

Hello Neighbor,

At the November 19th PSWID meeting, the board was asked why they felt it was important to go two additional years without a rate increase, given that Strawberry has already gone nine years without one and Pine has gone five years without one. They were also asked why the board feels that the additional million dollars that delaying the rate increases adds to the total cost is a good value for the community.

Mr. Haney said that he didn't have anything to do with the original concept, but that it had been done because it was a campaign promise of the four members that were elected in the recall. He also stated that Economists.com had confirmed that a rate increase was not required, so why raise the rates. Mr. Dickinson, one of the four recall election members, affirmed Mr. Haney's statements and said that they had told the community that purchasing the water system would not cost a lot of money or raise rates.

The board was unaware of how much money the two years without a rate increase adds to the total cost.

The added cost of the two years without a rate increase has two parts: the two years of interest-only payments and the use of property taxes and borrowed money to make up for the shortfall in water rate revenue. Using information from the Economists.com report dated 09/19/2009, the cost of the interest-only payments for the first two years is **\$561,628**. The revenue subsidies for the first two years are **\$528,000**. The total cost for delaying rate increases by two years is **\$1,089,628**. (Note: To keep things simple I used the first two fiscal years, even though the current fiscal year is only 9 months long.)

The Economists.com rate plan continues the revenue subsidies for seven more years after that. In the third year, the revenue subsidy is \$225,000. The fourth year the revenue subsidy is \$75,000. Then for the next five years the revenue subsidy is \$25,000 per year. The total revenue subsidy for that period is **\$425,000**. These future revenue subsidies are funded in part with a Rate Stabilization Fund (RSF) which is funded with \$276,835 of borrowed money and property taxes and an additional \$25,000 the second year. The Economists.com plan assumes that there is 2% interest earned on the balance. The remainder is funded with \$100,000 in property taxes.

While it is hard to be exact with the numbers that are available, the source of the revenue subsidy money in the plan breaks up as follows:

- Borrowed Money: \$351,835
- Property Taxes: \$528,000
- Interest on RSF: \$28,463

Comment: Kudos to the board for answering the question. Keeping a campaign promise is a plausible reason. I don't think it is a good reason, given how much it adds to the total cost, but apparently the cost was not considered in their decision making.

A bit of history. During the recall, a local restaurant owner who is active in Rim Country Water put together a spreadsheet that claimed that with a borrowing of \$5 million would allow PSWID to acquire the water systems and set up shop without raising rates. At that time I pointed out the flaws and gimmicks in the spreadsheet. Trying to maintain those claims seems to have greatly influenced the rate analysis approach that Economists.com has taken. The board has clung to that position that buying the water system would be “free” to rate payers, at least initially.

But how “free” is it? Mr. Haney stated that Economists.com said there was no need to raise rates, so why do it? In the preliminary rate analysis that Economists.com prepared in October of 2008 it claimed, with the help of several major errors in the district’s favor, that the water systems could be paid for with current water rates for the first two years, with just the gimmick of interest-only payments for those two years. In the current rate analysis, over **\$900,000** in revenue subsidies have been added.

The Fiscal Year Ending (FYE) 2010 (the present fiscal year) gets 28.2% of the revenue from rate subsidies. FYE 2011 gets 14.9% and FYE 2012 gets 15.1%.

There is a rate increase. The board is just sticking their hand into a different pocket to get it. For myself, the current PSWID property tax levy represents about four months of my average water bill. Next year’s planned property tax levy of \$200,000 will be about three months worth. For those that pay the levy, but don’t get water from the district, it is an even worse deal.

The bottom line is that we are all paying more for our water, it is just being obscured by the board with this pretense that there is no rate increase. The board is not providing this community with the information that it deserves. We are paying for the decisions that they have made and will be making in the future. The board needs to be straight forward with the public about what things cost, how they will be paid for, and the details of the loans. It is not acceptable for the board to resist talking and answering questions about these topics. They are spending their neighbors money and their neighbors have a right to know how and why that is being done.

Comment: The funding for the RSF is not clear. In the Economists.com analysis, it has an initial value of \$251,835 (with a \$25,000 contribution from FYE 2010 added on). The presentation by Mr. Reader of Stone and Youngberg does not show this as one of the uses of the borrowed money. I made a document request to the district and they gave me a page out of the loan agreement with Compass Bank that said the following funds would be setup:

- 2009 Interest Reserve (for the main loan): \$330,000
- 2009/2010 Interest Reserve (for the line of credit): 9% of each advance up to a maximum of \$261,000
- Interest Stabilization Reserve (for the line of credit): 3% of each advance up to a maximum of \$72,000

So basically, it is still not known where the \$251,835 is coming from. It clearly wouldn't be the interest reserve accounts, and the only fund that has Stabilization in the name is too small. I'll keep trying to get an answer to where this money is coming from.

1. "Audit" of 2008/2009 Fiscal Year
 - a. The board had an "audit" done for the period of July 1, 2008 to June 30, 2009. This "audit" consisted of the auditor using information provided by the district. The document is posted here:
<http://www.waterforpinestrawberry.com/data%20pages/BudgetDocs.htm> .
 - b. In the last email, three errors were identified in the "audit". Since then another has been identified. The "audit" has the Elections item with a value of \$827.83. This was the cost that Gila County charged for the November 2008 PSWID board election. What is missing is the \$19,552.99 that the district was charged in July 2008 for the March 2008 recall election. The PSWID Treasurer's report shows that this was paid out of the Reserve Fund on July 9, 2008.
 - c. Comment: I pointed out this error in the budget that was presented at the March 28, 2009 PSWID meeting. Apparently who ever put the numbers together for the "audit" has a short memory.
2. The information presented in this email is based in large part upon the most recent rate analysis prepared by Economists.com. The document is posted here:
<http://www.waterforpinestrawberry.com/data%20pages/BudgetDocs.htm>.
3. Fiscal Year Revenues
 - a. In the Economists.com report the RSF contribution is added to the revenues and then each year there is a \$25,000 contribution from proceeds into the RSF. The net amount, revenue subsidy minus the contribution to the RSF is being used in the calculations below. In Fiscal Year Ending (FYE) 2012, the net of \$125,000 is the \$150,000 minus \$25,000.
 - b. FYE 2010 (9 months)
 - i. Water Rate Revenues: \$829,544 (71.4%)
 - ii. Rate Stabilization Fund (RSF): \$0.00 (0%)
 - iii. Borrowed Money: \$100,000 (8.6%)
 - iv. Property Tax: \$228,000 (19.6%)
 - v. Non-Water Revenues: \$5,000 (0.4%)
 - vi. Total: \$1,162,544
 - c. FYE 2011
 - i. Water Rate Revenues: \$1,110,759 (82.6%)
 - ii. Rate Stabilization Fund (RSF): \$0.00 (0%)
 - iii. Borrowed Money: \$0.00 (0%)
 - iv. Property Tax: \$200,000 (14.9%)
 - v. Non-Water Revenues: \$34,000 (2.5%)
 - vi. Total: \$1,344,759
 - d. FYE 2012
 - i. Water Rate Revenues: \$1,238,232 (82.7%)
 - ii. Rate Stabilization Fund (RSF): \$125,000 (8.4%)
 - iii. Borrowed Money: \$0.00 (0%)

- iv. Property Tax: \$100,000 (6.7%)
- v. Non-Water Revenues: \$34,000 (2.3%)
- vi. Total: \$1,497,232
- e. FYE 2013
 - i. Water Rate Revenues: \$1,484,775 (93.2%)
 - ii. Rate Stabilization Fund (RSF): \$75,000 (4.7%)
 - iii. Borrowed Money: \$0.00 (0%)
 - iv. Property Tax: \$0.00 (0%)
 - v. Non-Water Revenues: \$34,000 (2.1%)
 - vi. Total: \$1,593,775

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.