

Hello Neighbor,

There are a couple of broad threads to what is going on that merit some discussion. You can find the commentary on that at the end of the email.

June 19, 2010 PSWID Meeting

Next regular PSWID Meeting: Saturday August 21, 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. A history refresher before we begin:
 - a. 7/16/09 PSWID Meeting: Mr. Jones stated that the Milk Ranch well evaluation had been put on hold until the acquisition of the water systems is sorted out. The well has significant problems with sand and the resolution of that problem will be costly. Mr. Haney said that they do not know the value of the well and that an appraisal will need to be done.
 - b. 10/15/09 PSWID Meeting: Mr. Mike Ploughe said that fixing the Milk Ranch well would be \$120,000 to \$150,000. He said that they are also looking at the Strawberry Hollow well as an alternative. When asked whether the board was buying the Milk Ranch well before spending that much money to redo the well, Mr. Haney said that they haven't worked out those details.
 - c. 11/19/09 PSWID Meeting: **Mr. Haney stated that pricing will be determined based on an independent engineering appraisal. There won't be negotiations in order to avoid conflict of interest issues.**
 - d. 12/17/09 PSWID Meeting: RFP's from well owners who want to sell have been received. Board will be looking at starting negotiations for both the Milk Ranch and Strawberry Hollow wells.
 - e. 1/8/2010 Roundup article: "To acquire the Milk Ranch and Strawberry Hollow wells, the board must negotiate purchase prices with the owners after appraisals are completed." and "Haney says the starting points for negotiating the purchase of the two wells is about \$375,000 for Strawberry Hollow and about \$400,000 for Milk Ranch."
 - f. 02/18/10 PSWID Meeting: Board voted to move forward with a \$1.2 million budget to negotiate Strawberry Hollow, Milk Ranch well, and the first test well. There was general agreement that Strawberry Hollow is the top priority.
 - g. 03/17/10 PSWID Meeting: The question arose about whether it was a good idea to spend public money fixing a private well. Mr. Ray Pugel 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.

- h. 04/16/2010 Roundup article: **“Haney counters, however, saying any money the district puts into the well will be subtracted from the purchase or lease price when a deal with Pugel and Randall is signed.”**
 - i. 04/17/10 PSWID Meeting: Board member, Mr. Ron Calderon, said that Mr. Ray Pugel wants the district to change the appraiser of the Milk Ranch well to a Mr. Clifford Saylor. Mr. Calderon said that Mr. Pugel wants “Someone local, somebody who knows the area, somebody who knows what we are doing, and someone from Kentucky doesn’t”.
 - j. 05/05/10 PSWID Meeting: Board votes to buy Milk Ranch well for \$570,000. Mr. Haney’s objection to going forward with the purchase was that without the information on what the filtration costs will be, that the value of the well can’t be determined.
 - k. 05/07/10 Roundup article: “... chairman Bill Haney cast the lone dissenting ballot, saying he voted “no” because the board did not have a current appraisal, and issues of pumping particles of sand had not been completely solved. We just don’t know what the well is worth, and we have a fiduciary responsibility to the water users,” said Haney. He also said he was not opposed to purchasing the well in the future if a current appraisal was in the board members’ hands and the sand problems were solved.”
 - l. 06/07/2010 Roundup article: “There is a certain process that you have to go through to do those things and some board members don’t understand that,” said Haney. “This doesn’t happen overnight.” The PSWID president also believes the process can be drawn out because the board is dealing with public dollars and must be frugal with how they are spent.”
2. Milk Ranch Well
- a. The pump in the Milk Ranch well has failed, again. Board wants to get an engineer to determine what needs to be done to get it back into operation and keep it there.
 - b. Board has directed Mr. Davis to meet with the owners of the Milk Ranch well to work out the details of an agreement.
 - c. When asked whether the board is still on the path of buying the Milk Ranch well without an appraisal, Mr. Haney said: “As far as the appraisal goes, that will be something that we are kind of giving our attorney carte blanche to put this thing together, as to what is appropriate to make it fly with the bank, to get approvals, and make a real agreement. If it means a formal appraisal by a realtor, great, if it is by another engineer, great, if it is not at all, if we can sell it to the lending institution, great.”
 - d. In response to the question about why spending \$114,000 of public money on the Milk Ranch well was a good use of the public’s money, since that has increased the purchase price of the well, Mr. Dickenson said that it was common sense that the well wasn’t worth anything when they started, but that they couldn’t evaluate the well without fixing it. When it was pointed out that the other course of action that the board could have taken would have been to tell the well owner that it didn’t work and that after he fixed it the district would evaluate it, his response was that the community needs water.

- e. Mr. Pugel got up and defended the board spending money to fix and increase the value of his well. The following is transcribed from the meeting recording: “If I may clear that up so that the public understands what we have done, and so Sam understands. The purpose of that well was not to fully develop it. The purpose of that well was to prove, what Loren proved, to give Loren’s well backup that it wasn’t an anomaly. That there was in fact water in Pine. Because even the Arizona, those of you recall, have been here long enough, to where the high school meeting with the head geologist of the State of Arizona told us folks that you better just get used to it in Pine, you’re never going to have water. Do you recall that, anybody here? Okay. So the reason was that there, we didn’t really have a reason for it so there was no reason to develop the well. Developing the well is air-lifting the sand out of it, flushing it, then put it into production. I think you have to understand that we can see from your [referring to SH well] well, that thank God is producing, without drilling or knowing what the geology is. We know that our water level is at, what, 550. [Corrected by someone that it is 450] What you have is a private individuals, families, take the risk, venture capital risk, to prove that there is water here. Now that’s worth something. What the town did, the improvement district did, they took a very minimal amount of risk to get something they know that they aren’t going to have to pay over a certain price on. Now I would invite, if you want to go for an appraisal, Sam if you want to pay us the difference, because I know what it is worth, that would be awesome. I think what we are proposing is based on comparables with [garbled, there are a couple of words here that I can’t make out from the recording]. As David [Mr. Davis] said \$800,000, \$400,000, a well is a gamble. Just like they are now, now they drill seventeen dry holes before. So yeah, we are suckers for taking the risk up front. Sorry you think that way, but I think the board is taking a minimal risk to develop what the well driller and the pump people have said is an extremely good viable well.”

3. Strawberry Hollow Well

- a. Mr. Loren Peterson, owner of the Strawberry Hollow well, talked about his frustration with the process of selling his well to the district. It would be accurate to describe him as struggling to control his anger.
- b. Mr. Peterson said that he has spent over a hundred thousand dollars getting the well cleaned up, has lowered his price at the board’s request, and is currently running water onto the ground. He asked what more he has to do to get this to move forward.
- c. Mr. Peterson pointed out that all of the other options that the board is looking at are riskier and more expensive and that he doesn’t understand why the least costly, quickly available solution, which actually has water, is not being pursued with any urgency.
- d. Mr. Peterson was also upset that PSWID pulled the pump out of the well and put it back in without cleaning it, as he requested. The well has encountered problems since then.
- e. Mr. Ron Calderon then got upset, saying that the district had not received all the requested paper work. Mr. Don Smith said that the delays were unfortunate, that the district wants to buy the well, but that there is a process to go through.

- f. Mr. Davis has been directed by the board to work with Mr. Peterson's attorney to put a deal together.
- 4. Comment: The ability that Mr. Pugel has to influence the actions of the board to his favor can be seen in the contrast between how he has been treated versus how Mr. Peterson has been treated. It should be remembered that the board only had one critical task to accomplish, hook up enough new water to tip the balance in favor of a restrictions free summer. The Strawberry Hollow well is clearly the best alternative for that since it could have immediately provided water, it is easy to hook into the existing system, and its sand issues were much less severe than those of the Milk Ranch well. With the SH well, the board follows all the rules. For the Milk Ranch well all the rules of responsible behavior are thrown out the window. So which well owner has the ability to get whatever he wants from the board?
 - a. Repairs: Mr. Peterson pays his own sizable expenses for the SH well. PSWID pays \$114,000 of Mr. Pugel's repair bills for MR well.
 - b. Appraisal: Appraisal is done for SH well and it comes in below the price people had in mind. After SH appraisal came in low, Mr. Pugel begins effort to control the Milk Ranch appraisal, ultimately blocking the appraisal.
 - c. Documentation: A board member told Mr. Peterson that they haven't been able to proceed because they haven't received all the documentation. The board approved a verbal agreement to buy the Milk Ranch well, with details to be worked out later, without the documentation on the sand issue, filtration costs, or the cost of connect the well.
 - d. Price: Board has Mr. Peterson lower his price. Board agrees to pay a premium production well price of \$570,000 to Mr. Pugel. This for a well that the public had to pay to turn from a proof of concept hole in the ground into a production well.
 - e. Focus: At the February PSWID meeting, the board ranks SH well as their top priority, yet Mr. Peterson can't get a deal done for a well that solves the critical need for this summer. In that time period, Mr. Pugel gets his well repaired and the board votes his payday, all for a well that wouldn't be hooked up this summer.
- 5. Comments on the Lack of an Appraisal:
 - a. So we have gone from the November PSWID meeting statement that the price of the wells would be based on an independent engineering appraisal, with no negotiation to avoid conflicts of interest, to the position of no appraisal, unless the bank makes us. The community is down to hoping that the Compass Bank will provide some adult supervision. Aren't the officials we elect supposed to act like adults on their own and show some respect for their neighbor's money?
 - b. In his rationalization speech, Mr. Pugel implied that an appraisal would come in higher than the \$570,000, because he "knows" what it is worth. If he were confident that the appraisal was going to support the price or be higher, why try and get the appraiser changed? The appraisal of the Milk Ranch well was nearly complete when it was stopped by the board, why have the board suppress a nearly complete appraisal if you are confident that the price is less than what the appraisal would say? If he were confident that an appraisal would show that he is selling it for less than it is worth, do you think he would not want to take credit for that with the community?

- c. Getting an independent appraisal is a fundamental aspect of good government. The board has no expertise in evaluating the condition or pricing of a well. They have no expertise in evaluating the costs of filtration and connecting a well. We have the situation where the well owner is dictating the price and working to suppress any independent alternative view on that price. This well owner objects to the appraisal and doesn't like the pressure that the \$420,000 filtration/connection costs put on his price, so the engineering firm is shown to the door. The board needs to remember that they are there to represent the financial interests of the community, not the financial interests of Mr. Pugel.
6. Comments on the Price:
- a. Mr. Dickinson acknowledged the obvious, that the well was worth nothing when they first started looking at it. Now according to Mr. Dickinson and a majority of the rest of the board it is worth \$570,000. So every dime of that value was paid for by the community.
 - b. In his rationalization speech, Mr. Pugel admits that the well was a proof of concept well, a test well. He lets it sit and deteriorate and it becomes less than a test well. A well that you can't get water from has reverted to being a deep hole in the ground. The district spends \$114,000 (and maybe considerably more by now) to resuscitate the well and make it usable (the jury is still out on this since they can't seem to keep it running for more than a week or two at a time). Mr. Pugel then demands and gets a high price based on the idea that it is a production well. This is totally backwards to basic common sense. If I find a rusted out classic car out behind a farmer's barn and I put in the time and money to restore it, I don't pay the farmer for that restored value. You don't add a room to a house before you buy it and then pay the owner the increased value when you do buy it. This is a transfer of our money to an influential person that, if it isn't criminal, is at the very least a major breach of ethical behavior by these elected officials.
 - c. Mr. Pugel likes to call himself a "risk taker", and in his rationalization speech he clearly feels that he should be richly rewarded for making a "venture capital" investment in the Milk Ranch well. Mr. Peterson is the real risk taker here in that he drilled the first well. Drilling the second well is not nearly as risky, although it was a substantial investment. It was reported at the time to have cost about \$250,000. The ability to pump water (and sand) was demonstrated at the time and then it was allowed to sit and deteriorate. It was used as a political lever to oust the prior PSWID board ("We Have Water Now") and ultimately was promised as a solution just sitting there ready to go if only Brooke didn't own the water companies. No talk of it being a proof of concept well back then. The water companies were purchased and then the bad news starts to leak out that it is plugged up and will require a lot of money to fix. Then it starts to come out that the community is the one that is having to fork over the dollars to fix the well. Now after \$114,000+ has been spent, we are being told by Mr. Pugel how lucky we are that he took a risk and we should be happy paying to fix it and paying an inflated price to buy it. Had Mr. Pugel risked his own money and paid the expenses to bring his well up to snuff, as Mr. Peterson did, I think that would have gone a long way to reduce the stink that surrounds this deal. At this point, a fair price would be the appraised value minus the expenses that the district has put

out on his behalf. That would be the same return as if he had paid the expenses upfront himself. The amount left over would be a good return for what in December was just a deep hole in the ground.

- d. In his rationalization speech, Mr. Pugel said that there were seventeen dry holes. The sentence wasn't complete but he seemed to be implying that there are seventeen dry holes for one that isn't. In Pine, we are three for three on producing wet ones, so I'm not sure how his point was relevant.
- e. It was asked in an earlier meeting who was going to pay for the line extensions to the meters that are being included in the deal. There was no answer to that. If the district agrees to pay for the line extensions, it opens up the possibility for serious cost expenditures on the part of the district. If the district is paying for the line extensions, then any developer or individual facing a high cost line extension could bring in Mr. Pugel and his meters to get the district to pay to put in the line extension. The district needs to guard against allowing that scenario to occur.
- f. There are a lot of apples to oranges comparisons going on. In the meeting, the \$800,000 cost of the Portals IV well was being compared to the \$400,000 advertised price of the Milk Ranch well. The \$800,000 Portals IV well includes everything, land, well, filtration, and connection to the water system. The \$400,000 is a mis-statement of the cost of the Milk Ranch land and well, as that does not include the \$170,000 value of the free meters in the deal. Nor does it include the \$114,000 spent by the district to make it usable. The cost to bring the well to production, filtration, and connection to the water system comes to a total of about \$1.1 million. That is the number that is comparable to the \$800,000.

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.