

**Response to the report titled “Big Chino Water Ranch Project Impact Analysis:  
Prescott & Prescott Valley, Arizona”.**

**By**

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**Introduction**

Based on my background, which will be discussed later, this paper is presented for use in deciding whether the aforementioned study by Elliott D. Pollack & Company can be used, as presented, for governmental decision making purposes.

**Background**

Most thoughtful people who have considered the water situation in Prescott and Prescott Valley have concluded that the lack of adequate water in the area will have significant implications for the local economy and, in a related fashion, will also impact the fiscal situation of area governments. The subject paper, prepared by Elliott D. Pollack & Company for The Central Arizona Partnership (a non-governmental group), was developed to provide specific information regarding the economic and fiscal impact of the pipeline through the year 2050. It appears that study is meant to provide citizens, business representatives and others with information for making decisions. The study, as presented has at least two significant problems that reduce its use in decision making. They are (1) the foundation upon which the study is built, and (2) technical issues. Discussions of these problems follow.

Since I have chosen to comment on the Pollack study, the reader may ask what qualifies me to make such comments. Therefore, I will provide a brief description of my background.

My career has been, largely, in financial and general management. I hold an MBA and Ph.D. from the American University, Washington, D.C., where I also served as an adjunct professor. I have been employed by the public sector (U.S. Dept. of the Interior, U.S. Treasury Dept., and U.S. Office of Personnel Management, Financial Management & PPBS Training Center), academia (University of Maryland & American University), and the private sector (Procter & Gamble and Price Waterhouse’s management consulting unit). I retired from the U.S. Dept. of the Interior as Deputy CFO and Director of Financial Management, after holding numerous positions, including Deputy Assistant Secretary and Acting Inspector General. During my employment at Interior I received two awards from the president of the U.S., naming me as a (1) Meritorious Executive and (2) Distinguished Executive. I have authored or co-authored approximately twenty professional articles on financial management or general management. Since retirement I have consulted, primarily with the federal government or government-related organizations, on various matters. I am listed in Marquis “Who’s Who in America”.

I have lived in Prescott since 1996. The comments which follow, relating to the Pollack study, are those of an interested citizen. I am not being compensated in any way for my evaluation. As stated earlier, I have divided my comments into (1) Foundation Issues and (2) Technical Issues. Sometimes these overlap.

Now let's turn to my analysis of the study.

### **Foundation Issues**

To be useful for decision purposes any study should be based on a firm foundation of facts. Section 1.2 of the study, titled "Limiting Conditions" and set forth on pages 1-3 negate the ability of this study to present facts that can be used for decision making without extensive additional work. My comments and explanations relating to several of the most important "limitations" presented in the study follow:

- Report Statement: "It is our understanding that this study is for the client's due diligence and other planning purposes. Neither our report, nor its contents, nor any of our work were intended to be included and, therefore, may not be referred to or quoted in whole or in part, in any registration, prospectus, public filing, private offering memorandum, or loan agreement without our prior written approval."

My Comments: My interpretation of this statement is that it would eliminate the use of this data for many governmental legal purposes and, also, limit its usefulness for decision making purposes.. It seems to say that if there is a problem with the data, or the use of the data, the client needs to find it and fix it.

- Report Statement: "Except as specifically stated to the contrary, this study will not give consideration to the following matters to the extent they exist: (I) matters of a legal nature, including issues of legal title and compliance with federal, state and local laws and ordinances; and (ii) environmental and engineering issues, and the costs associated with their correction. The user of this study will be responsible for making his/her own determination about the impact, if any, of these matters."

My Comments: This exception undercuts the accuracy of specific information provided in the report regarding the potential financial impacts of the lack of water. This is both a foundation issue and a technical issue. In summary, there are enough potential legal, engineering, and other issues related to this project that make a point estimate of the type presented in this report highly questionable at best. Instead of one estimate for each situation, the report should include a risk or sensitivity analysis that would show what would happen to the study's figures if other factors would make the estimates included in the report inaccurate. For instance, the report could show results if the assumptions made were actually off by plus or minus 10%, 30%, or 50%, instead of presenting one answer to such a complicated situation.

- Report Statement: “This economic and fiscal impact study evaluates the potential “gross impacts” of the construction and operations. The term “gross impacts” as used in this study refers to the total revenue, jobs and economic output that would be lost if the pipeline is not built and the communities are not able to continue to issue residential and commercial permits.”

My Comments: This, again is both a “Foundation” and a “Technical” issue. It is commented on again in the technical issues portion of this analysis. However, an example with this “gross Impacts” approach will show my concerns. The report includes gross amounts of impact fees in its calculations without considering that these impact fees are required, by Arizona statutes, to be spent on the impacted areas (such as roads, police, and fire safety). Thus any impact fees included should immediately be offset by reductions from gross impact fees, making the benefits of impact fees equal to zero. Another example comes from the report itself. It states (p. 6, last paragraph) “This analysis considers gross tax collections and does not differentiate among dedicated purposes or uses of such gross tax collections.” P. 7, paragraph 1, when discussing population projections, states “The projections do not take into consideration the impacts that would be placed on the communities by the Assured Water Supply Rules.” So, again, the benefits included are overstated.

- Report Statement: “This analysis does not consider the costs to the cities associated with providing services. Such analysis is beyond the scope of this study. In addition, the analysis is based on the current tax structure and rates imposed by the State, County, and cities. Changes in those rates would alter the findings of this study. ....”

My Comments: This is also both a “Foundation” and “Technical” issue. First, the failure to consider offsetting costs to the cities and including gross amounts in benefits, again, is a major problem with this study that should have resulted in sensitivity or risk analysis instead of a point analysis. There will obviously be costs related to some of the “gross benefits” included in the report.

- Report Statement: “Our analysis is based on currently available information and estimates and assumptions about long-term future development trends. Such estimates and assumptions are subject to uncertainty and variation. Accordingly, we do not represent them as results that will be achieved. Some assumptions inevitably will not materialize and unanticipated events and circumstances may occur; therefore, the actual results achieved may vary materially from the forecasted results. The assumptions disclosed in this impact analysis are those that are believed to be significant to the projections of future results.”

M Comment: See prior and subsequent comments relating to the need for a sensitivity or risk analysis (not a single point analysis such as that presented) for such a study.

- Report Statement: “All dollar figures are in 2008 dollars. No inflation has been added to this analysis.”

My Comments: Most people are aware that a dollar today is not equivalent to a dollar in the future. It may be worth more or less depending upon such things as the interest rate, inflation, and tax policy. This is both a foundation and a technical issue.

### **Technical Issues**

Some of the technical problems with this study, should it be used for decision purposes, follow:

1. **Failure to utilize risk or sensitivity analysis instead of point analysis.** The “Limiting Conditions” portion of the study lists numerous things (legal matters, engineering matters, change in tax rates, etc.) that make single estimates highly questionable at best and totally useless at worst. Instead of point estimates, such a study should have included information regarding what would happen if such estimates were varied by some amounts (+ or- 5%, 10%, 20%, etc.)
2. **Using “Gross Estimates” of benefits when offsetting costs are apparent.** For instance, impact fees are required to be spent on the items impacted; thus, they should not have been considered as benefits. Moreover, the cities would incur other costs in generating some of the benefits included in the study. These costs should have been included and the net benefits presented.
3. **Failure to consider the time value of money in the calculations.** Most people know that a dollar today is not equal to the value of the dollar many years from now. However, this study considers all dollars to be equal no matter when received or paid—even though the study projects benefits many years into the future. Since historical data were utilized in other portions of the study, similar data could have been utilized to recognize the time value of money.

**Drafting and Editing Problems:** This study includes numerous drafting and editing problems. For instance, the tables on pp. 12 and 14 both relate to population growth, with no dollar information. However, the heading of both tables states “(2008 dollars)”.

Also, the written material on p. 13, supporting the table on p. 14, when discussing Scenario 3, states: “Scenario 3 is the most conservative scenario and suggests that only 50% of the new water supply would be dedicated to new subdivision growth, resulting in 6700 new permits (25,500 new people) for the City of Prescott and 6100 permits (57,500 new people) for the town of Prescott Valley.”

The table on P. 14 lists the total population for Prescott as 25,511 and for Prescott Valley as 57,745. How is this possible if the “new people” discussed on p. 13 equals 25,500 in Prescott and 57,700 “new people” in Prescott Valley? As written this leaves the reader to decide which numbers are correct.

In addition, unlike most studies including numerous tables, these tables are not numbered for ease of reference. Also, terms like “ Prescott Region” on pp. 26 & 27 and “abstract” on p.ii, are not defined.

Some of the drafting and editing problems might cause one to question the accuracy of the other information included in the study.

**Overall Conclusion:**

While there will be obvious impacts on the economy and fiscal affairs of Prescott and Prescott Valley by limitations of water available to the area, based upon the “Limiting Conditions” portion of the of the aforementioned study, combined with the “technical issues” I have set forth previously, I conclude that the study does not present information that can be utilized, as presented, for governmental decision making purposes.