

Chairman's Comments on 2013-2014 Budget and Rate Increase

At times like this our District water Owner/Users need to reflect on what constitutes a Water District. Our Water District is a Special District of Yavapai County Government with elected Board Members. This Board selected by you Owner/Users sets the direction of the District and selects who manages the day to day operation. Contrary to what some customers might believe, there isn't a Hrabina Water Company in this town. The Hrabinas are your management team and work for fee. They can normally resolve any problems that may arise with your water service, but if not, come down and talk to your Board. Since we aren't a private water company like the other water supplier in town, it makes no sense to communicate with the Public Utilities Commission if a problem arises. You've combined your water needs into a cooperative effort to accomplish our mission statement. You've invested money in this District and created a valuable enterprise.

Our mission statement is the Board's commitment to each and every Owner/User. That statement says, "We, the Board members and management of the Black Canyon Water Improvement District, are dedicated to assured delivery of quality water that meets, or exceeds, all county, state, and federal requirements to every user within the District boundaries. We believe in superior service for our customers and competitive rates for our product. Whenever possible, required capital improvements will be revenue financed. We ask all our Owner/Users to help protect our water resources by learning and practicing conservation methods as much as possible to help safeguard our way of life and our community's future." Until the statement is changed by some future Board action, each customer can expect Board and Management commitment to this ideal.

One might ask why an emphasis on revenue financing? The answer would be because the only alternatives are debt and taxation, which would fall solely on property owners. A pay as you go system is able to charge everyone that uses water. All the users have an election voice, and indirectly control rate setting. Obviously our water distribution and treatment facilities have to be kept operating and that costs money. If our rates are set too low then there is no money for repairs and system upgrades required to maintain quality water delivery. Our rates have probably been too low for at least the past four years.

I believe the primary reason is the District Board and Management recognized the hard times that people experienced after the housing crash in 2008 and were unwilling to increase the problems of those most affected. But now five years later, the financial strength of the District has declined so significantly that this year's Budget Committee, the Treasurer, the Management Team, and myself became very concerned that the negative trend has to be ended. In the past 4-5 years our costs have risen about 10%, the Consumer Price Index maintained by the Federal Government, representing the costs of goods sold, has increased by about the same amount. Money buys less today than what it did 4-5 years ago. Meanwhile our revenues have declined by 15-20%. One doesn't have to be a financial wizard to see an enterprise with declining revenues and increasing costs will not be sustainable in the long term.

There are two reasons for the revenue declines. The first is fewer customers, the foreclosure problem, using less water, individuals trying to save money in trying times. The second is a decision made by the Board to follow ADEQ's suggestions to use tiered billing 4-5 years ago. Tiered billing definitely causes people to use less water but the success of the program can also

result in revenue difficulties. However, reduced water use is definitely a very good thing. We live in a desert that is in a 10 year drought. Water should be expensive for those who use it wastefully. But success in protecting our water can result in a need to rebalance the rates to insure adequate revenue is collected.

I'm not going to go through the complex calculations the Budget Committee, Management, and Board Members have done. Suffice to say the charges for water are immediately, uniformly recognized to not be generating sufficient revenue and they are to be raised 20% at every tier level for both commercial and residential accounts. It is expected that this will impact large users significantly and small residential and business accounts minimally. There is a clear danger that those in the higher tiers will respond by again using less water. Some might argue the increase should be larger than 20% to allow for that effect but the consensus of those involved in the decision was 20% was about all the community could currently tolerate.

The other major change on your billing will be the amount collected for Capital Improvements. Many wonder why this number is such a significant portion of their water bill and where the money goes. The short answer would be in the past decade a half million dollars went into the arsenic system when the federal government mandated new safety levels. Another hundred thousand went into a modern chlorination system that insures adequate levels without overdosing. We want to overdose the nasty bugs rather than our customers. Surprises occur like the Yavapai County paving project of a couple years ago that required an investment of two hundred thousand dollars. Our District has a very old water distribution system with much of it not adequately buried under the streets. Every paving project is a potential piping project for the District. And this year the District will spend seventy thousand dollars insuring reliable water delivery to our customers on the east side of the freeway by boring a second larger line under the freeway.

As I mentioned earlier, maintaining a system of this size takes money. The Board has two choices when big necessary projects arise. They can plan ahead and collect reasonable amounts in advance to take care of future problems or they can wait until problems develop and run to the bank for money to fix them, pushing the District into debt and damaging its financial position. For well over a decade now your District has chosen the first course of action and that has resulted in it being recognized by State and County agencies as the best small water delivery system in the State. The District Board believes the Capital Improvement collections are currently too low and is proposing a flat three dollar charge on all accounts, both residential and business, to be used solely for Capital Improvements.

I would like to end by inviting you to serve your community by participating in our annual Budget Committee meetings; we can always get a bigger room. Monthly meeting attendance is never jam-packed, so come on down. New ideas are always welcome and the best way to protect your interests is to be involved. We're all in this together. It's our investment and our Water District.

I hope this presentation and the materials handed out this evening will clarify any concerns that you may have but if not this is the time to ask questions and your Board and Management will attempt to give you answers.

Thank you.