

Hello Neighbor,

This email covers the second part of the May 26th meeting summary. It deals with the water rate increases, the 2010-2011 budget, and some other topics.

May 26, 2010 PSWID Meeting Part 1

Next regular PSWID Meeting: Saturday June 19, 2010 at 1:00 PM at the Pine Cultural Center

A Rate Hearing has been scheduled for Saturday July 3, 2010 at 10:00 AM at Pine Elementary School.

1. Water Rate Increases

- a. The proposed water rate changes can be found here:
<http://www.waterforpinestrawberry.com/data%20pages/BudgetDocs.htm> .
- b. As of July 1st, all Strawberry customers will go to Pine's summer rates. So 3000 gallons of usage for the typical residential user will change based on the Strawberry rate structure that you are on:
 - i. Williamson: \$30.85 -> \$37.45 (+21.4%)
 - ii. United: \$22.60 -> \$37.45 (+65.7%)
 - iii. E&R: \$28.65 -> \$37.45 (+30.7%) (The bulk of Strawberry rate payers are on this plan)
 - iv. Pine: \$37.45 -> 37.45 (0.0%)
- c. As of January 1, 2011 all customers will have the following rates:
 - i. Base rate will be \$36.00 (for the 5/8" meter) which includes the first 3000 gallons of usage. This will take 3000 gallons of usage from \$37.45 to \$36.00, a decrease of 3.9%.
 - ii. Usage of 3000 to 6000 gallons will be \$7.00 per thousand gallons
 - iii. Usage of 6001+ gallons will be \$8.00 per thousand gallons
- d. Residential meter installation fees will increase from \$500 to \$3200. All the other miscellaneous fees will increase as well. (If you need a meter you better get it ordered before July 1st.)
- e. Comment: The "two years without a rate increase" lasted for nine months, but that was a promise based upon political spin. Strawberry hasn't seen a rate increase in 10 years and Pine hasn't seen one in six years. That led, in part, to the current difference in rates between Pine and Strawberry and the need to catch the Strawberry rates up, now that we are all one happy water system. The increased water rates bring the district closer to being able to pay for water operations with water revenues and reduces the size of the property tax subsidy needed. The entire \$6.4 million Compass Bank loan needs to be refinanced in two years and bond market is going to want to see a financially stable district.
- f. Comment: The rationale for the monthly base rate being high and including 3000 gallons of usage is that this transfers more of the fixed costs to weekenders who are likely to use much less water than that. On the other hand, it creates an incentive for those folks to use more water. Hopefully, by the summer of 2011 the additional water sources will be on-line to cover that.

2. Budget for 2010-2011

- a. The slides presented at the 5/26/2010 meeting can be found here:
<http://www.waterforpinestrawberry.com/data%20pages/BudgetDocs.htm> .
- b. The top level summary of revenues and expenses can be found here:
<http://www.waterforpinestrawberry.com/data%20pages/BudgetDocs.htm> .
- c. The total budget for 2010-2011 is \$3,123,080.
- d. Revenues

- i. Property Taxes: \$258,267 (At the May 8th meeting it was said that the \$58,267 was carry over from this year, and the actual levy would be \$200,000. However, there is only about \$14,000 in the Gila County property tax account at this point, so not sure where the rest of it is stashed.)
 - ii. Water Operations: \$1,431,249
 - iii. Grant Revenues: \$70,000 (May or may not actually be granted)
 - iv. Money Borrowed from Compass Bank: \$1,363,564 (This is pretty close to the entire remaining balance on the line of credit.)
 - e. Expenses
 - i. Operating Expenses: \$1,094,268
 - ii. Grant Expenses: \$98,000 (Only incurred if a grant is received)
 - iii. Interest Expenses: \$286,745
 - iv. Capital Project Expenses: \$1,644,067
 - f. The budget includes the following spending assumptions:
 - i. \$50,000 to acquire the assets of Shaffer Water Management (SWM). This is part of converting all the contract employees to district employees. Apparently SWM was providing light vehicles and tools.
 - ii. \$50,000 contingency for capital improvement projects
 - iii. \$820,000 for Milk Ranch well
 - iv. \$412,000 for Strawberry Hollow well. Mr. Jones stated that it is a budgeted amount, not what will necessarily be the price.
 - v. Increased personnel costs for conversion of contract employees to district employees.
 - vi. \$100,000 contingency for operations
 - vii. \$20,000 to begin refinancing effort (Total refinancing cost estimated by the district to be \$300,000 to \$500,000)
 - viii. \$96,000 for engineering and hydrology work
 - g. Comment: Over the last two years there has been a lot of talk about how the district could be run cheaper than Brooke did it and that it would be "free" to the rate payers to transition from Brooke to public ownership. This is the first district budget that has had to address the reality of what it is going to actually cost to run this system. Instead of the operations costs that were advertised as going to be much lower than Brooke's, they are 30% higher. Add in the interest expense on the loan and they are 62% higher. We have been trying to make that point for quite awhile because we felt that the community should have a clear understanding of what to expect from buying the water system. Had the board simply been straight with the community as to what this would mean from a cost point of view, we would likely have spent our time on other things. It is disappointing that PSWID has spent so much time and effort hiding that information from the public over the last two years. Here is hoping that in the future the PSWID board will trust their neighbors enough to be upfront about what their decisions are going to cost.

3. Milk Ranch Meltdown

- a. June 5th Payson Roundup article: There was an extensive article with new info in the Friday print edition, but at this point it isn't posted to their website.
- b. June 5th Payson Roundup editorial:
 - <http://www.paysonroundup.com/news/2010/jun/04/alas-its-easier-start-water-war-end-one/> .
- c. Copy of statement read by Mr. Mike Greer at the 5/26/2010 meeting:
 - <http://www.waterforpinestrawberry.com/data%20pages/BudgetDocs.htm> .
- d. Comment: The general content of Mr. Greer's statement was covered in the Part 1 email, but an additional aspect deserves some attention. He talks about the termination of an employee who had "his ear". Board members need to be careful to not interject themselves into the management of the employees. That is the job of the General

Manager and to do so undercuts his authority. The board needs to provide a clear process for the escalation of employee issues, but it should not allow employees to lobby board members individually for intervention.

4. Financials

- a. The district started posting a cash flow view of the revenues and expenditures instead of the reports on financial activity and position that they provide to Compass Bank. The motivation is to remove the depreciation so that the numbers look better and are more reflective of actual cash expenditures. We will continue to provide the Compass Bank view to the public. There is a problem with the cash flow report that was posted in that the monthly doesn't appear to include the property tax receipts, but the yearly does.
- b. Comment: When the water companies were purchased, the board spent \$100,000 to buy the prior months revenues from Brooke, so at this point there has been seven months of expenses and eight months of revenue. The year to date report shows a positive cash flow of \$82,805.67. If the extra month of revenue is backed out, the actual cash flow is -\$17,194.33. If you back out the property tax subsidy, the actual cash flow from operating the water system is -303,243.36.
- c. The following financial data can be found here:
<http://www.waterforpinestrawberry.com/data%20pages/SOACompass.htm> .
 - i. April Cash Flow
 - ii. April Statement of Activity (provided to Compass Bank)
 - iii. April Statement of Financial Position (provided to Compass Bank)
- d. Cash Flow Position for April:
 - i. Total Cash In: \$83,053.29
 - ii. Total Cash Out: \$91,768.77
 - iii. Net Cash Flow: -\$8,715.48
- e. Compass Bank report for the month of April:
 - i. Revenue: \$153,834.61 (includes \$70,531.78 in property taxes)
 - ii. Expenses: \$107,628.41 (includes \$19,155.45 in depreciation)
 - iii. Interest Expense: \$20,634.27
 - iv. Net Income: \$25,651.67
 - v. Capitalized Work in Progress: \$58,648.58 (These are engineering and other expenses that they decided to move out of the operations budget. These are expenses associated with the two wells.)
- f. Cash Flow Position for year to date:
 - i. Total Cash In: \$866,726.09
 - ii. Total Cash Out: \$783,920.42
 - iii. Net Cash Flow: \$82,805.67
 - iv. Account Balance: \$130,605.74
- g. Compass Bank report for the year to date:
 - i. Revenue: \$866,184.22 (includes \$286,049.03 in property taxes)
 - ii. Expenses: \$891,004.62 (includes \$130,594.92 in depreciation)
 - iii. Interest Expense: \$127,092.26
 - iv. Net Income: -\$151,370.79
 - v. Capitalized Work in Progress: \$127,811.39

5. Board Retains Legal Counsel

- a. The board voted to retain David Davis as the district's attorney.
- b. Comment: According to a statement that Mr. Pugel made at a past PSWID meeting, Mr. Davis has been representing Mr. Pugel in matters related to the Milk Ranch well. Why can't the board hire an attorney that doesn't work for Mr. Pugel?

6. Board Retains Auditor

- a. The board voted to retain Heinfeld, Meech, & Co. to be the auditors for the district.

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.