

MINUTES OF THE STUDY SESSION OF THE TOWN COUNCIL OF THE TOWN OF CHINO VALLEY

**TUESDAY, FEBRUARY 20, 2014
6:00 P.M.**

The Town Council of the Town of Chino Valley, Arizona, met for a Study Session in the Chino Valley Council Chambers, located at 202 N. State Route 89, Chino Valley, Arizona, on Tuesday, February 20, 2014.

Present: Mayor Chris Marley; Vice-Mayor Darryl Croft; Councilmember Mike Best; Councilmember Linda Hatch; Councilmember Pat McKee; Councilmember Lon Turner; Councilmember Don Wojcik

Staff Present: Town Manager Robert Smith; Town Attorney Phyllis Smiley; Finance Director Joe Duffy; Town Engineer/Public Works Director Ron Gritman; Civil Engineer Richard Straub; Utilities Supervisor Chris Bartels; Town Clerk Assistant Liz Hart (recorder)

1) CALL TO ORDER; ROLL CALL

Mayor Marley called the meeting to order at 6:01 p.m.

Councilmember Hatch participated via conference phone.

2) Presentation and discussion of a report by Dan Jackson of economists.com related to infrastructure in the Town of Chino Valley, including but not limited to the valuation of the City of Prescott water distribution system within the Town limits. (Ron Gritman, Public Works Director/Town Engineer)

Dan Jackson with Economists.com, the Town's water/wastewater rate consultant, presented the following report.

History

- This report was a continuation of Economists.com's 2007 valuation analysis of the water system owned the City of Prescott that was used to service rate payers in the Town. Over the years, the two entities had been discussing Prescott turning their accounts over to the Town at a cost of the value of the accounts.
- Currently, of 21,834 total Prescott water accounts, 656 of those were in the Town. 367 of those accounts were in the southern zone, while 289 were in the northern zone, and 259 of those were in Chino Meadows 1.
- Of 113,000 total linear feet of lines, there were 83,368 in the southern zone and 30,253 in the northern zone.

Changes Since 2007 Valuation

- The value of Prescott's accounts in Chino Valley had increased, primarily due to:
 - Prescott water rates more than doubling since 2007, resulting in higher revenues;
 - The 30% rate premium for Chino Valley accounts remaining in place; and

- Prescott's capital spending being significantly less than anticipated, thus increasing cash flows from Chino Valley accounts.
- Water usage in Prescott had declined 18.4% due to conservation efforts, and usage in the Town declined by 25.52%. Should the Town acquire the accounts, user rates will decrease, possibly resulting in increased usage.

Two Methodologies to Assess Value

- Two nationally recognized methodologies were used to assess the value of the accounts.
- Replacement Cost New Less Depreciation ("RCNLD") assessed the net value of the assets of the system—utility lines, meters, and well #6—by setting the assets at current market value, then depreciating them based on remaining useful life.
- Market Value/Discounted Cash Flow ("DCF") compared values of utilities acquired by cities and private companies in the past decade and calculated the net present value of cash flows lost to Prescott by conveying their connections to the Town.

Method	2007 Total	2013 Total	2013 Per Connection
RCNLD	\$2,013,200	\$3,027,146	\$4,614
Market Value 2013 (over last 15 years)		\$2,104,885	\$3,209
DCF	\$1,943,942	\$2,786,104	\$4,247
Average 2013		\$2,639,379	\$4,023

Prescott Accounts Acquisition Impact on Chino Valley Water System

- The acquisition would be self-financing and would not impact the current Town ratepayers, as the revenues from the Prescott accounts, less debt service, were projected to net revenues of \$29,499.
- In the long run, ratepayers will benefit from the acquisition, as the Town will have more customers over which to spread the costs, and rate adjustments were not likely to be as high; for example, monthly rates for 6,000 gallons usage would decrease from \$54.79 to \$31.15.

Summary

- He reviewed these numbers with Prescott and they believed them to be reasonable. While they made no commitments, they did not appear to be disinterested.
- Acquisition would be beneficial to the Town in the long run.
- Town officials will have lots of decisions to make with regard to financing, impact of accounts on the system, and acquisition of the Fann system. The Town should have additional analysis performed for the different financing options to minimize impact on ratepayers.

Town Engineer Gritman added that:

- The cost to connect the two systems would be \$1.1M, which would include connecting and/or disconnecting pipes, and adding pressure reducing stations and booster stations where needed. Up to 60%-65% will be looped by the interconnects, which will cut costs and make the whole system function better.
- As the Town had only one well and needed another, acquiring Prescott's well #6 will eliminate the need to expend money to refurbish the Country West well.

- The northern and southern zones represented the low and high pressure sides. While the southern zone had no fire flow now, joining the systems will remedy that.

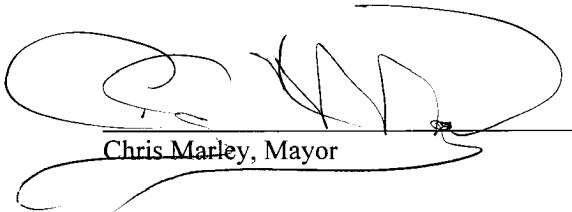
Council discussed:

- Wanting to see the various ways to finance the project;
- Needing to know the purchase cost; and
- Upon receiving the above information, discussing whether or not to purchase it.

3) ADJOURNMENT

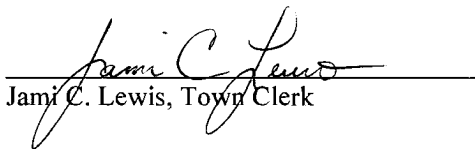
MOVED by Vice-Mayor Darryl Croft, seconded by Councilmember Mike Best to adjourn the meeting at 6:44 p.m.

Vote: 7 - 0 PASSED



Chris Marley, Mayor

ATTEST:

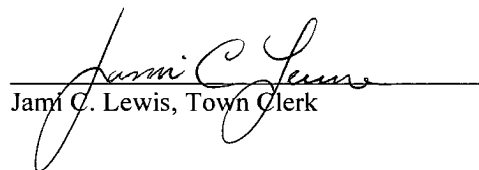


Jami C. Lewis, Town Clerk

CERTIFICATION:

I hereby certify that the foregoing minutes are a true and correct copy of the minutes of the Study Session of the Town Council of the Town of Chino Valley, Arizona held on the 20th day of February, 2014. I further certify that the meeting was duly called and held and that a quorum was present.

Dated this 25th day of March, 2014.



Jami C. Lewis, Town Clerk