

Hello Neighbor,

Attached to this email is the most recent condemnation spending chart. The total is at \$555,000. Mr. Harry Jones did not submit his billing for August. Next month's spending report will cover the end of the condemnation spending.

The presentation materials from the meeting can be viewed here:

<http://www.waterforpinestrawberry.com/data%20pages/PurchasePSWIDDocs.htm> . The presentation was made by Mr. Mark Reader of Stone & Youngberg LLC and Mr. Michael Cafiso, Esq. of Greenberg Traurig LLP.

### **September 29, 2009 PSWID Meeting**

**Next regular PSWID Meeting: Thursday October 15, 2009 7:00 PM at the Pine Cultural Center**

#### 1. Fixed Rate Loan

- PSWID borrowed \$4,164,000 at a fixed rate of 4.55%.
- The first two years are interest only (\$189,462 per year) and then for 20 years there is principle and interest payment (\$317,472 per year)
  - a. The presentation given at the meeting said the principal and interest payment would be \$340,000 per year. This appears to be based on an 18 year term, however, in the meeting Mr. Reader stated that the principle and interest portion would be for 20 years. I used 20 years for my lower number.
- Prepayment penalties: First year 3% (\$124,920), second year 2% (\$83,280), and the third year 1% (\$41,640). Comment: It isn't likely that they can get the refinancing done in less than a year, so the second year penalty is the one likely to be applied.
- The proceeds of the loan were used as follows:
  - a. Water System Acquisition: \$3,500,000
  - b. Debt Service Reserve Fund: \$317,472
  - c. Cost of Issuance and Contingency: \$346,528

#### 2. Variable Rate Loan

- PSWID obtained a line of credit (LOC) for a maximum of \$2,250,000. The LOC is a variable rate that is recalculated monthly based on the formula:  $(\text{LIBOR} * 0.65) + 3.75\%$ . There is an interest rate floor of 4.50%. According to the presentation the formula currently results in an interest rate of 3.95%, which is increased up to the floor of 4.5%.
- Interest is charged only on the funds that have been withdrawn from the LOC.
- The first two years are interest only (\$101,250 per year at full draw and floor interest rate) and then for 20 years there is principle and interest payment (\$170,815).
  - a. The presentation given at the meeting said the principal and interest payment would be \$182,000 per year. The difference in numbers appears to be the same issue as with the fixed rate loan.
- Prepayment penalties: None

- 13.1% of each advance would be deposited in a reserve fund
- The proceeds of this loan are anticipated to be used as follows:
  - a. Accounts Receivable Acquisition: \$100,000
  - b. Capital Improvements: \$1,568,264
  - c. Debt Service Reserve Fund: \$261,036
  - d. Working Capital Funds: \$320,700

### 3. Water Rates

- Mr. Haney said that he had received a summary of a rate analysis prepared by Economists.com that continues to show that there will not be a rate increase needed for the first two years. He said that Mr. Dan Jackson of Economists.com will come to either the October or November PSWID meeting to present the rate analysis.
- Mr. Haney also indicated that the property tax would be phased out over the next couple of years. It is \$300,000 this year and he said \$200,000 next year, and \$100,000 the following year and then zero after that.
- Mr. Haney indicated that the water usage restrictions had cut revenues substantially in Strawberry and that the rate at which the property tax is reduced would be dependent on how revenues from water sales increase.
- Comment: Beware of politicians promising future tax cuts.
- Comment: Over the last year I have been talking about why the operational revenues will not cover the operational expenses and debt service that result from the district taking over the water systems. I have said that the only way that they can maintain that position is to subsidize the operational revenue through borrowed money and/or property taxes. Now there is no more ability for them to hide their intentions. As Mr. Haney indicated at the meeting, property taxes are going to be used to shore up the finances of the district. The purchase of Augusts' receivables with \$100,000 of borrowed money converted that borrowed money into \$120,000 of additional operational revenue, with no operational expenses for that month. Basically, in this 8 month long fiscal year for the PSWID water system, there will be nine months of revenue and only 8 months of expenses. It will be interesting to see how Mr. Jackson tries to finesse that.
- Comment: The two years without a rate increase is not without a cost to the community. The interest only payments for the first two years total \$628,764. Add in the borrowed \$100,000 converted into revenue and the property taxes of \$400,000 for the two years and it totals \$1,128,764. I have never understood what the singular desire on the part of this board is to have the first two years be without rate changes. Strawberry has already gone nine years without a rate increase and Pine has gone five years. Why is it worth over a million dollars to add two more years to that? My speculation is that they are either proud to admit that the initial rate analysis was wrong or that they want to get the board through next year's election intact.
- Comment: I would like to thank all of the property owners in the district that don't get water service from PSWID for helping to pay my water bill for the next two years.

### 4. Future Financing Plans

- Compass Bank sees these loans as interim financing and wants them replaced as soon as reasonably possible.
  - An immediate application to WIFA to refinance the \$1,568,264 capital improvement portion of the variable rate loan is being considered. Presentation indicated that WIFA loan rates are about 2.75% right now. WIFA will not refinance the loan associated with the condemnation of the water companies.
  - The plan is to refinance the remainder of the loans through an open-market bond financing. To accomplish that the following needs to happen:
    - a. Complete a June 30, 2010 PSWID audit to provide revenue financials.
    - b. Complete a financial feasibility report.
    - c. Secure an investment grade credit rating (Goal: BBB+/A- range)
    - d. Create and sell the bonds
  - The bonds would likely be 30 year bonds to make the payments similar to the other financing
5. Property Tax Payment
- The Gila County Board of Supervisors required that the full amount of 2009 property taxes for water system property be paid. Brooke to pay 75% and PSWID to pay 25%.
  - The PSWID board voted to pay \$15,209.54 for their share.
  - For those that received their property tax bills recently, note the 3X increase in PSWID taxes. For me, that represented 37% of the total tax increase over 2008.
  - Comment: Gila County has an expectation as to the amount of money they can extract from this area. While it won't be obvious, expect the County to make up that lost property tax revenue through additional increases in valuations or rates for 2010.
6. Operating and Administrative Rules for the District
- The board approved an initial set of rules and regulations that the district will operate by. They said that it is 27 pages long and that it is an initial draft that needs additional work. There was no discussion of the content and it has not been posted on the PSWID website.
7. Long-Term Thoughts
- Comment: This board has shown that they are less than open with the public about what they doing and how much things will cost. Given the heavy influence that Mr. Pugel and his surrogates have with this board, there is a good deal of mischief possible in the future. Some of the things to watch out for are:
    - a. Declaring the district a waste water improvement district. Mr. Haney has already said that this is on his list of things to do in the future. Mr. Harry Jones has written in the past about his desire to see a sewer system in Pine-Strawberry. I don't know whether a sewer system is needed or not. My inclination is not, but the point is that it should be something that the community decides whether, through a petition drive to establish a waste water improvement district, to look at it and perhaps pursue.

- b. Mergers with other local Domestic Water Improvement Districts (DWID). There are several small ones in the area that will likely want to merge with PSWID. Care needs to be taken that the district does not inherit more costs than benefits from the mergers.
  - c. Subsidizing developer's access to water. The district needs to be sure that the costs/impacts of adding a new meter are fully recovered and that developer's pay for line extensions and connecting into existing lines. This shouldn't be over-charged for, but under-charging acts as a subsidy to developers.
  - d. Replacing 22 miles of pipe. This always seemed like just a campaign issue, but Mr. Haney has said that he wants to borrow another \$6-\$10 million to do that and other improvements. It would be a big waste of money to pull up pipes that may be old, but aren't leaking. It would make more sense to identify areas where breakage is higher than normal and address those, rather than do a wholesale tear out. There is some asbestos cement pipe. It has a scary name, but there is no health hazard associated with its use. Its use was stopped because there was an inhalation hazard when it was being cut for placement in the ground. Trial lawyers have been trying to extend their asbestos litigation to this pipe of pipe for quite awhile but have never come up with a study to show a cancer linkage. There is no government mandate to pull it out. There needs to be an honest discussion of the benefits and costs of pulling up pipe before large sums of money are spent.
- My prediction is that the board will decide that it wasn't such a bad idea to drill a deep well at the K2 site after all. There are too many positives from an economic and operational sense to be ignored.

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](mailto:WaterForPineStrawberry@hotmail.com). Emails on earlier meetings are available on our website: [www.WaterForPineStrawberry.com](http://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](http://www.WaterForPineStrawberry.com), for more information. The website for PSWID is [www.pswid.org](http://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.