

COE AND VAN LOO L.L.C.

Construction Management ■ Environmental Sciences ■ Landscape Architecture ■ Land Development ■ Land Planning ■ Surveying ■ Water Resources

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RE: Pine-Strawberry Water Improvement District (PSWID)

Task 3 – Develop Operation and Maintenance Budget

Coe and Van Loo, L.L.C. (CVL) is pleased to submit this analysis of operating and maintenance costs. Based on information gathered in previous tasks and experience with similar water systems in Arizona, CVL has prepared an estimate of Operation and Maintenance costs to operate the combined water system. The costs were divided into categories to differentiate types of costs.

The costs categories listed in the O&M budget are typically incurred in the water service sector. The basis of the analysis includes historical O&M costs as reported in the ACC Annual Reports for the Pine and Strawberry Water Companies. Based on anticipated changes in operations and with water system integration, the following O&M costs were included:

- Salaries, Wages, and Benefits (includes 30% for overhead costs)
- Water purchase costs of \$25,000, although anticipated purchases after CIP improvements will be zero.
- Purchased Power
- Chemicals (primarily chlorine)
- Repairs and Maintenance
- Office supplies and Billing expenses
- Outside services budget for any services that cannot be accomplished using district resources and labor.
- Water Testing costs
- Transportation Expense (district vehicles)
- General Liability Insurance
- Miscellaneous expenses such as training and travel
- Legal Services (on call after acquisition)
- Engineering Services (on call after acquisition)
- Debt service assumes 4 1/4% Interest Rate on a Loan Value of approximately \$4.21 million in capital amount at 20years.

Based on the analysis presented in Table 1, CVL recommends that the PSWID set an Annual O&M budget at \$1,198,000 for the first year of operations for the combined companies. Upon completion of