

THE ISLAND WATER ASSOCIATION, INC.

POST OFFICE BOX 56

SANIBEL ISLAND, FLORIDA 33957

July 13, 1978

Dear IWA Member:

This is your Association's second quarterly report to members. Rigid format for these reports has been avoided at the outset in the interests of informality and flexibility. The Directors and Management will comment on matters of current interest, including progress, problems and plans.

Legal Matters IWA filed a suit against Lee County on June 20, 1978, asking injunctive relief and damages. The county permitted the construction and operation of a water plant at the Sunset-Captiva project, which will compete for resources and revenues within the IWA exclusive franchise area. This action resulted from lack of response to our negotiation attempts. The law suit against the Association by North American Contracting Corp. doing business as Sanibel Homes has been withdrawn. The joint suit by David G. Thompson, Outer Island Development of Florida, Inc., Outer Island Development Corp., David W. Squires, Bayshore Homes, Inc., Sanibel Realty, Inc., Executive Services, Inc., Oceanic Industries, Inc., Richard A. Parks and Beverly B. Parks, Development Concepts Corp., and North American Contracting Corp. arising from the temporary ban on new hook-ups is pending.

Street Repair Complaints have been numerous about streets opened by IWA for the repair or installation of water lines. One thousand dollars was deposited with the City of Sanibel more than two years ago to pay for spot repairs according to specifications. To our knowledge none of that money has been used to date. IWA policy is to fill and compact the opening immediately on completion of the work, and reimburse the City for more permanent repair according to their specifications. In the future IWA will inventory and formally notify the City of pavement cuts, both as a financial obligation control and aid to the City.

New Plant Site clearing for the new reverse osmosis treatment plant and storage tanks is in process. Contracts have been awarded for construction of the plant building and two 5 million gallon storage tanks. Provision is made for a third tank in the future, if needed. A security fence will enclose the plant and tank area. Final decision on the RO plant design must await completion of the Suwannee well tests.

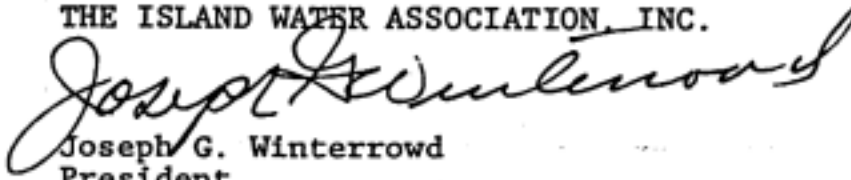
Study and review of the system expansion and plant conversion problem is a continuous process, with emphasis on priorities. The Board concluded that increased storage capability is of utmost urgency for the next year.

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Interim Forecast Uncertainties as to the extent and rate of growth complicate planning. Alternatives have been selected to protect the financial and production stability of your Association within the current rate structure. Timely completion of construction work under contract offers every confidence of ability to meet peak demands of the next tourist season.

Sincerely,

THE ISLAND WATER ASSOCIATION, INC.

A handwritten signature in cursive script, reading "Joseph G. Winterrowd". The signature is written in dark ink and is positioned above the typed name and title.

Joseph G. Winterrowd
President

THE ISLAND WATER ASSOCIATION, INC.

April 28, 1978

Dear IWA Member:

The Directors and Management of your Association have dealt with a series of exceptionally demanding situations during the past 18 months. These have imposed substantial stress on the Association and the communities it serves. They have had considerable attention by the press. The purpose of this communication is to assure members that those responsible for the conduct of Association business are not unmindful of members' concerns. It is only now that matters have stabilized to a point, that a coherent statement may be offered in clarification of the issues.

As explained in my statement at the Association's Annual Meeting on April 10, 1978, uncertainties as to the availability of adequate source water to serve additional members and units required a temporary ban on new hook-ups beginning last June. This precipitated aggressive response from Lee County, our franchising authority, questioning the validity of our action, and law suits by prospective water users demanding service the Association could not then anticipate supplying without curtailing service to existing members. Authorization by the State for increased withdrawal from aquifer sources permitted removal of the ban on hook-ups beginning April 1 of this year. Lee County then validated our new rate structure and withdrew its objections. Decision on the legal questions are still pending. Members should be aware that, as a utility, the Association may not refuse expansion of services within its capabilities and resources.

Perhaps the two most pressing concerns of members at the moment are the franchise issue and the high cost of water service. Addressing the first, the feasibility of a transfer of our franchise from Lee County to the City of Sanibel has been under consideration for a year. The Directors thought it imprudent to continue that exploration while under a threat of franchise revocation. Further, the Directors are concerned that a new franchise, any less favorable to the Association than the present one would not be in the best interests of members. Deliberations are in process in a Franchise Committee appointed jointly by the City and IWA. As soon as a viable position is developed, it will be presented to the members for vote.

Water rates have increased, impelled by source deterioration, inflation

system expansion, power costs and accelerated obsolescence. Rates would be higher yet had not a means been developed to more equitably distribute fixed costs, reduce the subsidy effect of expansion, and make financing a little less dependent on increased water production. Service and financing demands, and the need for conservation, induce radically opposing stresses on the system.

The system must be capable of meeting all reasonable demands. Because each unit member represents a potential demand, facility must be developed and maintained to meet that demand. The unit demand charge evolved as a logical and equitable method of retiring the effect on depreciating plant facilities and financing replacement. The doubled water rate for the "dry" months is to accommodate the higher cost of water production during peak loads, inhibit waste, and move a proportionate share of the burden to the principal demand source. There is a user's penalty factor inherent in the rate structure because fixed costs remain a part of the water rate, and heavy users therefore pay a larger portion of the fixed costs.

Trying times must be anticipated for the foreseeable future. The Directors believe members periodically should know the position of their Association, problems confronting it and actions taken or proposed to best serve the interests of the Association. Quarterly reports are planned for that purpose. I hope you will find them informative and useful.

Sincerely,

THE ISLAND WATER ASSOCIATION, INC.



Joseph G. Winterrowd
President