

Pine Creek Canyon Domestic Water Improvement District

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June 12, 2008

PCCDWID Customers:

In my February letter I stated some areas of focus going forward into 2008:

1. We were hopeful that we could finally reach a settlement with DNW (Tract D) by issuing them a letter of intent to serve with equivalent terms as was negotiated with JNL on the 33 unit condominium project on Tracts A, B1, and B2.

Instead, coincident with our letter with stipulation that they satisfy their Interconnect Process obligations, DNW responded with an amended lawsuit to seek cash damages of \$3M. Our district counsel and the attorney for our insurance carrier do not believe the newly claimed cash remedies (or even the prior claims) have merit and that the DNW/Portal IV legal theories are unique and highly creative.

2. We were considering a special assessment to get us through the remainder of the fiscal year 2007/2008 due to higher operating costs and lower than expected revenue growth.

But this wasn't necessary due to some hard work by the Treasurer and District Manager to manage the costs and negotiate favorable payment schedules with some of our creditors.

3. We wanted to establish working committees made up of volunteer District members to help save operating costs and move forward on strategic initiatives.

At the March 8th meeting we established 3 public committees:

- Budget Committee – Brian Reinke and Jim Crews
- Policies and Procedures Committee – Larry Field and Ernie Borgoyne
- Long Range Planning Committee – Brian Reinke and Jim Semrad

We continue to solicit volunteers for these and other committees as we move forward.

4. Improve customer service.

Sadly this on May 4th we lost our long-time water and wastewater operator Wayne Bench to cancer. Our District Manager has engaged a well qualified company (A Quality Water Co.) to replace Wayne's Water Works. We expect to continue to improve customer service with this firm that operates 19 other water systems in Northern and central Arizona.

On Saturday June 21st 2008 at 10am there will be a public budget and rate hearing concerning the proposed budget and rates for fiscal year 2008/2009 which would begin July 1. The Board will hear the public comment and answer questions then vote to accept reject, or amend the proposed budget and rate package. The hearing will be at the Pine-Strawberry Fire Station and we encourage your participation. We know there are many of you who cannot attend this meeting in person, however you can listen or make comments by calling the conference bridge at 10:00 a.m 1-800-391-1709, bridge code # 151596

The Budget committee and District Manager spent considerable time developing a proposed budget based on actual historical expenses. Many options were considered by the whole Board during the budget planning workshop meeting held in April that was attended by several members of the public. At that meeting we also had John Nelson the Deputy Gila County Manager and finance manager available to provide guidance. Another budget workshop was held on May 10th. Out of those meetings a proposed budget and rate schedule was created for consideration by the District members on June 21. The proposed budget and rate schedule are available on the District website at <http://pccdwid.org/budget.htm>.

Let me try to answer some of the budgetary questions asked by the Portal IV Home Owners Association in a recent memo sent to you.

Property Taxes: First of all it is important to understand that the Pine Creek Canyon Domestic Water Improvement District was established as a Special Taxing District under Title 48 of the Arizona Revised Statutes; specifically Chapter 6, Article 4. Historically our district has avoided utilization of property taxes, relying instead on User Availability Fees that were first assessed in 2001 with an unfulfilled promise that this would be eliminated as more and more customers provided a steady income to offset costs. Also a significant portion of the past revenue stream has been from new hook-up fees for new homes. Today our district is only about 50% built out (excluding the DNW and JNL projects); leaving fewer homes to carry the cost burden. With additional testing requirements and a somewhat aging infrastructure, we have historically allowed our rate structure to fall behind the revenue curve required to meet anticipated costs. In addition, legal costs the last two years have wiped out all the badly needed District's reserves.

The District Board decided by a vote of 4-1 to propose what may be an unpopular property tax that seems more equitable than other alternative revenue sources. Every property owner within the District, including the commercial tracts A, B1, B2, and D in Portal IV will pay \$2 per \$100 of assessed property valuation under the proposed budget. The tax bill will come from Gila County as it does today with the District tax called out as a separate line item. If you own a vacant lot you will pay less than if you have a home and/or multiple lots. Additionally, Gila County will bear the burden of collection, not the District. Personally it affects Kathy and me since we have just completed our new home, but honestly I believe this is a fair approach.

User Availability Fees: Besides legal challenges from DNW, we have received challenges from three of our customers claiming that the user availability fees are unfair to home owners with multiple lots. These property owners want reimbursement for past fees based on a per lot basis, and they want the District to pass the resulting lost revenues onto the rest of the owners. This challenge to the existing yearly User Availability Fee for homes on multiple lots has occurred annually for many years.

So, why do we still need the User Availability fee? The simple reason is cash flow - we will not receive money from the County tax role until October and we must have funds to pay the bills until then. Hopefully this will be the last time, but it depends on the growth rate of the community and the ability to stop unjustified legal challenges.

Special Assessments: Why do we need a special assessment? The special assessment is planned to allow the District to move forward with some of the capital improvements called out in the HDR study. Much will depend on what the Long Range Planning committee recommends doing including when the improvements will be carried out and what percent of the special assessment will be needed. If approved we do not anticipate implementing until early 2009, but it was important to put it into the budget for the upcoming fiscal year. Please let Jim Semrad know if you would like to participate on the Long Range Planning committee.

Water and Wastewater Usage Rates: The good news in all of this is that the rate structure for water and wastewater usage will remain the same in 2008/2009.

One final note I would like to communicate. Two of our Board members are up for re-election this year; Sandy Velotta, and Treasurer Jim Crews who filled the slot vacated by Brian Reinke. I strongly encourage you to consider running for one of these positions. Contact District Manager Harry Jones (928-595-1111) for information on how to obtain nominating petitions. Keep in mind that the PCCDWID has never had a formal election due to insufficient number of candidates coming forward. Your participation is strongly encouraged!

Regards,

Ernie Borgoyne
Chairman, PCCDWID Board of Directors