

Tonto Hills Special Newsletter

TONTO HILLS IMPROVEMENT ASSOCIATION
42033 N. Old Mine Road, Cave Creek, AZ 85331

May 2008

WATER ISSUES

The goal of this newsletter is to briefly explain the important water issues facing Tonto Hills. The following information is based on in-depth research and due diligence by your Board of Directors. It was presented at four Town Hall meetings over the past 16 months, and included an independent engineering study and results of numerous meetings with city, county, and state agencies. A **Town Hall Meeting** is scheduled this June to provide further information. Please see the back page of this newsletter for details

OUR WATER SOURCE:

In 2001, the Tonto Hills Utility Co. (THUC) completed a very rare acquisition of a Central Arizona Project (CAP) water allocation of 71 acre-feet (23 million gallons) per year to replace our dwindling local well supply that required treatment for radon. This allocation is enough water for the complete build out of our community. Currently Tonto Hills uses 33 acre-feet of water per year. It is treated and delivered through a contract with City of Scottsdale.

OUR WATER SYSTEM & WATER COMPANY:

The system delivers the treated water to each property. It is a simple system of gravity-fed pipelines, a storage tank, valves, and meters that is neither complicated nor difficult to operate. The recent independent engineer's evaluation indicates the system is in adequate-to-good working condition with some maintenance issues needing attention. THUC is a private water company owned by several long-time residents who acquired the distressed water system in the 1980's. They want to sell it, preferably to a Tonto Hills entity, but will go outside if necessary.

RISK:

Nothing in Arizona is more important than water, and our hard-won CAP allocation is irreplaceable. We now have the opportunity to control our future water supply. If we fail to secure the water system ourselves, it likely will be purchased by an outside party. According to federal and state agencies responsible for regulating the CAP and water companies, it would be possible for a new owner to transfer our CAP water allocation away. The new owner would be required to continue supplying us water but at an unknown cost, unknown method (like trucking it in), and we would have no control over or knowledge of the water source. Each Tonto Hills property owner must decide if the risk is worth ignoring or so grave that securing local control of our water supply is essential.

CONTINUED ON OTHER SIDE

ALTERNATIVES:

- 1) Do nothing and live with whatever happens.
- 2) Form a non-profit county Domestic Water Improvement District (DWID) and obtain a low cost subsidized government loan to purchase and operate our own water system.

BEING A DWID:

As owners, we would make all decisions that affect the operation and future of our water system. All information we have so far indicates that a non-profit DWID is the best vehicle to get a low-cost loan to purchase our own utility and to control our CAP water allocation. The County will appoint an initial DWID Board of Directors comprised of Tonto Hills property owners recommended by the THIA Board. The DWID Board will be elected in subsequent years by the community. The DWID Board will hire a certified water system operator, same as is now done, to periodically test the system and maintain water quality. The DWID Board will be responsible for overseeing the operations, maintenance, and financial management and reporting of the DWID. Our CAP contract has a renewable 100-year term, and is transferable to our DWID. The Scottsdale treatment & delivery contract has an initial term of 50 years and is automatically renewable every 25 years, subject to renegotiation of fees. The Scottsdale contract is subject to renegotiation whenever there is a new owner.

INITIAL CAPITAL COST OF DWID:

The owners of THUC have signed a Letter of Intent (LOI), and agreed to sell the utility to the community. As part of the LOI, THUC will replace water pipes to create alternate delivery loops and recoat (repair if necessary) the storage tank at its own cost. To purchase the current system and fund the needed upgrades (pressure reducing valves and shut off valves) and provide a reserve fund for operating costs requires an investment of approximately \$3,500 for each property. This investment can be paid in its entirety upfront or financed with a low interest rate government subsidized loan over 20 years. The monthly cost would be in the range of \$20 - \$25 per month payable semi annually with your property tax bill. The likely interest rate will be in the 4 – 5% range. Each Tonto Hills property will be held as collateral for the government loan by the county.

WATER RATES:

DWID water rates will be affected primarily by our treatment & delivery contract with Scottsdale. As City contract rates increase, DWID water rates may rise accordingly. The WIFA loan contains sufficient operating and maintenance reserves to minimize the chance of any increase in rates in the first year. THUC has had a positive cash flow since beginning delivering water via the CAP /COS contracts. Therefore there is reason to believe this positive cash flow will continue. This should provide the DWID with cash reserves for maintaining the facilities or reducing water rates. DWID water rates will be set by our elected DWID Board, who are our neighbors. Because a DWID is a non-profit entity, only costs drive rates, not profits of a commercial company.

RELIABILITY OF OUR WATER SUPPLY:

Scientific studies by the Arizona Department of Water Resources have concluded that our CAP allotment is secure even in the worst case drought scenarios. Our water stopped coming from our local wells in March 2004, when THUC's vision of a more reliable supply was realized by the remarkable acquisition of rights to water from the CAP canal, which carries Colorado River water to the Phoenix area. During drought, this water is augmented by groundwater pumped from areas where excess CAP water was recharged during wet years. The Tonto Hills CAP allocation has the same priority as CAP allocations of any Arizona city.

DWID SCHEDULE:

We have nearly completed all the steps necessary to circulate a petition and apply for formation of a DWID. We will hold a Town Hall meeting in June for Maricopa County representatives to explain the DWID process to our community. We expect to contact each of you to discuss the water issues and provide answers to your questions. Prior to the Town Hall you will receive a letter from the County which may have additional information which may also be important in making your decision. The DWID could be formed and the loan could be obtained within the year.

CONCLUSION:

We believe the facts show that the DWID formation is necessary and appropriate to pursue.

QUESTIONS:

We want to hear from you so that we can convey your concerns to the County. Board members will contact you soon to set a time to meet, discuss the issues, and circulate the DWID petition.

MEETING NOTIFICATION:

There will be a meeting on June 19th (6:30 p.m.) at Christ the Lord Lutheran Church with County Representatives to inform property owners of the Petition process and answer any questions you may have. This will be the first part of the meeting; in the second part, the THIA Board and the DWID Formation Committee will answer any additional questions or concerns.

**ALL TONTO HILLS PROPERTY OWNERS WILL BE ASKED TO DECIDE BY PETITION!
PLEASE PARTICIPATE!** A clear majority of property owners is needed to pass the petition. You will soon be contacted on how to participate.

Town Hall Meeting

**June 19, 2008
Christ the Lord Lutheran Church
6:30 pm – 10:00 pm**

THIA Board of Directors will conduct a Town Hall meeting on June 19th beginning at 6:30 PM. The purpose of this meeting is to explain the petition process for formation of a Domestic Water Improvement District (DWID), present the details of an agreement with THUC for possible sale of the utility, and explain the reasoning for the government loan amount.

Mr. Richard Wallace of the Maricopa County Department of Transportation will explain the role of the county in the formation of a DWID and the DWID petition process. After the county presentation, information on the purchase price of the utility and government loan will be presented. This meeting, open to all Tonto Hills property owners, is to provide you with the final pieces of information to make informed decisions concerning the formation of a DWID and purchase of the water utility.

Town Hall Meeting Agenda

- 6:30 PM** **Call to Order**
 - Introductions
 - Opening Comments

- 6:45 PM** **Maricopa County Representative – Richard Wallace**
 - County Role in DWID Formation
 - DWID Formation Petition Process
 - Questions & Answers

- 7:30 PM** **Review of Water Committee Study**

- 8:00 PM** **Explanation of Letter Agreement with THUC**
 - Purchase Price
 - THUC Funded System Improvements

- 8:15 PM** **Explanation of Loan Request**
 - Estimate of DWID Startup Costs
 - Estimate of Initial DWID Operating Costs
 - DWID Funded System Improvements

- 8:30 PM** **Questions & Answers**