

TO: STEP Members
FROM: Canterwood Step System Association Board of Directors
DATE: April 2, 2012
SUBJECT: Bi-Monthly Member Assessment Billing Insert

You will no doubt be pleased to note that the assessment amount in the enclosed bi-monthly billing is slightly lower than the previous total of \$205.16 and that the format has returned to a single amount vs. the allocated amounts shown last time. An explanation follows:

The allocated amounts on the previous billing, dated February 3, 2012, were based on:

1. The latest invoice from the City of Gig Harbor for sewage treatment, and
2. All other system operations and maintenance costs.

Many of our Members found this allocation of costs confusing and of limited benefit since total assessments to Members are the same regardless of any allocation of amounts. In accordance with the STEP's C, C & R's, all assessments to Members must utilize a uniform rate. Because all member sewage passes through a single sewer meter when transmitted to the City, our total bi-monthly assessments to each household are identical regardless of actual household flows.

After reflection, the Board has decided to adopt a more simplified billing approach henceforth based on the STEP's total annual O&M budgets (\$322,895 for 2012). As a result, the current and next four bi-monthly assessments for 2012 will be for the same amount, \$200.00 (before any applicable past due amounts or late fees). Having a predictable bi-monthly assessment amount throughout a calendar year allows Members to accurately budget the STEP assessments into their annual household utility expenses. It also makes it more convenient for Members to prepay their STEP fees, if desired, since each year's bi-monthly assessment amount will be established at the beginning of each calendar year.

The Board has been exploring many options to reduce or better manage the costs that are borne by all Members, including:

- Replacing the main meter that measures system effluent to the City in 2012 to ensure that sewage flows are being accurately recorded for billing purposes.
- Requesting a formal ruling from the State Dept. of Revenue (DOR) about the applicability of the public utility tax to the STEP, as well as possible relief from this tax.
- Assessing the feasibility of a large on-site sewer system as a possible cost-effective alternative to the ever-increasing City treatment charges.
- Aggressively seeking collection of overdue receivables from current and past Members.

In March, the STEP received a Ruling Letter from DOR. The ruling determined that the public utility tax is applicable to the STEP, but that the STEP may deduct City treatment costs from its gross revenues subject to the tax (which was not done previously). As a result, the STEP will no longer be required to pay nearly as much tax and the STEP can seek refunds for past tax overpayments from January 2008 forward. Therefore, the Board reduced the 2012 annual budget by the amount of tax savings expected for the rest of this year. A Board member, assisted by the STEP's accounting services agent, will be preparing and filing the required amended returns with DOR necessary to obtain the aforementioned refunds of excess taxes paid. Once such refunds have been received, the Board will determine what impact those funds will have on member assessments going forward.

The Board recognizes that no one is pleased about the assessment increases that have occurred in the past few years; increases primarily attributable to significant rate hikes by the City for sewage treatment. The Board appreciates the patience of the Members as it works to find solutions to these fiscal challenges and welcomes input and participation by all Members in STEP business activities.

Members are reminded that a comprehensive WEBSITE (WWW.CANTERWOODSTEP.ORG) has been established for Member information purposes. The Board encourages everyone to check it out and to refer to it often.