

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

MINUTES

Special Board Meeting – July 3, 2010

1) CALL TO ORDER

Pine-Strawberry Water Improvement District meeting was called to order at 10:04 AM at the Pine Elementary School by Bill Haney, Chairman.

2) PLEDGE OF ALLEGIANCE

3) ROLL CALL

Board Members Present:

Bill Haney
Ron Calderon
Mike Greer
Richard Dickinson

Tom Weeks (absent)
Don Smith
Gary Lovetro

There was a Quorum – 6 Board Members present.
Number of public attendees not noted.

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

No Blue Cards presented.

5) HOLD PUBLIC HEARING ON PROPOSED FY '10 – '11 BUDGET

Bill initiated discussion of FY '10 – '11 Budget and opened the Public Hearing. Bill indicated that during the 30 day comment period and while the announcement was published in the paper, we did not receive any public comment on the proposed budget.

Bob Cassaro asked a question related to the expense and revenue line items for grants. He asked for clarification of the \$98,000 expense item related to \$70,000 revenues if grant(s) were received. Bill explained that we must anticipate grants so that funds related to grants would be available in the Budget. He explained that if we get a grant there is a share (expense) required from the District. If we don't receive any grants there would be no grant expense. Mr. Cassaro asked an additional question related to Administrative expense, and wanted to know why the Administrative expenses don't go down now that we are not paying contract consultants. Bill explained that now we have Administrative expenses related to employees and their employee benefits program.

Sam Schwalm asked a question related Bank Debt proceeds and wanted to know if this amount included the Reserve Fund from Compass Bank or was it just the money the District had to spend? Mike Greer indicated that it was his understanding that the Bank Debt proceeds expense line item did not include the 12% for Reserve Fund. Sam asked a second question related to the Property Tax levy number. Sam felt there was a discrepancy in the carry-over amount when compared to the Gila County Green Sheets. Mike and Bill indicated they did not know the answer for sure, and deferred to Beckie when she returns from vacation.

There was a question related to Meter Installation Fee revenues. Ron Calderon responded that we had installed 48 meters and Gary offered that the number was based on the installation of 55 new meters at the new rate. It was decided the \$66,000 figure might not be out of line.

Bill closed the Public Hearing on the FY '10 - '11 Budget.

6) HOLD PUBLIC HEARING ON PROPOSED RATE AND FEE SCHEDULE

Bill opened the Public Hearing on the proposed Rate and Fee Schedule. There had been a prior comment related to the fact that rates for commercial and large meter sizes appeared to be going down while rates for residential size meters were increasing.

Sam asked why residents of Strawberry and weekend users would see significant increases in their water rates, and commercial users will not? Bill responded that the rate schedule was based on "cost of service" and without Dan Jackson's input the Board could not give a more specific answer. Bill offered that based on his past experience, he suggested that we have such a small number of commercial customers, that based on their cost of service their rates would not significantly increase. Sam commented on the "water exporting" business in Pine. Sam also wanted to know if the base rate charge for meters when the customer used no water should be considered a fee. Sam clarified that he was talking about people who had a meter but were not connected or using water. Bill indicated he felt a "fee" is a one-time charge.

Bob Cassaro commented on the discrepancy in meter fees. He indicated the percent increase on the smaller meter sizes was approximately 84% to 87%. There is a decrease in rates for 2 to 4 inch meters anywhere from 15% to 50%. He thought this did not make sense. Bill responded that again the best answer he could offer was that the rates were based on "cost of service" and that by far the largest number of meters in use was small meters. Bob responded that he felt the rates for larger meters should at least remain the same. They should not decrease. A brief discussion of Board members followed, and the general consensus was to amend the proposed rate schedule leaving the rates for larger meters the same as before. Bob offered additional comments related to cost of meter installation and impact fees. He felt the impact fees should be higher. Don Smith offered that the impact fees should be set at a "reasonable level" so as not to discourage people from moving into our community.

A question followed related to the "water conservation" signs and the fact they were at level "1." Bill reported that as of "this morning" the system tanks were 100% full. This was due to a wet winter and improvements the Board has made to the system. Richard explained that at the last Board meeting it was decided to leave the "conservation signs" up as a reminder to voluntarily conserve water throughout the high demand summer months.

There was a suggestion made that to help conserve water full time residents should fill water tanks during the week, and minimize water usage on weekends. This was considered a very good idea.

An additional comment was that we should discourage watering lawns when the tanks are low. Another question followed related to what PSWID was doing to insure the quality of our water. Bill responded that PSWID is regulated by Arizona State agencies to meet water quality testing criteria. One improvement PSWID made to the system upon acquisition was to install chlorinators on every well. As a result we have not had an issue with bacteria in the water since we started. The system is composed of approximately 22 wells. The majority are located in Pine and up Pine Creek.

Another question followed related to why water rates are going up. Before and during the acquisition of the water companies from Brooks the public was told water rates would not go up. Bill responded that it was the Board's intention not to increase rates for the first two years. The Board incurred some unanticipated expenses based on the condition of the system after acquisition. We could try to make it for two years without a rate increase, but we would be pretty "lean" as far as balances go. Members of the Board decided to address rates a little earlier. It was pointed out that water rates depending on where you live are very different. The intent of the proposed rate structure was to initially standardize all rates to the Pine summer rates. So if you live in Pine you'll see no change at first. In January we are taking the standardized Pine rate and including the first 3,000 gallons of water used in the base rate. This will affect weekend users more than full time residents based on weekend users water consumption. Ron Calderon offered further explanation. He reported that at the time of acquisition of the water systems, Brooks was applying for a rate increase, water hauling charges, and preparing to charge customers for drilling the K2 well. Ron reported that Shaffer Management had made many improvements to the system increasing the amount of water available to date.

A question was asked related to what would discourage the weekend users from having the attitude that since they were paying for 3,000 gallons of water they should use it. It was pointed out that the Board feels we have enough water to address weekend use, and that higher use means higher revenues going forward.

There was a comment made related to available water on July 4th weekends in prior years. It was reported that this year we have water and so the Board is moving in the right direction.

An additional question was asked related to what bacteria we were testing for and why is it necessary to have a chlorinator in each well. The Board response was that the main bacteria tested for was coliform bacteria or e. coli.

Bill Haney closed the public hearing related to the Water Rate and Fee Schedule.

7) NEW BUSINESS

- a. Discuss and take possible action regarding the PSWID fiscal year '10 – '11 Budget.

Motion to approve the PSWID FY '10 – '11 Budget – Ron
Second – Don

Mike Greer pointed out that when we create the Budget we anticipate our needs, and we don't have to spend it all. We can spend less, but we can't spend more.

Bill Haney called for the question.
Vote 6 – 0 Motion passed.

- b. Discuss and take possible action regarding the proposed Rate and Fee Schedule.

(Ron Calderon made an initial motion to approve the Rate Schedule, and then amended the motion. Due to confusion related to the process the Board decided to start over.)

Motion to approve the Proposed Rate and Fee Schedule – Ron
Second – Gary

A Board discussion followed.

Ron Calderon made a motion to amend the Proposed Rate and Fee Schedule so that the 2 inch meter rate would increase to \$82, the 3 inch meters would increase to \$110, and the 4 inch meters would increase to \$165. These rates include the 1st 3,000 gallons like residential rates and become effective January 1, 2011.

Second to the amendment – Gary

Further Board discussion followed.

Bill reminded the Board that the rates were developed on a "cost of service" basis, and that we might have legal issues if challenged. Don indicated he felt the Board did have a methodology by increasing all rates at an equitable percentage increase. Further discussion followed related to the effective date of the Base Rate change.

Ron further amended his initial motion to change the effective date of the Base Rate change to be effective August 1, 2010.

Second – Gary

Ray Pugel explained why some residents were required to install 2 inch meters based on requirements from the ACC and Fire Department. Bill indicated that this was the explanation of why it was important to adjust rates for large meters based on "cost of service."

Don Smith called for question.

Vote on the 2nd amendment (changing the effective date to August 1, 2010) – 6 – 0 Motion passed.

Vote on the 1st amendment (increasing fee schedule effective January 1, 2011) – 6 – 0 Motion passed.

Vote on initial motion (to approve Proposed Rate and Fee Schedule) – 6 – 0 Motion passed.

8) OLD BUSINESS

- a. Discuss and take possible action related to the contract with CH2MHill for providing an Interim District Manager.

Bill explained that due to the resignation of Harry Jones (Interim General Manager) at the last Board meeting, he had directed Gary Lovetro to contact CH2MHill to obtain a contract for services for an Interim General Manager. Gary obtained a contract from CH2MHill for approximately \$6,000 per month to provide Interim General Manager services to the District. The agreement stipulates the manager would be in the office on site for 24 hours per week plus any additional time required. The Interim Manager is a "contract operator" with a firm OMI which is a division of CH2MHill one of the 1st or 2nd design firms in the country at this time. His name is Dennis Burrell, and he volunteered to start working next Thursday or Friday. Due to scheduling conflicts and the fact he lives out of state, he will start the following Tuesday. Bill indicated he had already signed off on the contract, and that we need as a Board to officially approve the contract.

Motion to approve the contract with CH2MHill as signed – Gary

Second – Mike

Vote – 6 – 0 Motion passed.

- b. Discuss and take possible action related to the acquisition of the SH3 Well.

Loren Peterson offered comments related to his involvement with Brooks Utilities and well drilling over the past 2 to 3 years. He explained that he took it upon himself using his own funds to prove that Pine in fact did have deep water. Since Ray Pugel has "joined in" they have proven deep water exists at the North and South ends of Pine. Loren indicated that he has sent the Board 3 proposals since December, and has had no official response from the Board. He has water to share with the community. He mentioned he had been pumping since June 15th enough water to fill a 300,000 gallon tank weekly. To put it into perspective, that's enough water to fill 50 tanks at 300,000 gallons each. The water quality has been tested several times, and is currently being run through the system since June 15th. He is asking that Strawberry Hollow have first rights to the water, and is aware that might create an issue. The fact is that at build out (approximately 71 lots) based on current water usage of the existing lots in Strawberry Hollow the total water requirements would be approximately 1% of current water production. Loren mentioned that in his last proposal he included a deadline of July 3, 2010 for a response from the Board.

Richard offered understanding of Loren's frustration as well as the Board's frustration in not being able to move forward. Richard indicated that the Board's attorney had reviewed the previous proposal and indicated there were issues that needed to be worked out. He confirmed that the Board must abide by our attorney's recommendation, and we therefore could not sign an agreement at this time. Richard offered a motion to confirm the Board's position related to acquisition of the SH3 Well.

Motion – to respond to the proposal received from SH3 LLC (under attorney client privilege) by confirming that the PSWID Board will purchase the assets of SH3 LLC and direct our attorney to make action related to the acquisition of those SH3 LLC assets top priority and deliver to the Board an executed purchase contract within 30 days - Richard

Second – Gary

A Board discussion followed. It was pointed out that pipes have been laid up to the District's connection site, and that all that's left to do is install a meter and make the final connection. It's estimated to take less than a day once an agreement is reached. Bill indicated that it was not only our attorney, but Loren's attorney that identified issues to be worked out before an agreement could be reached. Loren responded that it was not true. He indicated that it was 100% "off base" to speak for Loren's attorney. Bill reconfirmed that the Board must go by our attorney's recommendation. Gary pointed out that the Board simply wants to

expedite work between the attorneys to reach an agreement. Gary mentioned that in the communication from the Board's attorney to the Board, he talked about buying 2 wells. Gary requested from Bill that he and Richard be delegates related to the SH3 Well acquisition to work with the Board's attorney for better understanding. Gary indicated that the Board's attorney had advised the Board he felt there was a workable solution. Gary indicated he just wanted to establish a deadline to expedite having the attorneys work together to develop a solution and come to agreement. Ron expressed his agreement and offered that we have a special meeting to address the issue. Richard offered further explanation to support his motion. Loren mentioned that he was not even able to get the Board to commit to an agreement expressing the Board's intent to purchase the well. Fred Krafczyk offered comments related to the desires of the community and encouraged the Board to move forward. Ron and Loren offered further discussion. Richard attempted to put his motion into perspective. He indicated that he honored the Board's attorney's opinion that with the letter of intent agreement there were issues that could possibly put the District in legal jeopardy. Therefore, his motion is an attempt to communicate to Loren the District's intent to purchase the well, and to encourage the attorney's to make work on finding a solution top priority.

Gary called for the question.

Vote – 5 for 1 against Motion passed.

9) CALL TO ADJOURN

Motion to adjourn – Richard
Second – Mike
Vote 6 – 0 Meeting adjourned.

Reports Available directly from PSWID by request for July 3, 2010

1. *File # PSWID – FY '10 – '11 Budget- 07/03/2010*
2. *File # PSWID – Proposed Rate and Fee Schedule-07/03/2010*