

**Tonto Hills Improvement Association
Town Hall Meeting**

**Petition Process for DWID Formation
& Proposed THUC Purchase**

Thursday, June 19th 2008

Agenda

6:30 PM Call to Order (R. Nelson)

- Opening Comments & Introductions

6:40 PM Maricopa County Petition Process (R. Wallace, J. Rodriguez)

- County Role in DWID Formation
- DWID Formation Petition Process
- Questions & Answers

7:45 PM Due Diligence Review

- Summary of PER (R. Nelson)
- Summary of THUC Contracts (D. Rex)
- Summary of Proposed DWID Business Plan (B. Swan)

8:00 PM Letter Agreement with THUC (C. Civer)

- Purchase Price
- THUC Funded System Improvements

8:30 PM Explanation of Government Subsidized Loan (C. Civer)

- Estimate of DWID Startup and Initial Operating Costs
- DWID Funded System Improvements
- Loan Payment Process & Options

9:00 PM Annexation Committee Due Diligence Summary (D. Maple)

9:15 PM Questions & Answers (R. Nelson, C Civer)

Opening Comments & Introductions

Rick Nelson

Due Diligence Timeline

- **2005 Tonto Hills Utility Company (THUC) is for Sale**
- **2006 THIA Board Formed Water Committee to Evaluate Options & Obtain Facts (Due Diligence)**
- **February 2008 Town Hall Presented PER (Due Diligence) Results**
- **May 2008 Letter of Intent (LOI) Agreement Reached for Purchase of THUC Assets**
- **Seek Approval of Property Owners to Form DWID**

Focus on the Critical Issue

- **Local Control of Water Utility is the Issue.**
Central Arizona Project (CAP) Water is Owned by THUC
CAP Allocation Could be Transferred by New Owner
Value of CAP Allocation is priceless
- **We Are Being Asked to Consider:**
What Is the Risk vs. Benefit?
Does the Investment Remove the Risk?
What Options are There?

Individual Assessment of Risk

- **Each of us must consider the risks in context with our lives**
- **Do you believe local control of Tonto Hills water is essential?**
- **How much risk are you willing to accept given loss of control?**
- **What are you willing to invest to ensure local control?**
- **Is “No Action” a prudent alternative?**

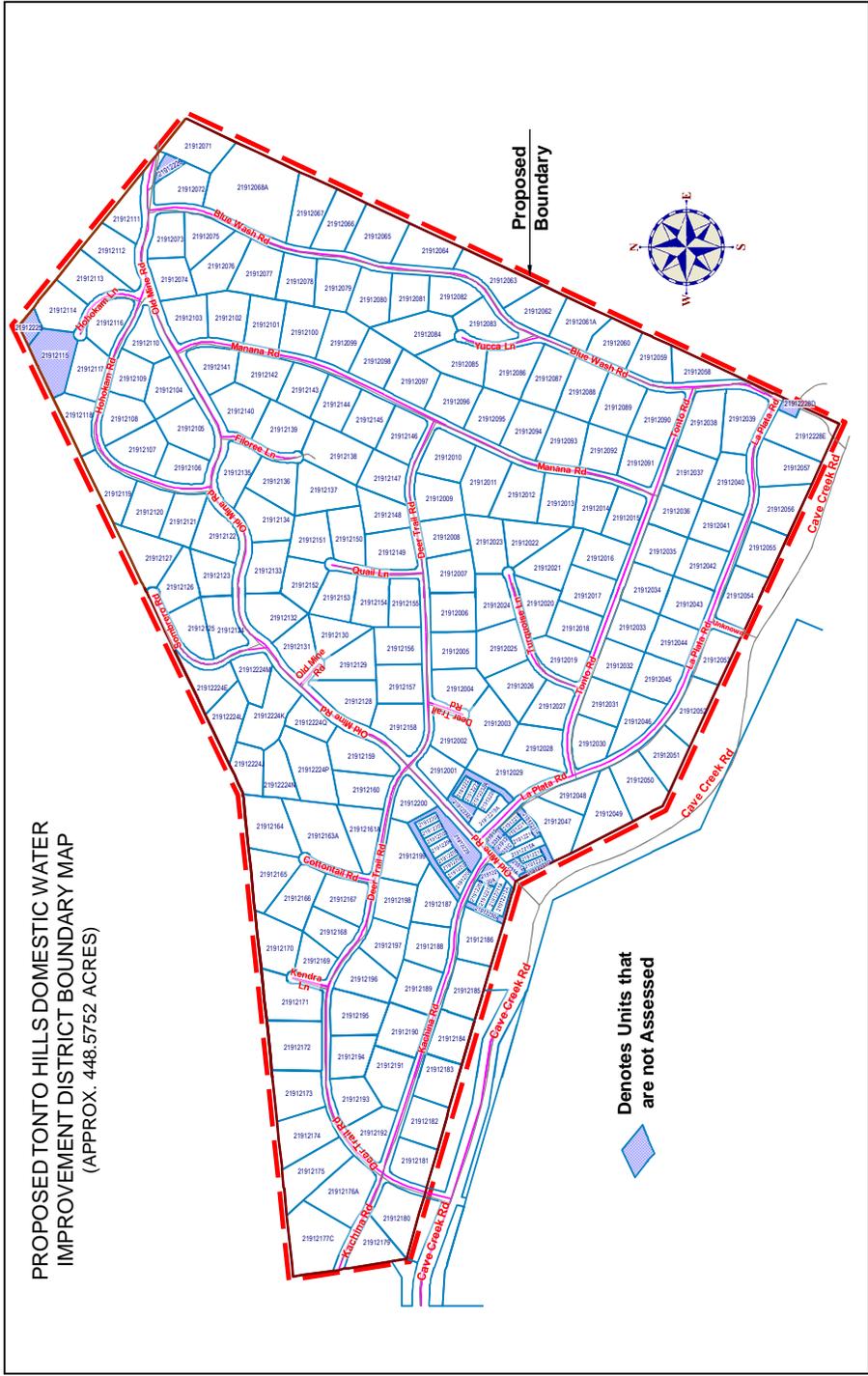
Maricopa County Manages the Next Step

- **The fact gathering is complete.**
- **Property owners approval to form a DWID is the next step.**
- **After tonight, the decision is in your hands.**
- **Do you think that controlling our water supply is worth the investment?**
- **If so, please sign the petition.**

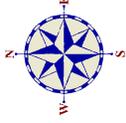
Maricopa County Petition Process

**Richard Wallace
Superintendent of Streets**

PROPOSED TONTO HILLS DOMESTIC WATER
IMPROVEMENT DISTRICT BOUNDARY MAP
(APPROX. 448.5752 ACRES)



Proposed
Boundary



Denotes Units that
are not Assessed



Due Diligence Review

Rick Nelson, Don Rex, Bob Swan

Summary of PER

Rick Nelson

Facts Developed by Water Committee's Due Diligence

- **Defined CAP Responsibilities and Reliability in Time of Drought**
- **Obtained Independent Engineering Evaluation of Water System**
- **Completed Financial Analysis of THUC Records**
- **Defined the Steps to Form a DWID**

Independent Engineering Evaluation Assessment

Based on the engineer's report, we believe the condition of the existing infrastructure has been accurately represented by the Tonto Hills Utility Company.

The system operates in a similar manner as like systems.

There are several improvements that need to be addressed.

CAP Water Supply

The Central Arizona Project (CAP) water supply is highly reliable and domestic water users have priority over other CAP users (farming) in times of drought.

The CAP entitlement of 71 acre-ft/yr exceeds the projected Tonto Hills build-out demand of 56 acre-ft/yr.

Tonto Hills Utility Company Summary

Owns a 100 year CAP water allocation

Obtained Scottsdale delivery and treatment contract

Has had a reliable source of water since the CAP acquisition

Is generating positive cash flow

Summary of THUC Contracts

Don Rex

Central Arizona Project Contract

- **100-year term to 2108**
- **Delivery allocation**
Up to 71 acre-feet (AF) (~23 million gallons/year)
- **Currently at 34 AF (~11 million gallons/year)**
Increment increases to 36 AF in January 2009
- **Charges to water company**
All up-front costs to secure source are paid
Small annual delivery charge

City of Scottsdale Contract

- **50-year term (to 2050) with 25-year renewal options**
- **Contract Provides**
 - Up to 71 AF**
 - At a maximum of 70 gals/min. & 3 million gallons/mo.**
- **Currently delivering 34 AF**
- **Exceptions**
- **CAP system interruption**
 - Short-term scheduled Scottsdale maintenance**
- **Quality guaranteed**
 - At point of entry into Tonto Hills**
- **Charges to water company**
 - Monthly billings for actual consumption**
 - One time charge for yearly demand increase**
- **Penalties for exceeding planned consumption**

Summary of Proposed DWID Business Plan

Bob Swan

DWID Projections - Key Assumptions

- **No Tonto Hills consumer rate changes**
- **Water usage: 5% annual increases**
 - ✓ **3 new hook-ups annually**
 - ✓ **Buy 1 additional CAP acre-foot annually**
- **Expenses based upon THUC's 2007 actual & 2008 estimate**
- **City of Scottsdale T&T charges: 10% annual increases**
- **Add professional management costs**
- **Expenses – 5% annual increases for all categories except:**
 - ✓ **Water system repairs -15% annual increase – no major repair**
 - ✓ **Insurance – 10% annual increase**
- **No interest expense**
- **Cash: full \$800,000 raised; this leaves at least \$35,000 of DWID working capital**

		Estimated									
		2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Operating Receipts											
Fee Revenues		172,400	181,100	190,200	199,800	209,900	220,400	231,300	242,900	255,000	267,800
Hook-up Revenues		9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000
Total Operating Revenues		181,400	190,100	199,200	208,800	218,900	229,400	240,300	251,900	264,000	276,800
Operating Expenditures											
City of Scottsdale											
Treat & Transport Costs		(62,700)	(69,000)	(75,900)	(83,500)	(91,900)	(101,100)	(111,200)	(122,300)	(134,500)	(148,000)
Purchase New Acre-Feet		(9,000)	(9,000)	(9,000)	(9,000)	(9,000)	(9,000)	(9,000)	(9,000)	(9,000)	(9,000)
Professional Fees											
Management Company		(12,000)	(12,600)	(13,200)	(13,900)	(14,600)	(15,300)	(16,100)	(16,900)	(17,700)	(18,600)
Accounting		(11,600)	(12,200)	(12,800)	(13,400)	(14,100)	(14,800)	(15,500)	(16,300)	(17,100)	(18,000)
Legal Fees		(3,600)	(3,800)	(4,000)	(4,200)	(4,400)	(4,700)	(4,900)	(5,100)	(5,400)	(5,700)
Water System Repairs & Maintenance		(16,000)	(17,800)	(20,000)	(22,300)	(25,000)	(28,100)	(31,700)	(35,700)	(40,300)	(45,600)
Liability Insurance		(7,400)	(8,100)	(8,900)	(9,800)	(10,800)	(11,900)	(13,100)	(14,400)	(15,800)	(17,400)
Interest Expense		-	-	-	-	-	-	-	-	-	-
Licenses and Permits		(1,800)	(1,900)	(2,000)	(2,100)	(2,200)	(2,300)	(2,400)	(2,500)	(2,600)	(2,700)
Taxes - Property		(1,200)	(1,200)	(1,300)	(1,300)	(1,400)	(1,500)	(1,600)	(1,600)	(1,700)	(1,800)
Water Testing		(4,600)	(4,800)	(5,100)	(5,300)	(5,600)	(5,900)	(6,200)	(6,500)	(6,800)	(7,100)
Other Expenses		(3,300)	(3,300)	(3,600)	(3,800)	(4,000)	(4,000)	(4,400)	(4,700)	(4,700)	(5,000)
Total Operating Expenditures		(133,200)	(143,700)	(155,800)	(168,600)	(183,000)	(198,600)	(216,100)	(235,000)	(255,600)	(278,900)
Annual Operating Cash Flow		48,200	46,400	43,400	40,200	35,900	30,800	24,200	16,900	8,400	(2,100)
Beginning Cash Balance	A	35,000	83,200	129,600	173,000	213,200	249,100	279,900	304,100	321,000	329,400
Ending Cash Balance	A	83,200	129,600	173,000	213,200	249,100	279,900	304,100	321,000	329,400	327,300

A Cash available for capital improvements or rate reductions - determined by Board action or Annual DWID Member Public Hearings

Letter Agreement with THUC

Charles Civer

Letter of Intent (LOI)

General

The Letter of Intent (LOI) is an agreement to acquire all tangible and intangible assets, contractual, ownership and leasehold rights and interests held by THUC.

Assets Purchased

**Complete operating system (Storage & distribution system)
Contract for rights to 71AF of water from CAP
Contract with City of Scottsdale for delivery and treatment**

Purchase Price

\$642,000 (\$442,000 and THUC's WIFA loan balance at Closing \$200,000 as of December 31, 2009).

THUC LOI Principal Conditions

THUC Conditions

Prior to Closing THUC shall:

Sandblast storage tank and apply a new epoxy coating after any required repairs, in accordance with potable water industry standards. (PER - \$54,000)

Replace sections of potable water pipe on Blue Wash Road and Tonto Road. (PER - \$33,000)

Acquire sufficient water to serve homeowners to closing. (2 AF- \$17,000)

Pay off its WIFA loan, and any other debt. (\$200,000)

DWID LOI Principal Conditions

DWID Conditions

Prior to Closing DWID shall:

Obtain Property Owners and County Approval.

Obtain assignment of CAP and COS contracts to DWID.

Obtain financing from WIFA.

LOI Termination Conditions

Adverse Events (in which case DWID may terminate)

THUC's loss of any rights, assets, claims or actions which may impair assets.

THUC Termination Rights

In the event the petition does not meet County approval.

Contract Expiration

December 31, 2009

Final Contract

A final Contract between THUC and Tonto Hills DWID will be entered into after the DWID is approved and formed.

Explanation of Government Subsidized Loan

Charles Civer

DWID Use of WIFA Loan Funds

Anticipated WIFA Loan

\$800,000

Commitment

Use of Funds

\$642,000

THUC Purchase

DWID Capital Improvements

\$45,000

Pressure Reducing Valves

\$8,000

Potential Pipe Replacement

\$7,000

Gate Shut Off Valves

\$3,000

Other

63,000

Working Capital Reserves

\$35,000

DWID Formation Costs

\$20,000

Contingency

\$40,000

Total

\$800,000

WIFA Loan Facts

\$800,000 is the maximum loan required. Actual loan may be less. Maximum lot assessment would be \$3,524.

\$200,000 is THUC's WIFA loan balance at close. Projected as of 12/31/09. Earlier Close will increase this amount. In the event of a Closing in the first quarter of 2009 the Loan balance would be about \$210,000. This will be offset by DWID receiving the cash flow from operations beginning at Closing.

Lot assessments may be paid up front or paid biannually over a 20 year amortized loan. The interest rate is set at time of Closing. The rate is based on AAA Government Bonds. The current rate is 4.4%. WIFA staff indicates that a 20-25% reduction is likely.

DWID Formation Timeline June – December 2008

EVENTS & ACTIVITIES	6-08	7-08	8-08	9-08	10-08	11-08	12-08
County & Committee Town Hall	▲						
Petition Received from County		▲					
Petitions Presented to Property Owners		→	→	→			
Signed Petitions Presented to County				▲			
County Supervisors Hearing				→	→		
County Approval					▲		
DWID Formation & Board Appointed					▲		
WIFA Loan Application					→	→	
DWID Due Diligence Performed				→	→		
WIFA Processes Loan Application					→	→	→
Final THUC Contract Signed					→	→	→
THUC Improvements Completed	→	→	→	→	→	→	→

DWID Formation Timeline December 2008 - 2009

EVENTS & ACTIVITIES	12-08	01-09	02-09	03-09	04-09		12-09
WIFA Loan Closing							
THUC Purchase Closing							
DWID Begins Operations							
DWID System Improvements Installed							
Final Assessment Dollar Determined							

Update on Annexation Due Diligence

Denny Maple

Background on DWID & Annexation Paths

- 2007 Water Committee made an initial presentation on the DWID option. Property owners suggested that annexation also be examined as an option.**
- 2007 Town Hall attended by Scottsdale senior staff person provided information how to approach Scottsdale concerning annexation.**
- 2007 Property owners surveyed to determine interest in learning more on annexation.**
- 2008 Annexation Committee formed by Board, requested meeting with Scottsdale, and began due diligence – just as the water committee did two years ago.**

Current Status of Annexation Due Diligence

Scottsdale has established a staff working group to study Tonto Hills and review the community's infrastructure (water, roads, drainage, utilities, etc.) to determine if Tonto Hills meets city criteria for annexation.

The Annexation Committee has scheduled a meeting with Scottsdale to outline the annexation process and discuss staff's progress.

Annexation Committee is currently preparing for discussions with Scottsdale to determine their level of interest and benefits and costs to Tonto Hills property owners.

DWID and Annexation Are Possible Sequential Options - Not Competing Options

Historically Scottsdale annexation process has taken years. Wildcat Hill took almost 6 years to complete.

Annexation as an option for securing local control of water resource could not be accomplished by THUC's July 1, 2008 deadline.

The time frame for annexation is primarily dictated by city.

The time frame for forming the DWID is primarily controlled by the property owners.

DWID Impact on Possibility of Future Annexation

Formation of a DWID keeps all our options open.

Purchase of the utility either by individual lot owners or an outside party could impact the potential for annexation.

December letter from City of Scottsdale staff stated community formation of a DIWD and purchase of utility would be a requirement of annexation.

Questions & Answers

Rick Nelson