

Hello Neighbor,

I came across this quote from Mark Twain the other day: “In the first place God made idiots. This was for practice. Then He made school boards.” They must not have had water boards in his day.

I have about half a dozen major activities going on in my life and as my wife can attest, I don't have enough time to do any of them very well. I will be working through my backlog of meeting summaries. I still have part two of the May meeting to do, as well as last Thursday's meeting. To keep you from being on pins and needles, the following is a brief synopsis of my observations of what went on at last Thursday's budget hearing:

1. The board passed the corrected budget. Property taxes for the district are increased by 50%.
2. The board continued to suppress the public's ability to understand what it is that the board is doing. Members of the public were limited to just one question about the budget. For most of the questions that were asked, Mr. Gary Lovetro would first argue about the question itself and then launch into long speeches about all the things the board has done, but not really answer the question. Several times he lectured that the public had no input into the budget and shouldn't expect to have any. Apparently, we are to just sit quietly and allow them to take what money they want and do with it whatever they please.
 - a. Comment: For last year's budget and rate hikes, when the board was under different leadership, there were several public meetings where it was explained what the challenges the district was facing, the makeup of the customer base, and the approach that was being taken to changing the water rates. During those meetings many questions were asked by the public and ideas from the public were discussed. You may disagree with the final decisions that the board made, but at least the leadership of that board had the confidence to share their thoughts with the public and to listen to the public in return.
3. There was a great deal of complaining by the board about the Pine Creek Canyon road project and how it had “forced” them to raise property taxes. However, they would not answer the question as to why the \$799,000 in the capital budget that is for yet to be identified purposes couldn't have been lowered by \$100,000 in order to keep the property taxes the same.
 - a. Comment: The board's argument about the cost to the district being “extra” is based upon the false premise that they wouldn't have had any reason to fix it otherwise. As you can remember the board made a big deal out of the aged piping and the critical need to address that as a reason to first elect them. Then as part of the justification to purchase the water companies. That pipe that runs along Pine Creek Canyon Road is one of those old pipes. As proof, a few weeks ago they fixed a leak behind my house and when they turned the water back on, a section of that pipe burst and they had to repair that. So the reality is that the road project accelerated the replacement of the pipe, which already needed to be replaced. Repairing the infrastructure might have just been a campaign slogan, and if they had a master plan (which they don't) for repairing the old infrastructure, there might have been other things that were a higher priority, but it isn't correct for the

board to say that this is an extra expense being forced on them by the county. Only the timing is being forced.

4. One of the statements that Mr. Lovetro made several times is that a property tax increase is better than a rate increase because it is tax deductible. For those people that itemize their taxes that may be the case, but there are significant negatives to that approach:
 - a. It hides what the true cost of water is from the customer. The \$300,000 is 13.9 % of revenue.
 - b. By avoiding a rate increase, the increase gets far less scrutiny by the public. Last year's rate/budget meeting was held in the school gym and had at least 100 people attend. Many were very vocal and lots of good questions were asked (people weren't limited to one question since it was prior to the free speech suppression effort under Mr. Lovetro). In fact, an error in the rate schedule was pointed out by a member of the public and it was corrected before the board voted on it. This year, there might have been 10 people at the budget meeting.
 - c. It places a burden on property owners who do not get water from the district. There are arguments that those property owners see increased value in their homes because their neighbors have access to water, but who has seen any increase in value for the last few years?
5. Mr. Ron Calderon continued his penchant for wildly inaccurate claims when he told the audience that the district is taking the same revenue as Brooke did, \$1.8 million. Mr. Calderon is wrong on two counts, first the district is projecting that it will take in revenue of \$2,165,419 in the next fiscal year. Secondly, the peak year of revenue for Brooke was 2006 at \$1,293,709. In 2008, the last full year of Brook operations, the revenue that Brooke took in was \$1,123,072.
 - a. Taking a trip down memory lane, in 2008 Brooke's operations expenses were \$646,385. Prior to the purchase, the board swore that they could operate the district for \$882,000, despite solid evidence and common sense to the contrary. Last year's operations expenses were \$1,253,639. Next years are projected to be \$1,278,377.
 - b. Brooke's expense for debt was \$0. Last year's debt expense (not included in operations expenses above) was \$256,618. Projected yearly debt expense going forward is \$498,052. The doubling of the debt costs is due to borrowing an additional \$1,000,000 and starting to pay back principal on the loan. Prior to this the debt expense was for interest only.

Someone shared with me the questions that they sent to PSWID about the budget and PSWID's responses. The questions, the PSWID response, and any comments are below.

1. Meter Replacement Program - \$26,614.00. How will this program be administered? Will you simply start in the oldest subdivision (I assume Cool Pines) and work your way through Pine and Strawberry to the newest? What is the cost of replacing a meter? How many years will it take to replace all of the water meters? Will the plan for replacing meters be made public so that everyone will know what meters will be replaced when?
 - a. PSWID Response: The District Manager developed models to evaluate a 1, 3, 5, 8 and 10-year replacement program. Only with the 8 and 10-years models could this work be completed in-house and without the need for an outside contractor.

The District Manager has recommended to the Board that they approve the 8-year replacement plan. The order for which meters will be replaced will begin with the oldest meters first (not by subdivision) and continue until all meters have been replaced over the next 8 years. Meters cost anywhere from \$37 to \$199, depending on their size. There is no plan or need to inform the public which meters will be replaced and when. Typically, a service order will be issued to the field service crew with instructions to replace the meter at a certain address. Each meter replacement will take approximately 10 to 30 minutes to complete.

2. You state that you anticipate 2 new customers a month during 2011 - 2012? How many new customers did PSWID add in 2010-2011? Have you placed the income from "new customers" in miscellaneous revenues? By new I am assuming that these customers are added to your customer base and not just a replacement of someone moving out of the area.
 - a. PSWID Response: In the 2010-2011 Fiscal year PSWID had 34 New meter installs \$17,800.00 in miscellaneous revenues associated with these installs.
3. Does your attorney bill you for travel time to and from Phoenix? If he does have you considered having him participate in meetings via telephone conference? The information he offered at the May 19 meeting concerning impact fees was very interesting and worthwhile. However, he could have participated in the meeting and given the same information, at less cost (if he charges for travel time, mileage and meals) by telephone or with a letter to the board. Has he given you an estimate of how much legal work (and the cost of the legal work) that will be generated by the new Arizona impact fee policy?
 - a. PSWID Response: Billing records do not indicate travel time for attendance at meetings. We do get charged an hourly rate for all items done including attendance at meetings. I don't think the public can determine if we need our attorney present at certain meetings or not-that is up to the board.
4. Milk Ranch Well #2 - \$160,162.00. Does this price include everything that is needed to make the well fully functional and integrated into the PSWID system? I believe that the total purchase price for the Strawberry Hollow Well and Milk Ranch #1 was somewhere in the (including the monies needed to repair the Milk Ranch Well and integrate it into the PSWID system) \$1.5 million range. How can you get a fully functional well fully integrated into the PSWID system cost less that \$160,162.000? Are you underestimating the cost of Milk Ranch #2? If you are not underestimating, what made Strawberry Hollow Well and Milk Ranch Well so much more expensive? Why is Milk Ranch Well #2 so much cheaper?
 - a. PSWID Response: Total Purchase and Costs for Milk Ranch #1 Well to date is \$588,150.90 With hook up costs to date of \$57,368.00 and a remaining \$188941.00 to finish. Total Costs of MRW #1 Well will be \$834,445.99. Total costs for STRH003-Purchase and Hookup \$479,451.26 making total for both wells MRW#1 & STRH003 \$1,313,911.16. Cost to hook MRW#2 to system- \$160,162.00- We are able to reduce the total cost to develop this well for several reasons: 1) District already owns the well casing needed for the project, 2) District already owns the pump column needed for this project, 3) source of power is already at well location, and 4) water produced from this well will be pumped into the 20,000 gallon storage tank being constructed at MRW#1 eliminating the need

for an additional storage reservoir and booster pumps.5) PSWID Owns the land, this is the biggest savings compared to SH3 & MRW#1 transactions.

- b. Comment: The above numbers do not include the value of the \$171,000 in free meters that are being provided as part of the Milk Ranch Well purchase. The board claims that the value of those meters is \$7550, which is the actual physical cost of the meters. While that might be the out of pocket expense for the district, the district is foregoing \$171,000 in revenue, which they will have to make up out of the pockets of their customers and property tax payers. So the **cost of the Milk Ranch well to the community is \$1,005,445.99**, and the total for the two wells is \$1,484,897.25.
5. I was told that Milk Ranch Well #2 was made possible because you recently discovered that PSWID owned some land that the board had not known PSWID owned. How did PSWID find out about this asset? What steps are being taken to ensure that PSWID knows about all of its assets?
 - a. PSWID Response: the parcel of land was brought to light during a parcel search in the planning stages for MRW#1. The PSWID engineer did a survey on MRW #1 & easements across the creek then informed PSWID that they owned this parcel of land, then a more complete title search confirmed the findings. The current planned piping location was made available due to that discovery, but is not the sole determining factor to proceed with this project. The District has an easement across the adjacent trailer park property which could have been used for the pipeline leading over to MRW#1. PSWID has a list of all the assets purchased from BUI in the purchase agreement and the District Manager will make himself familiar with property owned by the District and inform the Board, when necessary.
6. Service Truck Field Operations - \$62,000.00. I assume this means the same as "service truck used in field operations." Please let me know if this assumption is correct. I assume that since this truck is a line item, no vote will have to be taken for this purchase. Is that a true assumption? Will a request for bids have to be published? Will the public be told when this purchase is made?
 - a. PSWID Response: Your two assumptions are correct. This line item is the service truck used in field operations and since it's a line item in the budget, no vote will have to be taken for this purchase. PSWID will follow the procurement guidelines established in the District & Regulations. There are some exclusions to publishing requirement. There is no plan or need to inform the public when the purchase is made.
7. WIFA Grant. I notice that you are hoping for a WIFA Grant in the amount of \$124,600.00 while WIFA expenses come to \$101,400.00, I assume that some WIFA Grants require matching funds from you and that is why you have a "WIFA expense." Is this assumption correct?
 - a. PSWID Response: Yes, your assumption is correct. Grant funding is limited to 60% of planning and design work to a maximum of \$35,000 per project.
8. You have \$100,000 in proposed capital expenditures for Mapping System-AUTO CAD. You also have Auto CAD Mapping System in you WIFA Wish List. Does this mean that the mapping system will only be done with a WIFA Grant? Does this mean it will only

be partially done if you don't get the grant? I notice quite a few items on the WIFA Grant wish list. How much are you hoping for each individual item?

- a. PSWID Response: The AUTO CAD project will be completed with or without grant funding as an approved budget capital item. It is our hope that we will receive up to \$35,000 to offset the planned expenditure. In regards to the WIFA Wish List, are hoping to receive up to 60% of planning and design work up to a maximum of \$35,000 for each project.
9. Infrastructure & Development Improvements - \$799,209.00. Please break this amount down. What improvements to what at what cost for each improvement?
- a. PSWID Response: No Breakout for this item yet. Will be determined on needs during the fiscal year by management & Board.
10. Do you have a long term financial plan?
- a. PSWID Response: What is meant by Long Term??-We have provided the Bank with a 24 month plan and because there is so much structural improvement required we need to address the immediate needs of the system first before a long term plan can be determined. A future years Water Master Plan will be the basis for the long-term capital expenditure plan.
 - b. Comment:
11. Capital Funds from Loans - \$1,786,961.00. In 2010 - 2011 and 2011 - 2012 you added (beyond the purchase price) to PSWID debt. How large of a customer base does PSWID need in order to end the dependence on loans? Is there anything that can be eliminated, or can things be done at a slower pace, in order to reduce the size of these loans and control PSWID debt?
- a. PSWID Response: The current plan is to address the immediate needs and controlling costs and/or slower pace of operations has already been considered.
12. At the end of the 2010-2011 fiscal year what will be PSWID's total debt - purchase price and additional loans?
- a. PSWID Response: This is provided in a monthly financial status report on our Website.
13. Why have you not broken out proposed capital expenditures in the Tentative Budget posted on your website as you did in the handout distributed at the May 19 meeting?
- a. PSWID Response: the budget is always presented in summary form this is typical for all business operations. The details and the breakout of the items are determined by management and Board of Directors on an as needed basis.

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.