

Hello Neighbor,

The financial plan that PSWID board has put forward requires large subsidies from property taxes and borrowed money. The size of the subsidies is based upon assumptions for revenue and operations expenses. Those will be looked at in this email. The following supporting documentation has been posted to the website:

- 2008 annual reports for Pine and Strawberry water companies filed by Brooke with the ACC, along with updated earnings summaries and water usage summaries:  
<http://www.waterforpinestrawberry.com/data%20pages/ACCReports.htm>
- PSWID is required to file a monthly financial report with Compass Bank. The October report is only for the month of October. The November report changed to a year to date approach and has changes to categories. They can both be found here: <http://www.waterforpinestrawberry.com/data%20pages/SOACompass.htm>
- Operations agreement with Shaffer Water Management, LLC:  
<http://www.waterforpinestrawberry.com/data%20pages/BudgetDocs.htm>
- Summary of usage, revenue, and operations costs comparisons:  
<http://www.waterforpinestrawberry.com/data%20pages/BudgetDocs.htm>
- PSWID's operations budget estimate, dated September 14<sup>th</sup>, 2009:  
<http://www.waterforpinestrawberry.com/data%20pages/BudgetDocs.htm>

As discussed below, the operations costs have been significantly understated and the growth rate of the operations costs has also been lowered in comparison to the rate analysis that was done in October of 2008. The understatement of operations costs by about \$150,000 means that the rate subsidies and the eventual water rate increases will have to be significantly higher than those projected by the current Economists.com rate analysis.

## **Water Usage**

The amount of water usage assumed in the current plan seems reasonable. It reflects the correction of the error in the original Economists.com analysis where the amount of water transferred from Strawberry to Pine was being double counted. (GPY = Gallons Per Year)

- Original Economists.com Rate Analysis (10/14/2008): 93,342,839 GPY
- Brooke Water Sales Averaged Over Three Years (2006-2008): 79,694,000 GPY
- Brooke Water Sales 2008: 73,965,000 GPY (49.1% from water sharing agreements)
- Current Economists.com Rate Analysis: 75,856,198 GPY

## **Revenue**

The amount of revenue assumed in the current plan seems reasonable.

- Original Economists.com Rate Analysis (10/14/2008): \$1,227,747
- Brooke Revenue Averaged Over Three Years (2006-2008): \$1,191,661
- Brooke Revenue (2008): \$1,123,072
- Current Economists.com Rate Analysis: \$1,144,759

## Operations Costs

The estimated operations costs are significantly understated in the current PSWID plan. Various operations cost estimates/sources:

- Coe and Van Loo (CVL) Estimate (8/18/2008): \$955,000
  - Original estimate was \$882,000, but did not include the collected sales taxes like all the other estimates listed here do. Added \$73,000 to account for sales tax.
- Water For Pine Strawberry (WFPS) Correction Estimate (1/9/2009): \$1,020,046
- Brooke Expenses Averaged Over Three Years (2006-2008): \$910,819
- PSWID Operating Budget Estimate (9/14/2009): \$843,200
- WFPS Correction Estimate (12/22/2009): \$1,004,500

As can be seen, the PSWID operating budget estimate is significantly less than the other estimates or Brooke's actual expenses. Given the inefficiencies that PSWID has compared to Brooke and PSWID's promises to spend more on maintenance, chlorination, and customer service than Brooke did, it doesn't make sense to expect PSWID to be able to operate at a cost that is less than Brooke's.

Additional property tax subsidies will be required to cover the probable overrun of the operations budget. At the end of November the statement of activity provided to Compass Bank shows expenditures of \$330,647.43. This covers two months of operation plus some up-front work before acquisition. With seven months of operation to go in this fiscal year, 39.2% of the year's estimated operation budget has been expended.

In examining the PSWID operating budget, the following adjustments were made in the WFPS correction estimate:

1. Salaries, Wages, and Benefits
  - a. The WFPS estimate increased the PSWID estimate to reflect operations overtime, additional General Manager costs, and office staff.
    - i. CVL Estimate: \$270,000
    - ii. WFPS Correction (1/9/2009): \$331,500
    - iii. Brooke Average: \$181,805
    - iv. PSWID Estimate: \$364,000
    - v. WFPS Estimate (12/22/2009): \$446,000
  - b. The operations contract with Shaffer Water Management (SWM) pays \$20,000 per month for Mr. Dean Shaffer, a foreman, and three operators. SWM is providing light vehicles and all hand tools under the operations agreement. For work outside of normal operating hours (8:00 AM to 5:30 PM) over-time is paid at a rate of \$75 per hour for Mr. Shaffer and time and a half for the other employees. The PSWID estimate does not include over-time. The WFPS estimate added 5%, \$12,000, for over-time. In the first two months of operation over-time payments paid by PSWID are over 10% of the base payments.
  - c. In the PSWID estimate, the General Manager cost was listed as \$50,000. In the July PSWID budget, the General Manager cost was listed as \$64,480. As of the end of November, the General Manager has charged

the district \$68,805.29. The WFPS estimate increases the General Manager cost to \$100,000.

- d. The PSWID estimate includes two office staff positions at \$44,000 and \$30,000 per year. There is actually a third person working in the office, so the WFPS estimate adds \$20,000 for that person.

## 2. Purchased Water

- a. The cost of water purchased through the water sharing agreements. The WFPS estimate increased the estimate to match Brooke's average spending. It is not reasonable for PSWID to expect to pay less while still providing the same amount of water, particularly since the Gary Rogers well is now on a water sharing agreement.

- i. Brooke Average: \$101,488
- ii. PSWID Estimate: \$80,000
- iii. WFPS Estimate: \$101,000

## 3. Purchased Power

- a. The cost of pumping water from the district's wells and moving all of the water through the system. The WFPS estimate increased the estimate to match Brooke's average spending. PSWID is going to have to use the same amount of electricity as Brooke for the same volume of water.

- i. Brooke Average: \$66,296
- ii. PSWID Estimate: \$50,000
- iii. WFPS Estimate: \$66,000

## 4. Outside Services

- a. This would cover professional services items like Highland Water, Economists.com, accountants, etc. For whatever reason, the PSWID estimate has this set to zero. The WFPS estimate raised it to half of the CVL estimate. This may be a bit too optimistic, but \$50,000 seemed like too much.

- i. CVL Estimate: \$50,000
- ii. PSWID Estimate: \$0
- iii. WFPS Estimate: \$25,000

## 5. Water Testing

- a. Water testing is a normal activity for the district and won't be any less than when Brooke owned it. The WFPS estimate increased the estimate to match Brooke's average spending.

- i. Brooke Average: \$14,434
- ii. PSWID Estimate: \$7,000
- iii. WFPS Estimate: \$14,000

## 6. Transportation Expenses

- a. This would cover the costs of operating vehicles and equipment for the district. The PSWID estimate has this expense as zero. In the first two months of operations the district spent \$6514 on equipment rental. Since the CVL estimate and Brooke's actual expenses were very similar, the CVL estimate was used.

- i. CVL Estimate: \$50,000
- ii. Brooke Average: \$53,806

- iii. PSWID Estimate: \$0
    - iv. WFPS Estimate: \$50,000
- 7. Misc Expense, Training, and Travel
  - a. This would also cover the board's expenses. The WFPS estimate raised it to half of the CVL estimate. Using the \$50,000 estimate from CVL seemed like too much.
    - i. CVL Estimate: \$50,000
    - ii. PSWID Estimate: \$11,000
    - iii. WFPS Estimate: \$25,000
- 8. Legal Services
  - a. There was no adjustment to the PSWID estimate of \$24,000. However, as of the end of November legal expenses are at \$32,818. There is probably a spike in legal fees during this initial period to get the district up and running, so it may settle down to the estimated amount in future years.
- 9. Contingency
  - a. The PSWID estimate has a 10% contingency of \$76,700. In the WFPS estimate that was set to \$0. This was done because the WFPS estimate is oriented towards being more representative of actual anticipated spending.
- 10. Sales Taxes
  - a. Sales taxes of 6.58% are being collected by the district. The PSWID estimate understates the size of those collections. The WFPS estimate is 6.58% of the \$1,110,759 in revenue that is stated in the PSWID plan.
    - i. Brooke Average: \$67,197
    - ii. PSWID Estimate: \$50,000
    - iii. WFPS Estimate: \$73,000
  - b. Comment: It isn't clear how these are being handled in their statements of activity to Compass Bank. It doesn't show up specifically as a line item. I sent a question to the board several weeks ago about this, but as usual there has been no answer.

## Operations Cost Rate of Increase

The other aspect for the impact of the operations costs is the rate of growth of the operations costs. Using a low forecast for the rate of growth in the costs increases the size of future cost over-runs.

1. The current rate analysis produced by Economists.com lowers the rate of operations cost growth from that used in the original 2008 rate analysis. In addition, the current analysis says that there is no cost growth for the first two years. The cost growth percentage from the original analysis is underlined, and the percentage from the current analysis is in **bold**:
  - a. FY #2: 4.1%; **0%**
  - b. FY #3: 1.2%; **3.5%**
  - c. FY #4: 4.2%; **2.5%**
  - d. FY #5: 4.3%; **3.6%**
2. By skipping the growth in costs between the first and second year, the PSWID plan does not account for \$29,442 in operations costs.

3. The current analysis reduces the cost growth rate from 4.2% to 3.6%. Applying the cost growth percentages from the earlier analysis shows that, by FY #5, the current analysis has operations costs that are \$39,363 (4.1%) lower than if the cost growth had been left the same.
4. The FY #3 growth rate of 1.2% in the earlier analysis reflects the error in the first analysis where Economists.com set all of the purchased water costs to zero and did not add additional electricity costs for pumping twice as much water from the district's wells, as well as pumping half of Strawberry's water up the hill from Pine. In the current analysis that dip in growth rate shows up in FY #4, although it is smaller this time.
5. Comment: Playing with growth rate projections is a common way to mold the numbers to the story you want to tell. In the last year has the expectation for future inflation really gone down?

## **Depreciation**

The 2003 rate analysis that was prepared by Economists.com showed depreciation as part of the operations budget. Every operations budget that we have seen for other public water companies includes depreciation costs as part of the operations budget. Mr. Haney and Mr. Jackson have insisted over the last couple of years that depreciation is not applicable to public utilities. In the most recent statement of activity that PSWID supplied to Compass Bank, depreciation expenses are listed as part of the operations expenditures. It shows total depreciation at \$35,560 for the first two months of operation. On an annual basis that is \$212,160. Brookes' average depreciation expense was \$97,087. The increase for PSWID reflects the higher purchase price that PSWID paid for the system.

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.