

Hello Neighbor,

Budget Hearing Meeting: Thursday June 23, 2011 at 6:00 PM at the PSWID Office

I sent a set of questions about the budget to PSWID and was surprised when I received an answer. However, the response contained a corrected tentative budget with major changes in it that increase the proposed budget from \$4,298,138 to \$4,582,520.

As of Monday June 13th the updated proposed budget has not been posted on the PSWID website. I received the copy that I have on the 10th. Not sure how they can have a legitimate budget hearing when the published budget has been changed so extensively.

In the tables below the changes to the budget are summarized.

Table 1 Cash In

Budget Item	Published Budget	Corrected Budget	Comments
Customer Sales Revenues	\$1,825,619	\$1,825,619	
Miscellaneous Revenues	\$39,800	\$39,800	
Sales Taxes on Revenues	\$138,747	\$138,747	
Property Tax Revenues	\$300,000	\$300,000	
Capital Funds from Bank Loans	\$1,786,961	\$1,578,508	No information on how this was determined.
Cash from Prior Year	\$82,411	\$575,246	No information on how this was determined.
WIFA Grants	\$124,600	\$124,600	
Total	\$4,298,138	\$4,582,520	

Table 2 Cash Out

Budget Item	Published Budget	Corrected Budget	Comments
Operations, Admin, & Board Expenses	\$1,278,377	\$1,278,377	
Sales Tax on Sales	\$138,747	\$138,747	
Debt Reserve New Bank Note	\$496,103	\$496,103	
P&I New Bank Note	\$454,762	\$373,539	Shifted from monthly to quarterly payments. Doing that pushed the fourth quarter payment into next year.
New Bank Note Finance Fees	\$37,070	\$37,070	
Capital Expenditures	\$1,760,285	\$1,870,725	Detailed capital budget shows total for FYE 2012 of \$1,972,125. Corrected budget added \$188,942 for Milk Ranch well connection. Reduced MRW #2 from \$160,162 to \$84,961.
WIFA Grants Expenses	\$101,400	\$101,400	
Contingency Expenses	\$31,464	\$286,559	No information on how the increase was determined. Looks to be 6.25% of the total budget.
Total	\$4,298,138	\$4,582,520	Last year's budget was \$3,123,080. The corrected budget represents an increase in

			spending of \$1,459,440. An increase of 46.7%.
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The copy of their response to the questions and the corrected budget is posted here:

<http://www.waterforpinestrawberry.com/data%20pages/BudgetDocs.htm> .

The questions, the PSWID response, and any comments are below.

1. It was stated that the budget assumes the addition of two customers per month. The installation and impact fees are shown as \$6800 for the year. Based upon the current rate schedule of \$1200 per install and a \$2400 impact fee, the total for the year should be \$86,400. Please explain the reason for the difference.
 - a. PSWID Response: The Miscellaneous income stated on the budget is a very conservative dollar amount. It was not based off set criteria of customers per month. It was based off of the following:
 - i. Impact Fees – 4 customers
 - ii. Establishment Fees – 24 customers
 - iii. Meter Installations New Meters – 4 Customers
 - iv. Late fees based on average late fees being charged monthly
 - v. Misc Fees/These fees are NSF fees and Public request fees.

Two customers per month was only used for water income, not misc fees. It should also be noted that not all “new” customers will require the installation of new services, subjected to the Impact Fee. Our experience has found that in most situations, services already exist and do not require the installation of new services but rather just the installation of a new meter and the creation of a billing account.
 - b. Comment: Still a question with regards to the numbers provided in the detailed budget. Shows impact fees of \$4800 for the year, but using the current rate schedule posted on the PSWID website, it should be $4 * \$2000 = \8000 . The budget shows meter install fees of \$2000 for the year, but based on rate schedule it should be $4 * \$1200 = \4800 .
2. The current loans with Compass Bank have a pre-payment penalty. What is the dollar amount of the pre-payment penalty and which budget line item is it included in?
 - a. PSWID Response: There is no Pre payment Penalties with Compass bank as we are refinancing with them.
3. Which revenue item in the budget includes the payment by Solitude Trails DWID for their pro-rata portion of the electricity and maintenance for the water delivered to the Solitude Trails DWID?
 - a. PSWID Response: Per the STWID Water Share Agreement (WSA), there is no pro rata share of electric and maintenance. In the current STWID WSA, PSWID

pays for all maintenance and electric expenses associated with this WSA and only allows deduction of water sent to the STWID development as a deduction from the master meter's total water delivered amount. This provides in regards to the amount of water that PSWID must pay for, that PSWID only pays for water delivered to its distribution system.

- b. Comment: So what this means is that PSWID customers are paying to provide free water to the Solitude Trails DWID customers, in violation of the district's Rules and Regulations. Solitude Trails takes 10-15% of the water from the shared well. Article VIII Section 1.2 of the Rules and Regulations document states:
 - i. All purveyors of water to the District shall be treated in the same manner and shall be paid on the same basis, to wit:
 - ii. \$1.00 per 1000 gallons of water acquired from the purveyor, plus;
 - iii. The **pro rata share based upon the percentage of the water used from the well by the District**, {hereinafter "Pro Rata Share"} of the cost of the operation, maintenance, repair and replacement of the well casing, pumps, pipes, storage facilities, electrical costs and other related costs of bringing the water to the surface and making it available to the District for its use,
...
4. Why is the district setting aside money for donations? What is the criteria for making donations?
 - a. PSWID Response: Donations are a normal part of doing business. Last year we had no donations, however it would be a typical course of business to give a donation on a rare occasion. Currently there is no set criterion for donations and is at the board's discretion.
 5. Why is a contingency of \$31,464 deemed to be sufficient?
 - a. PSWID Response: The contingency amount has been changes please see new tentative budget. –See Attached.
 - b. Comment: The contingency increased to \$286,559. Not sure what the basis would be for such a big jump. More realistic, but probably a bit on the high side now. Hard to say for sure since it is meant to cover the unexpected.
 6. What increase in water sales over the prior year has been factored into the budget?
 - a. PSWID Response: The income was based on the following:
 - i. Took Usage from months on record – 15% increase in usage per average over the last 16 months.
 - ii. Increase usage by (2) Customers per month regular use – 3000 gallons each
 - iii. Calculated Tier 1 – 16% of customers in this tier (based on three month average)
 - iv. Calculated Tier 2 – 51% of customers in this tier (based on three month average).

7. In the detailed budget it has entries for “Electric on Water Shares” and “Telephones on Water Shares”. There are no corresponding entries for district wells and the size of the numbers look like they reflect the expenses for all wells. Are the costs for the districts wells included under those numbers?
 - a. PSWID Response: Yes the headings are corrected see new breakdown attached.
8. Assuming that the answer to the previous question is yes, why are electricity costs expected to go down in comparison to the prior year?
 - a. PSWID Response: Electrical consumption has gone down from prior years due to more energy efficient upgrades in equipment.
9. The budget states that \$82,411 will be transferred in as the balance from the 2010-2011 fiscal year. However, the slides that Mr. Greer presented that support that number appear to have several errors in them:
 - a. Mr. Greer has Bank Proceeds (money drawn from the Compass Bank line of credit) of \$1,263,095.97. The April Cash Flow statement shows \$1,362,310.72. Please explain why the number at the end of April is larger than the number projected for the end of June.
 - b. Mr. Greer has Administration Expenses of \$155,553.18. The April Cash Flow statement has Administration Expenses at \$168,170.46. Adding two more months at the April spending rate, would bring the projected total for the year to \$183,392. Please explain why the number at the end of April is larger than the number projected for the end of June.
 - c. Mr. Greer has Interest Expense of \$176,993.06. The April Cash flow statement has Interest Expense at \$199,839.89. Adding two more months at the April spending rate, would bring the projected total for the year to \$245,533. Please explain why the number at the end of April is larger than the number projected for the end of June.
 - d. Mr. Greer includes an estimate of the Misc Fees revenue for the year of \$68,710.48. As of the end of April, Misc Fees collected are \$39,798.24. Adding two more months of the April Misc Fees collected results in a projection of \$50,392. Please explain why it is expected that an additional \$30,000 in fees will be collected in the last two months of the 2010-2011 fiscal year.
 - e. Given the apparent errors above, what is the correct amount to be carried forward from the 2010-2011 fiscal year?
 - f. PSWID Response: Items A thru E – A new status of operations will be presented at the Public Hearing that will reflect than accrual basis of the budget not the cash basis of the budget. Cash In/Cash Out is much different than accrual accounting. You need to understand the two methods of accounting to understand where the numbers are coming from.
 - g. Comment: Somehow in the corrected budget, they have managed to take the \$82,410 carry over from the previous year and balloon it to \$575,246. Accrual accounting records revenue and expenses at the time they are incurred, not when the actual payment is received or paid. A cash basis records the revenue and expenses at the point in time where the cash actually arrives or departs. The

difference in the two methods doesn't appear to fix the problems pointed out in the question. I guess we will see what the story is at the budget meeting.

10. There is money identified as being received for WIFA grants. In looking at the WIFA website, there does not appear to be any grant applications to WIFA from PSWID for 2011-2012 fiscal year. It appears that the window has closed for WIFA grant applications for the fiscal year. Please identify what WIFA grant applications have actually been submitted and their requested value.
 - a. PSWID Response: WIFA applications, 2012 Cycle 2 opens September 1, 2011 and closes October 31, 2011 for funding requests in the upcoming PSWID fiscal budget year. No additional WIFA grant cycles have been released at this time. The District Manager anticipates applying for grant funding for 1) leak detection survey, 2) unaccounted for water survey, 3) water master plan, 4) energy efficiency survey/audit, and 5) tank inspections.
11. Why has the collected sales tax been added as an item in this year's budget? If collected sales tax count against the district's spending limit for the year, does this mean that the district exceeded its spending authority in the 2010-2011 fiscal year when sales tax collections are considered?
 - a. PSWID Response: Sales Taxes are billed and collected from the customer then paid to the AZ Department of Revenue monthly. The sales taxes in last year's budget were not reflected in the sales revenues or expense since it was a net of effect of \$0 dollars. This year it was broken out only for accounting purposes to reflect actual cash in/cash out effect. Sales tax is not an expense it is a liability based on revenues billed.
 - b. Comment: Still not clear why there is a change here. This budget basically sets the maximum spending level for the fiscal year, by adding the sales taxes in it inflates that maximum level. Sales taxes would also count against the district's ability to spend if more sales tax is collected than was expected.

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 community's 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.