,

The PSWID board applied to the Water Infrastructure Financing Authority (WIFA) for \$97,000 for a study of waste water needs and feasibility. WIFA turned them down. This is an early warning flag about the next effort once the acquisition of the water companies is complete. Waste water is not within what the board is chartered for and it isn't clear how they could make this application without a public vote of the board.

The latest chart for spending through February is attached to the email.

April 16, 2009 PSWID Meeting

Next regular PSWID Meeting: Thursday May 21, 2009 7:00 PM at the Pine Cultural Center

Note: Mr. Haney said that there would be a lot of short notice special meetings between now then.

1. Board Enters Into Agreement with Brooke to Purchase the Water Companies

- The board approved an agreement that will lead to acquiring the Pine and Strawberry water companies by May 22nd. The agreement requires that the district provide Brooke with \$3,200,000 and that the Brooke will then hand over the water companies to the district. This money is NOT the final price for the water companies. The final price, assuming they don't come to a negotiated settlement, will be determined through litigation in the court system.
- The benefit of this agreement to both parties is that the litigation to determine whether the district has a need to condemn the water companies is skipped. The litigation to determine the final price is still required. That type of litigation can be expected to take one to two years to complete.
- There is the possibility that the water systems could be handed back to Brooke if the price is unacceptable to the board. Mr. Haney stated that until they are sure that they have 100% ownership that improvements to the system will be limited.
- Comment: The likelihood that it doesn't go through would be very low. The district will have already spent a significant amount of the borrowed funds and the district would also have to pay all of Brooke's condemnation legal costs, so there is a big financial incentive to go through with it. In any case, Mr. Pugel would never accept that outcome.
- The board also voted to accept the financing offer from Compass Bank. The board revealed the terms just before the vote. They are borrowing \$6,414,000 with a variable interest rate loan. The interest rate is 65% of the 30 day LIBOR rate plus 300 basis points. The interest rate has a floor of 4% which is where it is currently at. The length of the loan is 20 years. The district is paying some up front points to the bank, but details on this were not provided.
- Mr. Haney stated that the board views this as interim financing, with the thought being that this will be replaced by WIFA funding once the acquisition is complete.
- Comment: Completion of acquisition will likely be when the final price is agreed to and paid. That may be a year or two from now. WIFA funding is limited each year and typically the requests for funding exceeds the available funds by several

times over. WIFA rates the projects and funds them based upon the priority that WIFA assigns. So it may take several additional years to get the WIFA funding. A reasonable estimate is that the Compass Bank loan will be in place for the next three to five years.

2. Rate Impacts Based on Loan Terms

- Mr. Haney continued to maintain his position that there would be no need for any rate increase.
- The board needs to set rates for when they assume control. Those rates need to be published in the paper and a rate hearing needs to be held where they will take public comment. The board instructed Mr. Jones to publish the current Pine/Strawberry rates in the Payson Roundup. A rate hearing will be scheduled in the future.
- Comment: Not sure how Mr. Haney can maintain that there will be no rate increase unless he intends to use the proceeds of the loan to subsidize operational expenses, or perhaps with property taxes. The board is borrowing about \$2 million more than the Economists.com analysis used and they aren't getting the interest only creative financing that Economists.com analysis assumed.
- The Economists.com analysis had yearly debt service for the first two years of \$264,943. The terms on the Compass Bank loan require a yearly debt service of \$468,937, assuming that the interest rate stays at the floor of 4%. Using the current Economists.com analysis, without correcting for the mistakes that have been discussed before, there would need to be an increase in revenue of 16.9% to cover the increased debt service. Correcting for the errors in the Economists.com analysis, the increase in revenue would need to be 25.8%.
- The continuing litigation over the price of the water companies was not included in the Economists.com analysis. This will add substantially to the expenses for at least the first year.

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.