

Hello Neighbor,

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.

The PSWID board held a short notice special meeting to address preliminary information provided to them by Coe and Van Loo (CVL) with regard to the estimate of the value of the two water companies. We have posted a copy of the valuation here: <http://www.waterforpinestrawberry.com/data%20pages/CVLPages.htm>. The purpose of the meeting was to vote on whether to make a formal offer to Brooke based on that information.

Considering the short notice, the meeting was well attended. To his credit, Mr. Haney made sure that I was aware of the meeting. Hopefully the deluge of rain and hail during the meeting wasn't an omen.

The value provided by CVL, which is based on 2006 numbers, is 35% less than the valuation that was done with the 2002 numbers. I look at that in more detail below.

Wes Suhr provided a graph from his home weather station on the July 3rd downpour. The graph can be viewed here: [http://www.waterforpinestrawberry.com/data%20pages/PSW%20HomeStaMonsoon1\[1\].pdf](http://www.waterforpinestrawberry.com/data%20pages/PSW%20HomeStaMonsoon1[1].pdf).

July 3, 2008 PSWID Meeting

Next regular PSWID Meeting: Thursday July 17, 2008 7:00 PM at the Pine Cultural Center

- [CVL will be presenting their conclusions to the public at this meeting](#)

1. Board approved a motion to send Brooke a formal offer of \$2,172,466 for both water companies and the Magnolia pipeline.

- Brooke will have 20 days to accept, reject, or counter offer. After that point, the district can begin the condemnation process.
- The condemnation process starts with the district filing suit against the water companies. An appraisal by both sides will take place and then there will be a jury trial, outside of Gila County, with both sides presenting why their valuation is the appropriate one. The valuation will be the value at the time of the trial. The jury then determines the amount and the district will be required to pay whatever that amount is.
- When the Town of Cave Creek went through the condemnation process of their water company it took 24 months, and would have taken 29 months if they had

gone all the way to trial (For more details: <http://www.waterforpinestrawberry.com/data%20pages/AntiTakeover.htm#Condemnation>). There has been the claim circulating that this can go to a judge and avoid a jury trial. The choice of jury or judge is up to the party whose property is being condemned. A jury trial is advantageous to Brooke, so it will likely go that way.

2. Summary of the CVL letter

- Valuation was done by reviewing existing ADWR, ADEQ, and ACC annual reports and records and from physical observations made during a site visit. (Note: The latest ACC report available is for 2006.)
- CVL used six different valuation methods:
 - Book Value: \$643,335
 - Reconstructed Cost New Less Depreciation (RCNLD): \$2,172,466
 - Single Period Capitalization: \$945,743
 - Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA): \$1,503,515
 - Discounted Future Cash Flow (DFCF): \$2,611,854
 - Market Value Per Connection (MVPC): \$8,543,557 [\$2775 per connection]
- RCNLD and MVPC are typically used to determine the value of a water utility.
- CVL states that this is not a formal appraisal and is only intended to assist PSWID in developing a reasonable offering price.
- CVL recommends an offer price in the range of \$2,172,466 to \$2,500,000.

3. Comparison with the 2003 Valuation

- CVL used a company called Economist.com as a subcontractor in preparing the valuation that they submitted to the board. Economist.com also prepared the earlier valuation in 2003 that was based on the 2002 numbers.
- The 2003 valuation used the same sources of information, but doesn't appear to have included a site visit.
- The 2003 valuation did not include the Magnolia pipeline, the CVL valuation does
- The 2003 valuation used three different methods:
 - Reconstructed Cost New Less Depreciation (RCNLD): \$3,300,000
 - Discounted Future Cash Flow (DFCF): \$3,000,000
 - Market Value Per Connection (MVPC): \$4,300,000 [\$1500 per connection]
- The 2003 valuation can be viewed at the Pine Library. Some months ago I took the RCNLD analysis from the 2003 valuation and updated it to the 2006 numbers and the passing of four years. Where the original cost numbers in the 2006 ACC report showed substantial increase, I adjusted the age of the asset. The original 2002 RCNLD valuation and the update to 2006 can be found here: <http://www.waterforpinestrawberry.com/data%20pages/Asset%20Valuation.pdf>
 - Reconstructed Cost New Less Depreciation (RCNLD): \$4,657,147
- Why is this valuation so much less than the earlier valuation that didn't include the Magnolia pipeline?

- Based on the limited information in the CVL letter, it looks like they have significantly reduced the number of years of useful life on the assets in comparison to the 2003 valuation. This has the effect of increasing the depreciation and reducing the resulting overall value.
- Hopefully CVL will explain why they have reduced the useful life of the assets at the July 17th meeting.

4. The question was asked why it was prudent to make this decision now when the other costs that are required for a functioning water district haven't been addressed and the impact on rate payers has not been determined. Mr. Haney responded by reading from some handwritten estimates that he had made, but had not yet shared with the rest of the board.

- Mr. Haney's statement on revenues
 - Anticipated operation cost of the water companies: \$800,000
 - Current revenues: \$1,300,000
 - Cash for Debt Service: \$473,000
 - Provides service for a 20 year loan at 4% of \$6,400,000
 - Comment:
 - 2006 Total Revenues: \$1,293,709
 - 2006 Metered Water Revenues: \$1,227,717
 - 2006 Operating Expenses Minus Property Tax: \$962,742
 - Not clear how operating expenses are reduced by 17% when losing the efficiencies that Brooke has in sharing employees between their water systems in the area and also improving customer service
 - The whole point of the exercise is to sell more water to the communities. Increased water sales will probably balance out some or all of the murkiness about what it will cost to operate.
- Mr. Haney's near-term (note: the groupings are my interpretation) costs, not counting the acquisition of the water companies:
 - Two additional wells: \$1,400,000
 - Connect MRW well: \$130,000
 - Additional storage in Strawberry: \$300,000
 - Refurbish Pine Storage: \$350,000
 - Abandon 12 wells: \$180,000
 - As-built drawing of system: \$100,000
 - Chlorination: \$60,000
 - Office Building: \$250,000
 - Equipment/Material: \$240,000
 - Second well Connect: \$120,000
 - Replace 10,000 ft of main in first year: \$400,000
 - Computer Control System: \$150,000
 - **Total: \$3,680,000**
 - Comment: I have been working on a cost estimate as well. Mr. Haney adds some items that I hadn't considered. While there is some difference on some of the estimates, they aren't big enough to be of concern.
- Mr. Haney's long-term costs:

- Replace 74,000 ft. ABS pipe: \$2,600,000
- Convert 2 & 3 in. PVC to 6 in.: \$2,000,000
- Third Well: \$700,000
- **Total: \$5,300,000**
- Comment: I don't agree that there is a blanket need to replace the ABS pipe. There is no regulatory requirement to do so. Breakage rates should be monitored and replacement should only be done as required.
- Mr. Haney missed listing the following costs:
 - Operating Capital: \$200,000
 - Underwriting/Legal Fees: \$500,000
 - K2 Breach of Contract: \$300,000
 - **Total: \$1,000,000**
- Adding the board's view of the acquisition cost, Mr. Haney's near-term list, and the items that he forgot to include the total comes to **\$6,852,000**. More than the loan amount, but not by a whole lot.
- The risk comes in what the difference is between the board's offer and what the jury decides. Every \$1,000,000 above that will cost each customer in Pine and Strawberry an average of \$1.97 per month.

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.