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ORIGINAL

GROOM CREEK WATER USERS ASSOCIATION

4209 S. Adeline Drive
Prescott, Arizona 86303
Phone: 928-413-8654 A 11: 58

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February 11, 2008
DOCKET CONTROL

Arizona Corporation Commission
DOCKETED

FEB 11 2008

Arizona Corporation Commission
Utilities Division
1200 West Washington Street
Phoenix, AZ 85007

DOCKETED BY 

Re: STAFF REPORT FOR GROOM CREEK WATER USERS ASSOCIATION
(DOCKET NOS. W-01865A-07-0385 AND W-01865A-07-0384)

Thank you for providing us a copy of the Staff Report concerning our request for a Rate Increase, as well as a Financing Application. We have major objections to the recommended base rate increase, as well as to some of the other increases as discussed below.

Specifically:

1. It appears that the Staff locked in on the initial phase of the project, i.e. the "Stagecoach" portion, as opposed to looking at the project as a whole. The Staff opposes a Line of Credit loan, but fails to offer a reason for their opposition. We can only assume that a long term loan is the only way a reduction in the Association's proposed rate can be justified. There has been no apparent consideration given to the economics of this recommendation and resultant extremely inflated cost to the Association and its members. It also prohibits the Association from taking on any further projects without additional rate increases for the next 20 years! A \$500,000 loan for a 20 year term at 8% interest would cost \$4,182.20 per month—or \$50,186.40 per year. Staff's recommended rate increase would add \$57,132 per year to the Association. That would only allow a \$7,000 per year cushion, which is totally unsatisfactory, considering there has been NO significant base rate increase for 26 years. Furthermore, when the financial aspects are taken into consideration, the analysis is even more questionable. For the 20 year loan mentioned above, the interest alone will cost the Association and its members \$503,728.00 plus repayment of the principal of \$500,000. By comparison, the same amount of a loan taken out as a LOC and repaid in 10 years at 8% interest will result in a monthly payment of \$6066.38 per month, or \$72,796.56 per year. The interest paid over this term would amount to \$227,965.49, which is \$275,762.51 less than what Staff is proposing. This option will actually save the Association and its members \$13,845.58 per year over a 20 year period. The GCWUA Board of Directors could never justify Staff's current recommendations to the members just to enable a rate that is approximately \$19.50 per month less than what we have proposed. The interest repaid, as noted above, would actually be even less because the loan funds would not be used until needed. Approving the financing for the amount of the engineering estimate is also short-sighted. Staff is assuming the project can be completed for the estimated amount. Unforeseen circumstances could cause expenses to escalate. Would that require the

project to stop for an extended time while we pursue another application for additional funds? The Staff appears to have lost sight of the fact that the entire Groom Creek paving project is scheduled to be completed by 2012. Stagecoach Road was originally scheduled for paving last year and four additional roads are scheduled for paving in 2008. The LOC option is the quickest and most efficient way to start the project commensurate with Yavapai County's road paving schedule. To correct the Staff, the interest rate quoted to us for the LOC was 8%, not the 9.5% they used in their analysis. We are sure the present interest rates are now even significantly less due to prime rate reductions by the Federal Reserve Bank. In addition, it has always been our intention to possibly refinance the project at a later date into a long term loan, after the Stagecoach Road portion of the project is completed and the total refinance cost is known.

The entire Association membership is fully informed of the newly proposed rate and what the funds are required to accomplish. This is not an issue of how to minimize the rate increase, but how to complete the project in a compressed time frame, and at minimal cost. The Staff's recommendation certainly does not do that. The Commission has received only 3 letters in opposition to the proposed rate increase. Considering that the Association is composed of 228 members, opposition of only 1.3% of our members is considered insignificant.

2. Staff reduced our requested \$42.00 base rate to a recommended \$22.50. While that reduces the pain to the members' pocketbooks, it eliminates our ability by \$28,664 per year, to more rapidly reduce the borrowed amount of the LOC, freeing additional funds for follow-on items in the project. We must have the Association's proposed rates. With respect to the Staff's recommended base rate of \$22.50, this rate should have been placed in effect ten years ago. Unfortunately, previous Association boards lacked the foresight to plan for future financial requirements. In addition, our proposed base rate is comparable to that of other water systems in our area. At our General Membership meeting in September 2007, guest speaker, Commissioner Kristin Mayes stated that rate increases should be awarded every five to seven years to keep up with required system infrastructure improvements. We have not had an increase in our base rate since the inception of the Association in 1982. We must have the increase we requested to catch up to the infrastructure demands for upgrading.

3. Staff indicated that the Association was unnecessarily paying income taxes. We couldn't agree more. All previous Boards failed to apply for Tax Exempt status. We did so, and the IRS approved our application in December 2007, with an effective exemption date of 9 January 1978. (Atch 1) We are currently seeking available refunds from the IRS which will total less than \$5,000.

4. The current charge to a new customer for a service installation is \$450, which is to be paid to the Association in advance. This amount is totally inadequate, and in no way covers the cost of the labor and materials involved. Our most recent service installation cost the Association a total of \$823.81; however, that does not include rental for a backhoe or an operator—which, in this case, were provided by the building contractor. Nor does it include the cost of the ¾ inch copper line that was drawn from existing Association stock. Total estimated cost for this installation was in the range of \$1500.

Had this installation been completed under a paved road, additional cost for saw cutting and restoration of the black-top would probably be nearer to \$2000. (Atch2) Moreover, ACC regulations require that a utility **REPAY** that money back to the customer over a period of ten (10) years—plus interest. This is totally ludicrous. This results in the Association (every member) having to pay for the entire installation, and the new customer gets a water service for free. While the \$7500 we proposed as a charge for a new service is high, and appears arbitrary, it would cover the cost of labor, material, equipment rental, permits and other related expenses. Staff recommends \$520 for a total charge. This is hardly better and in no way covers the total cost of a new service installation. Moreover, it, also, is to be repaid to the new customer. We will agree with the following: We could accept a \$520 service installation charge, as recommended, and we would repay the customer in 10 installments, ***provided*** we could also charge the new customer for labor, material, equipment rental, permits and other expenses involved. These would **not** be repaid to the new customer. This would enable the Association to recoup these costs, and would be fairer to the membership of the Association.

5. There are several inconsistencies between the narrative on “Rate Design” on page 7, and figures listed on Schedule BCA-4, Page 4. For instance:

- a. Re: Establishment Fee, Staff recommends \$30 (pg 7) and \$25 (pg 4)
- b. Re: Reconnection (delinquent). Staff recommends \$40 (pg 7) and \$30 (pg 4).
- c. Re: Re-establishment (Within 12 months). Staff recommends \$30 (pg 7) and a formula solution on page 4.
- d. Re: NSF charges. Staff recommends \$40 (pg 7) and \$20 (pg 4).
- e. Re: Deferred Payments (per month) & Late Payments (per month). Staff recommends 1.50% for both items. This is totally unsatisfactory. For instance, a deferred or late bill of \$50 would have but a \$.75 penalty at 1.50%. This would provide no one any incentive to pay their bills on time. Perhaps Staff meant 15.00%, which, in the example, would result in \$7.50 penalty, which is more realistic. However, for administrative reasons, a flat rate is easier to administer, and for the customer to compute and add to their late bill. **Also, our computer program can only accept a flat fee input.**
- f. Re: Meter Re-reads (if correct). Staff recommends \$25 (pg 7) and \$20 (pg 4).

Needless to say, the above inconsistencies create nothing but confusion on our part. Which applies?

On page 3 under Customer Services, Staff indicated they had received “eight complaints.....and four opinions” from January 1, 2004 and January 30, 2008. We respectfully request copies of each of the 12 documents be forwarded to us for our records.

With approval of the Financing Application, we will aggressively be seeking funds to cover the

entire estimated cost for the modernization project. Because of the financial considerations discussed earlier, the GCWUA Board of Directors cannot recommend to the membership to move forward with the modernization project and to incur an additional \$275,000 in debt because of a lack of an additional \$19.00 increase in base rate. Denial of the requested increase will prohibit any other infrastructure improvements, and may eventually lead to a system shutdown as a result of deteriorated lines and our inability to keep up with repairs. For your information, of which you are not aware of by looking at the test year of 2006, the twelve month period ending December 31,2007 had a loss of \$18,884 due primarily to major pipe breaks in the system. Installation and repairs cost the Association \$27,463 for the year 2007 which equals 45% of the total water revenue. If the Staff insists on proceeding with the original recommendations, then the Association's Board of Directors will demand a hearing with the Commissioners to discuss the rate changes.

Thank you for your cooperation.

Sincerely,



Kal Miller
Secretary, Board of Directors

Attachments:

1. IRS Approval Ltr, Tax Exempt Status
2. Invoices, Meter installation (2 pages)

CC: Mike Gleason, Commissioner
Kristin K. Mayes, Commissioner
William Mundell, Commissioner
Jeff Hatch-Miller, Commissioner
Gary Pierce, Commissioner

Jerry D. Hodgson, President
Dean Clemit, Vice President
Loren Greenberg, Treasurer
Todd Starr, Director
Leroy Sites, Director
Anne Reynolds, Director
Ernie Serrano, Jr., Director

INTERNAL REVENUE SERVICE
P. O. BOX 2508
CINCINNATI, OH 45201

DEPARTMENT OF THE TREASURY

Date: **DEC 18 2007**

GROOM CREEK WATER USERS ASSOCIATION
C/O KENDIS K MUCHEID
FENNEMORE CRAIG
3003 N CENTRRAL AVE STE 2600
PHOENIX, AZ 85012-2913

Employer Identification Number:
86-0356804

DLN:
17053239012007

Contact Person:
GARY L BOTKINS

Contact Telephone Number:
(877) 829-5500

Accounting Period Ending:
December 31

Form 990 Required:
Yes

Effective Date of Exemption:
January 9, 1978

Contribution Deductibility:
No

Received KM

DEC 31 2007

ID# 31463

Action

Dear Applicant:

We are pleased to inform you that upon review of your application for tax-exempt status we have determined that you are exempt from Federal income tax under section 501(c)(12) of the Internal Revenue Code. Because this letter could help resolve any questions regarding your exempt status, you should keep it in your permanent records.

Please see enclosed Information for Organizations Exempt Under Sections Other Than 501(c)(3) for some helpful information about your responsibilities as an exempt organization.

You will be recognized as exempt only in years when your receipts from members, for the purpose of meeting losses and expenses, are at least 85 percent of your total income.

We have sent a copy of this letter to your representative as indicated in your power of attorney.

Sincerely,



Robert Choi
Director, Exempt Organizations
Rulings and Agreements

Enclosure: Information for Organizations Exempt Under Sections Other Than 501(c)(3)

Letter 948 (DO/CG)

Pet Fitzgerald
 1634 W. Pine Cone Way
 Prescott, Az. 86303
 928-925-8076

Invoice No. 10031

INVOICE

Customer

Name Groom Creek Water Users Association
 Address 4209 S. Adeline
 City Prescott State AZ ZIP 86303
 Phone _____

Misc

Date 1/23/2007
 Order No _____
 Rep _____
 FOB _____

| Qty | Description | Unit Price | TOTAL |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------|------------|-----------|
| 2 | Hours blue stake (1032 Wagon Wheel & 1176 Elk Trail) | \$ 100.00 | \$ 200.00 |
| 1 | Hour locating 3 meters | \$ 50.00 | \$ 50.00 |
| 1) 4108 Peter MackIn, meter buried by contractor landscaping 2) 1168 Wagon Wheel, buried in dirt, not where mapped, location noted 3) 1146 Sandy, Meter Equipment is not code, irrigation use. | | | |

*SI Jans 2007
 #3526*

| | |
|----------|-----------|
| SubTotal | \$ 250.00 |
| Shipping | |
| TOTAL | \$ 250.00 |

Payment Select One...

Comments _____
 Name _____
 CC # _____
 Expires _____

Tax Rate(s) _____

Office Use Only

Quality on Tap

Thank you for the opportunity to serve you.

Pat Fitzgerald
 1634 W. Pine Cone Way
 Prescott, Az. 86303
 928-925-8076

Invoice No. 10032

INVOICE

Customer

Name Groom Creek Water Users Association
 Address 4209 S. Adeline
 City Prescott State AZ ZIP 86303
 Phone

Misc

Date 1/23/2007
 Order No.
 Rep
 FOB

| Qty | Description | Unit Price | TOTAL |
|-----|--------------------------------------------------|------------|-----------|
| | Materials | | |
| 1 | Hot tap tools | \$ 75.00 | \$ 75.00 |
| 1 | Concrete boxes, upper & lower W/ lid | \$ 120.81 | \$ 120.81 |
| | Labor | | |
| 1 | Hot tap and service line for 1032 W. Wagon Wheel | \$ 438.00 | \$ 438.00 |
| 2 | Hours admin. | \$ 40.00 | \$ 80.00 |
| 1 | Yav. Co. excavation permit | \$ 60.00 | \$ 60.00 |

*SI Jan 2007
 # 3527*

| | |
|--------------|------------------|
| SubTotal | \$ 773.81 |
| Shipping | |
| TOTAL | \$ 773.81 |

Payment

Select One...

Tax Rate(s)

Comments

Name
 CC #
 Expires

Office Use Only

Quality on Tap

Thank you for the opportunity to serve you.