

Below are my responses to the claims that Mr. Pugel made in his letter to the editor in the December 2, 2008 Payson Roundup. His letter can be found here:

http://www.paysonroundup.com/news/2008/dec/02/false_information_being_spread_about_water_problem/.

Question/Claim	Response
Questions for Mr. Schwalm:	
<p>Mr. Schwalm is in denial that some of the recalled board members secreted documents provided by Robert Hardcastle of Brooke Utilities from other board members prior to the K2 vote and withheld them from the public for almost one year.</p>	<p>PSWID hired Mr. Mike Ploughe to do an evaluation of the K2 site. Brooke independently hired three other hydrologists to review Mr. Ploughe's evaluation. Later, Brooke provided these three reports to the board under a non-disclosure agreement.</p> <p>A non-disclosure agreement is common in business when sharing information with another entity. The non-disclosure agreement basically says that the information shared is considered sensitive by the owner of the information and access to it is to be limited.</p> <p>Two board members, Mr. Wes Suhr and Mr. James Richey, were assigned to review the three reports and provide a summary to the other board members. The existence of these documents, the fact that they were being presented as a summary was known to all board members.</p> <p>The documents remained under non-disclosure until they were released as part of unrelated litigation. By that time two of the board members had backed away from their support of the K2 project and they used the fact that they hadn't seen the content of the reports themselves as the reason that they had changed their mind. The reports were commissioned for the evaluation of the K2 site. Mr. Ploughe added some discussion of potential in Pine and the other hydrologists that reviewed his report followed along. In evaluating the reports, the focus was on the information related to the K2 site.</p> <p>I have reviewed the reports and they verify that there is good potential yield at the K2 site. The discussion of the potential for deep wells in Pine is very general in nature. It is true that the well would not have to be as deep in Pine and therefore less expensive, but that is only one of the costs. The K2 site more than outweighs the difference in drilling cost with its reduced land and interconnection costs. All of the hydrology reports can be found here: http://www.waterforpinestrawberry.com/Hydrology.htm.</p>
<p>Mr. Schwalm ignores two blatant conflicts of interest in the K2 negotiation process by a member of the water development committee, who later became a board member and another board member who became employed by Brooke Utilities shortly after leaving the PSWID board.</p>	<p>At its most basic, a conflict of interest is when someone is serving two masters and an action taken for the benefit of one master is detrimental to the interests of the other master. Mr. Pugel and his surrogates have accused Mr. James Richey and Mr. John Breninger of having had a conflict of interest.</p> <p>For Mr. Richey the claim is based upon his purchase of water storage tanks and the land under them from PWCo. For Mr. Breninger, the claim is based upon his being hired by PWCo to be project manager for the K2 well after he had left the board.</p> <p>Mr. Richey purchased the water tanks prior to being a board member. The three tanks had been declared hazardous and had been</p>

	<p>condemned by Gila County. Mr. Richey purchased them for \$1000. Gila County later bought the three tanks. Two were scrapped and the third was refurbished and moved next to the landfill to hold water for fire-fighting.</p> <p>Mr. Breninger was not a board member when the K2 project was negotiated and approved. There was no discussion of employment with Brooke while Mr. Breninger was on the board.</p> <p>In neither of these cases was there a conflict of interest because neither was serving two masters. Mr. Richey's purchase of the water tanks was over before the agreement was negotiated and approved unanimously by the board. The K2 agreement was out in the open for all the board members and their legal representation to see. Mr. Richey had nothing to gain from the K2 agreement.</p> <p>For Mr. Breninger, there was no discussion of employment prior to leaving the board so there was never the situation of two masters.</p>
<p>Just like Robert Hardcastle, Mr. Schwalm is trying to pit Strawberry against Pine and is in denial about Strawberry's water situation.</p>	<p>If pointing out what a bad deal a consolidated water system would be for the people in Strawberry is pitting Strawberry against Pine, then I suppose Mr. Pugel might be correct on this one.</p> <p>In a consolidated water system, Strawberry will no longer have first call on water produced in Strawberry. It will be shared equally among all users in the district. Costs will be shared equally across all users as well. This means that Strawberry users will be funding the improvements to the system that are intended to solve the shortages in Pine. By the board's own numbers, Strawberry will see the benefit of only 15% of the expenditures to improve the system, but will be providing a third of the revenue.</p> <p>I think everyone agrees that the water issues in Strawberry are much less severe than those in Pine. I think there is a fundamental flaw in the PSWID in that it includes two communities that have very different levels of severity for their water issues. This makes it extremely difficult to find solutions that are fair to both communities.</p>
<p>Water was trucked to Pine in 2007 and shipped up the Magnolia pipeline to Strawberry.</p>	<p>As stated in the sworn deposition of a former Brooke employee, in 2007 water being hauled for Strawberry was put into the main tank in Pine and then sent the rest of the way to Strawberry through the pipeline. There was also a water emergency in Strawberry that couldn't be addressed quickly enough by water hauling truck so water was temporarily sent from Pine and then later returned from Strawberry. The deposition can be found here: http://www.waterforpinestrawberry.com/data%20pages/Second%20Bossart%20Testimony.pdf.</p> <p>A bit of history here. Shortly before the recall election, Mr. Pugel and his surrogates began to trumpet the claim that Brooke was taking hauled water paid for by Pine and sending it to Strawberry. They used a deposition from a former Brooke employee, Mr. James Bossert. This deposition was taken by Mr. Pugel's lawyer, Mr. Gliege. It is careful to ask only whether transfers through the Magnolia pipeline occurred or not and avoided asking why. The second deposition of Mr. Bossart by Brooke's lawyers was not able to occur until after the recall election. That deposition is the one reference above. The first deposition can be found here:</p>

	http://www.waterforpinestrawberry.com/data%20pages/Notice%20of%20Filing%20Rebuttal%20Testimony%20of%20Bossert%20w%20Testimony%20080123.pdf
<p>In addition, let me remind Mr. Schwalm that Strawberry has only 200,000 gallons of water storage.</p>	<p>This can't be too pressing a problem. The PSWID board's plan doesn't add additional storage in Strawberry until at least 2013. The plan adds 100,000 gallons of storage in the first phase of capital improvements and another 100,000 gallons in the second phase. The money for the first phase is borrowed in 2012. The money for the second phase is borrowed in 2017. Mr. Haney has said to me that he thinks it would take a year to site, construct, and connect the storage.</p>
<p>Lastly, Sam Schwalm now says he supports the buyout of the water companies; however, he wants to spend \$300,000 of taxpayers' money to help Brooke Utilities drill a well that potentially could raise the value of the companies. Is this good business sense? Whose side is he on? Is he trying to help Pine-Strawberry or Robert Hardcastle (Brooke Utilities)?</p>	<p>I think that, while not perfect (nothing ever is), the K2 well is a much better solution for the community than the purchase of the water companies. The problem with the K2 well is that it didn't fit Mr. Pugel's needs.</p> <p>I accept that we are on a path to purchase and my objection has been that community is being misled about the cost and consequences associated with the purchase.</p> <p>My view is that it makes sense to go ahead with the K2 well because the purchase is not a sure thing. If the K2 well is dead and the purchase falls through, then Pine ends up with no solution to the water shortages and we will be stuck.</p> <p>At this point, the \$300,000 either goes for drilling K2 or it goes for legal fees and damages. It seems more prudent to me to end up with a well than a wealthy lawyer.</p> <p>It is correct that completion of the K2 well would raise the ultimate purchase price, but a second deep well is going to be needed in order to ensure the long term availability of water. Whether the district pays to drill that well itself or pays to purchase the well from Brooke is not that important of a distinction.</p>
<p>Sam Schwalm needs to answer a lot of questions about his close ties to Robert Hardcastle of Brooke Utilities and why he gets special e-mails from him concerning PSWID board activities.</p>	<p>There are no close ties between myself and Mr. Hardcastle. I am interested in hearing both sides of the issue, so I do ask Mr. Hardcastle and Ms. Brogdan questions. Sometimes they answer them and sometimes they decline to answer. On occasion they will send me things that they think might be of interest. If they are, I post them to the website so everyone can see them, note where it came from, and comment on it.</p> <p>I have met with Mr. Hardcastle and Ms. Brogdan for breakfast, along with other private citizens, three times in the last year. At these meetings we have heard what they think and asked questions. Paid for my own breakfast all three times. I have also had one phone conversation with Mr. Hardcastle where he explained the history behind the K2 agreement.</p> <p>I receive no monetary support from Brooke or any of its employees. They have never suggested what I should write about. I have not come across a situation where I have felt that they were untruthful or misleading with me.</p> <p>With regard to the "special" emails that I supposedly receive from Brooke, I believe that Mr. Pugel is alluding to a public ACC</p>

	<p>document that I posted on the website a day before it showed up on the ACC website. Brooke had logged it into the ACC on Friday and then sent me a copy on Monday, which I posted to the website that evening. That Monday was a government holiday, so it didn't show up on the ACC website until Tuesday. I'm not sure what is so sinister about me being a day faster than the government in posting a public document.</p>
<p>Questions for Mr. Pugel:</p>	
<p>You have been quoted as saying, when asked about whether you personally would buy the water companies, that they would be a terrible investment. Please explain why they are a terrible investment for you but would make a good investment for the community.</p>	
<p>As a prudent businessman I am sure that when you go into a negotiation for a property that you know what the most is that you should pay. At what price do you think the water companies would be too expensive for the community?</p>	
<p>If you think that it is a blatant conflict of interest for a former board member to accept employment with Brooke, do you consider it a conflict of interest that you employ the spouse of one of the board members? If not, why?</p>	
<p>If you were going to negotiate a deal with another developer, as a prudent businessman would you: A. Hire a lawyer that has a long association with the other developer and is currently representing the other developer on other projects. B. A lawyer that is not associated with the other developer. If you picked A, please explain why. If you picked B, please explain why the taxpayers in the district should expect less.</p>	
<p>The board has asked the ACC to revoke Brooke's CC&N. If the ACC were to do that it would shut off water delivery to the whole town. Do you think it is plausible that the ACC would do this? Do you think that it is proper for the board to spend taxpayer money to try and have</p>	

the water shut off to the whole town?	
Do you think it would be appropriate for a board member or a member of the public to receive a commission or finders fee in relation to the financing of the district?	