

**BOARD OF DIRECTORS
PINE/STRAWBERRY WATER IMPROVEMENT DISTRICT
P.O. Box 134 - Pine, Arizona 85544-0134**

MINUTES

Regular Board Meeting, Saturday, May 18, 2013

1) CALL TO ORDER

Pine-Strawberry Water Improvement District meeting was called to order at 10:00AM by Ray Pugel – Chairman

2) PLEDGE OF ALLEGIANCE

3) ROLL CALL

Board Members Present:

Gary Lovetro
Ron Calderon
Sam Schwalm

Tom Weeks
Mike Claxton
Richard Dickinson

Ray Pugel

There was a Quorum – 7 Board Members present.

Also Present:

Brad Cole – CH2MHill District Manager
John Nelson – (Asst. Gila County Manager)
Dan Torrens – District Legal Counsel
Beckie Sigeti – Accounting Manager CH2MHill

4) APPROVAL OF MINUTES

a. Regular Meeting March 28, 2013

Motion to approve Regular Meeting minutes – Ron
Second – Gary
Vote – 7 to 0 Minutes approved.

b. Regular Meeting April 25, 2013

Motion to approve Regular Meeting minutes – Ron
Second – Gary
Vote – 7 to 0 Minutes approved.

5) FINANCIAL REPORT

Ron Calderon presented the financial report for the period ending April 30, 2013. Cash flow in from revenues was \$128,565.01, from Compass Bank was \$120,000, and from tax levy was \$67,325.06. This resulted in a total District cash flow in of \$315,890.07. Cash out for the period included \$81,925.35 for CH2MHill contract, \$6,510.93 for administration, \$19,225.66 for operations, \$3,238.65 for Board of Directors, \$27,171.09 for debt interest, \$14,000 for Debt Principal and Capital Outlays, and \$20,755.69 for Capital expenditures for a total cash out for the period of \$172,827.37. This resulted in a net cash flow of \$143,062.70 for the period. Net cash flow YTD is \$163,380.20.

Total Bank Balance(s) as of April 30, 2013 in the Restricted Account was \$600,493.32. The Non-Restricted Account was \$324,237.22 resulting in Total Bank Balance of \$924,730.54. The entire financial report will be posted on the District web site.

6) DISTRICT MANAGER UPDATE

Brad Cole updated the Board and attendees on the progress of District Priority Capital Projects and Operations.

Meter Replacement Program

To date 694 of 1600 meters have been replaced. This is about 45 to 46% completion. The meters in the system have not been replaced for as much as 30 to 50 years. The meters are being replaced to provide more accurate measurement of water usage. Industry standards indicate that smaller meters especially should be replaced every 10 to 12 years. Brad dispelled the rumor that customers would be charged for replacing their meter.

Whispering Pines Project (SR87 Water Main Extension)

Work has begun on the SR 87 project. This project will satisfy the District's obligation to supply water to customers living south of Whispering Pines Road and east of highway 87. The work should take about 2 weeks to complete.

Milk Ranch Well(s)

The District saved 30 to 40% of the expense of buying new by refurbishing and moving a storage tank from Cool Pines Estates down to the MRW complex. When finished the tank will be painted green to match the existing tank already in place. When piping is completed the District will have the ability to run MRW's I, II, and III independently of one another. The District still plans to test a filter at MRW I which will have the ability to filter water for all three MRW's. The testing will be delayed until after the Memorial Day weekend to prevent causing turbidity issues over that weekend. The District has not had a turbidity issue at MRW I since October, and in order to test the filter pumping will have to be increased to cause a turbid event.

MRW II is nearing completion. A shut off switch needs to be installed that would automatically shut down the well should Pine Creek overflow thereby preventing surface water contamination of the well. ADEQ has promised a quick turn around on approval, and it's hoped the well will be operational in the system by Memorial Day weekend.

On MRW#3 the bore hole is down to 640 feet which is just short of where we hit good water with MRW II. The District hydrogeologist has recommended we suspend drilling until after Memorial Day as a precaution not to disturb the aquifer and develop turbidity issues during the holiday.

Operations

Brad discussed water service vulnerability in Strawberry due to the low number of reliably producing wells and wells either going dry or slow to recover. He indicated that the Master Plan if approved would address this situation in Strawberry and also Pine. The Master Plan would evaluate optimal location of storage tanks, direction of pumping, and pump production all to provide efficient system operation.

Brad also discussed areas vulnerable to pipe breaks. He provided samples of the thin pipe used in these areas to demonstrate why there are problems in these areas. A sample of an old meter was available for inspection demonstrating the need for old meter replacement. The last part of his presentation focused on areas of disrepair including improper wire conditions and storage tanks with several leaks. The system infrastructure is old, outdated, and in severe disrepair. These issues must be addressed for the District to provide reliable water service.

Beckie Sigeti, Accounting Manager CH2MHill gave an "Allocation of Funds" presentation for attendees that covered the period 7/1/2011 to 6/30/2013. She reviewed expenses that depleted the District's Cash Reserve Fund. The net cash flow for the period discussed resulted in a deficit of \$(350,369.00).

7) BOARD MEMBER REPORTS

There were no Board Member reports.

8) CALL TO PUBLIC FOR NON-AGENDA ITEMS (3 minutes per speaker)

Pam Mason read from the Arizona State Statutes related to OML indicating that in her opinion a Board member may express his opinion related to an actionable item of the Board in a newspaper interview without being in violation of Arizona's OML.

Ms. Mason requested an agenda item for the next Regular Board Meeting to dispel "rumors" that Mr. Greer was involved in work with or for PSWID, CH2MHill, or any of his former businesses or as a subcontractor for another business.

Wendy Quinton expressed her desire for answers to same questions as Ms. Mason.

Paul Pisto suggested that "water has the power to give life and also the power to destroy. The decisions of this Board have the power to destroy the spirit of the communities of Pine and Strawberry." He cautioned the Board to govern wisely and consider the "burden of debt."

9) OLD BUSINESS

- a. Discuss and take possible action related to amending the District Rules and Regulations document.

It was decided the Board should meet at 4:00PM on June 20 prior to the Regular Board Meeting starting at 6:00PM to review the District Rules and Regulations.

NOTE: There is no Regular Board Meeting scheduled for June. The Rules and Regulations review will take place at 4:00PM prior to the next Regular Board Meeting scheduled July 18, 2013.

10) PUBLIC HEARING ON PROPOSED PSWID FY 2013-'14 BUDGET AND RATES

John Nelson presented a review of the Proposed PSWID FY 2013 – '14 Budget and Rates to attendees. He pointed out that we now have a dependable water supply, but the infrastructure remains in substandard disrepair. The choice is to spend little money leaving the system in substandard condition and continuing to manage in "crisis" mode or to appropriate increased funds to begin to improve the infrastructure and system delivery.

John reviewed priority capital projects needed to improve the system and addressed the proposed revenue matrix of increased tax levy and water rates based on customer benefit. Priority capital projects included 300,000 gallon tank repair, development of a Master Plan, leak detection, and meter replacement. The objective is to spend less overall this next FY and apply the "revenue matrix" of increased water rates and tax levy to restore the District reserves to eliminate "crisis" management.

John also explained the reason for including a \$7,000,000 bond in the Proposed Budget. He indicated that he didn't expect the Board to attempt to secure the Bond in the coming Fiscal Year. It would not be needed to address the priority capital projects discussed. However, should the Board have an opportunity to address a program to make extensive repairs to the infrastructure the money could be made available. The issue is that if not in the Budget, the Board could not attempt to secure the Bond money. If in the Budget it must be funded, **but does not have to be used.**

Sam had questions related to data provided in the Proposed Budget presentation, and Beckie Sigeti, Accounting Manager CH2MHill addressed them.

Motion to open the Public Hearing on the Proposed PSWID FY 2013 – '14 Budget and Rates – Gary Second – Ron
Vote 7 – 0 Hearing opened for public comment.

Public Comment:

Paul Prito, asked questions related to the terms of the bond if secured. Ray pointed out that it is unlikely the bond would be used in the coming year, and until approved we won't know the terms. Ray indicated it would not be wise to seek a bond without completing a Master Plan. Brad Cole estimated it would take 6 to 8 months to complete a Master Plan.

Dave Ritterbusch suggested it would be less expensive to test meters before replacing them. He also questioned how many people had 5/8 inch meters. Beckie Sigeti responded that she had confidence in her numbers given about 89% of the customers had 5/8 inch meters.

Arnie McClellan stated that although he didn't like tax increases they are part of life, and we must live by them if we want to improve things. He approved the Board's actions.

Michael (of Strawberry) indicated that he paid lower taxes for his home in the valley than he did on his home in Strawberry. He said Gila County had the highest tax rates in the state, and suggested the Board find another way to raise revenues. He is against increased taxes.

Ruth Newton stated she read her meter daily and could tell you exactly how much water she used on a daily basis. She felt her meter was accurate, and suggested testing meters before replacing them. Brad Cole responded that meters tend to under-read as they age, and industry standards require installing new meters every 10 to 12 years. Also the cost of replacement is about \$30.00 and does not justify the cost of testing first and then replacing. She indicated that her husband's hours at work continue to be cut, and she is against water rate and tax increases. She is fearful that due to increases she may be forced to leave Pine.

Sue Thompson, stated she was against rate and tax increases. She stated that we shouldn't fix pipes, etc., until they break. "Everything is going up, where does it stop?" She claimed her water was of poorer quality since the District took over. She was opposed to everything in general.

Steve Morken, stated that the Board has done a fantastic job since acquiring the water company, but he does oppose the tax and rate increases. He feels we must find ways to decrease costs of water production and distribution. Steve feels that the cost of water in Pine is too high a percentage of average total income. He suggested finding a way to reduce what we are paying CH2MHill for a period of time. He felt the increases will prevent him from making a profit in his business.

Tamara Morken, she stated that the average annual income of people employed in Pine is \$28,000 per year. She owns a service industry business with 28 to 30 employees. She explained that in the winter business slows down and median income families struggle to make ends meet. She felt we should slow down on water line repairs and institute less aggressive plans to lower costs because she feels the community cannot afford the increases at this time.

Marla (Strawberry) does not feel the Board has spent money wisely. She commented on "sand wells" and their need for busters. She also commented on progress of fixing leaks in her area, and that she is against increases in rates and taxes.

Linda Martinez, just retired, commented on asphalt repair costs when she has a gravel road. She indicated that after repairs on her road there's a need for more gravel and leveling. "If we're a water improvement district, why do we pay for asphalt?" She also reported her tax rates on her house in the valley were less than the rates in Pine. She's against increases.

Dave (Strawberry), commented on Pine Creek Canyon work indicating he thought it should be delayed. He also compared the members of the Board to Federal Government. Ray informed Dave that the District was forced by Gila County to perform the work in Pine Creek Canyon. It was the District's responsibility as the water utility to address and complete the water utility portion of the work. The District had no choice.

Ricardo (Pine) indicated he read about the Public Hearing in the paper and because Sam Schwalm opposed the increases Ricardo would like to hear Sam's comments.

Barb Summers against tax increase. She also complained that her taxes were higher on her home in Pine than on her home in the valley.

Frank Howard (Pine) is opposed to the increase in water rates.

Fred Krafczyk (Strawberry) a nine year resident expressed thanks to the Board for the work they've done since acquiring the water company. He commented on the many positive changes for those who are new to the area. He indicated that the water company was owned by the public and if we want to improve it we must consider the costs. He indicated support for the Board, and reserved comment on the increases until he has more information.

Bob Cassaro (Pine) commented on the difference between things we'd like to have and things we need to have. He indicated that it's nice to have internet and cable TV service, but we need water. Mr. Cassaro suggested it would be easier to consider the rate and tax increases if there was an explanation of the Master Plan and future system developments. He made additional comments related to water supply and demand depending on time of year. He also commented that 4% of his tax bill went to the water company and 30% of his tax bill was levied by the Fire Board.

Mitze Paul (Strawberry) asked if the Proposed Bond would require a public vote. John Nelson responded that according to Gila County procedure if the Bond was supported by property tax revenue it would. If other revenue such as water rates he thought it might not require a vote.

Wendy Quinton commented that she felt the majority of residents of Pine and Strawberry could not afford an increase in tax or water rates. She was against any increase.

Raylene Krafczyk (Strawberry) reminded attendees that Board Members are volunteers and money collected from water rates and tax levy does not go to the Board. She commented that it might be prudent to address infrastructure repair now rather than later because it might be overall less expensive. She wants the Board to spend wisely. She also commented on the fact that the Water Board tax levy was not the largest part of the tax bill.

Pam Mason (Pine) continued her criticism of most actions of the Board including decisions on spending for capital projects, purchase and development of wells, turbidity of water from MRW, installation of filters, and e-coli found in SHW. She is in favor of fixing leaks, "getting back to basics," and does not support increases in rates or taxes.

Merrill Sparks (Pine) thanked the Board for volunteering. She had questions and comments related to the expense of the meter replacement program.

Bernice Winandy (Pine) expressed she was against most terms in the Proposed Budget and Rate schedule for FY 2013 – '14. She focused the majority of her comments against the Bond issue. She was critical of the Board for considering a Bond issue without knowing the terms, interest rate, or what it would cost.

Chairman Pugel again attempted to explain why the Bond issue was in the Proposed Budget. He commented that it was a "place holder" in the Budget not necessarily to be acted upon but available if needed. The terms and cost of the Bond issue cannot be known until such time it is acted upon. One value of a Bond is that it locks in or fixes costs for a long period of time.

Doug Star (Pine) thanked the Board for their volunteer work. He commented on storage tanks that were sold out before the District acquired the company. He felt that due to the current economy few could afford tax or rate increases at this time.

Evette Moore (Pine) questioned if old pipes are the problem causing turbid water.

Brad Cole responded.

The last gentleman to comment reminded attendees about conditions when water had to be hauled and the charges associated with it. He complimented Brad and his crew on the work they do to fix leaks when the system is in such bad shape. He also reminded attendees that they are free to come to the monthly Board meetings. He said he didn't see many people at the meetings, but "everyone wants to complain" about what's happening.

Ray reported that at the last Board meeting when the Proposed Budget was formulated there were only 4 members of the public in attendance. Ray announced a ten minute break, and asked attendees to look around when the meeting reconvenes and it's the Board's turn to speak. He predicted many would leave the meeting. "Everyone wants to talk to us, but nobody wants to listen."

Motion to end the Public Hearing on the Proposed FY 2013 – '14 Budget and Rates – Gary
Second – Tom
Vote 7 – 0 Public Hearing ended.

11) NEW BUSINESS

- a. Discuss and take possible action related to the PSWID FY 2013 – '14 Budget and Rates.

Motion to approve the Proposed FY 2013 – '14 Budget and Rates – Gary
Second – Mike Claxton
Board discussion followed.

Sam asked to make a motion related to fees. He supported altering the \$1200 installation fee to create 2 fees. The first charge of \$1200 is for initial installation and another of \$300 for any additional installations of same meter. He felt this would help customers who fell behind in their payments.

Ray indicated that the Board could change the Proposed Budget at this time by reducing it, but the Board could not increase it. Ray suggested Sam should have addressed fees at the Board's previous meeting. Ray further commented on the seasonality of water usage in Pine and Strawberry.

Gary declined to suspend or amend his motion.

Each Board Member expressed their frustration in having to deal with tax and rate increases.

Richard commented on the fact that without increases in revenue the District would be insolvent and unable to operate. Without water and a system to deliver it "none of us will be here." He also commented on people's lack of understanding related to the development of deep wells and silting. He suggested had more people attended meetings they would have learned from a presentation by the District Hydrogeologist that deep wells drilled in soft stone can require two to

three years to develop. The advantage the District has is that we have 3 wells in the same area and can adjust the pumping volume to minimize the silting, and then test and install an appropriate filter to mitigate the silting issue.

Sam expressed his opinion that he felt the District should not depend on tax levy for operational revenue. He supports getting it all from meter fees and water rates. He indicated he didn't think the \$125,000 was needed and pointed out that with the meter replacement program meters will read usage more accurately and support an increase in revenue thereby replacing the reserve fund.

Tom expressed his opinion that not only the water company but the community was "between a rock and a hard spot." We need the water and to improve the delivery system. He felt the public had an obligation to offer concrete ideas on how to move forward because no one wants to raise rates or taxes.

Mike Claxton suggested that the Board was "damned if we do or damned if we don't" indicating that they wanted to "hang" the Board if we raised rates and taxes but also if we didn't have water.

Ron Calderon commented on the condition of the system and that we didn't get full information or disclosure from Mr. Hardcastle about just how bad it was.

Ray commented on a cost comparison of addressing the condition of the system in "today's" dollars with known lower interest rates.

Vote on the motion – 6 aye, 1 nay. The Proposed FY 2013 –'14 Budget and Rates were approved.

Prior to adjournment Ray reminded those of the public who remained at the meeting that this was their water company, and encouraged them to attend meetings. As anticipated approximately 60% of the public attendees who voiced objection to the Proposed Budget and Rate schedule and leveled criticism at the Board did not return from the break to hear comments from the Board Members.

12) CALL TO ADJOURN

Motion to adjourn – Tom

Second – Gary

Vote 7 – 0 Meeting adjourned at 1:18PM

Reports Available directly from PSWID by request for May 18, 2013

1. *File # PSWID – Financial Report - PSWID– 05/18/2013*
2. *File # PSWID – District Manager Update – Brad Cole – 05/18/2013*
3. *File # PSWID- Allocation of Funds – Accounting Manager PSWID – 05/18/2013*
4. *File # PSWID – Pine Strawberry Water Improvement District Proposed Budget FY 2013-14 – John Nelson – 05/18/2013*

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