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

THURSDAY, APRIL 3, 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 Thursday, April 3, 2014.

Present:	Mayor Chris Marley; Vice-Mayor Darryl Croft; Councilmember Mike Best; Councilmember Linda Hatch; Councilmember Pat McKee; Councilmember Don Wojcik
Absent:	Councilmember Lon Turner
Staff Present:	Town Manager Robert Smith; General Services Director Cecilia Watts; Town Attorney Susan Goodwin; Finance Director Joe Duffy; Town Engineer/Public Works Director Ron Grittman; Utility Supervisor Chris Bartels; Utilities Crew Leader Joe Grassi; Planner Ruth Mayday; Town Clerk Jami Lewis (recorder)

1) CALL TO ORDER; ROLL CALL

Mayor Marley called the meeting to order at 6:03 p.m.

2) Presentation by Economists.com regarding the results of the Utilities Rate Structure analysis, and review and discussion related to funding options, infrastructure, and bonding.

Town Engineer Grittman related that the projects proposed within the rate structure analysis were developed as a step toward providing the Town with a strong economic foundation.

Finance Director Duffy reviewed the Town's financial condition over the last few years and the steps that Council had accomplished that led to the subject of tonight's meeting:

- In 2012, the Town was in a financial crisis, with general fund expenses outpacing revenues by over $1 million dollars per year and water and sewer expenses outpacing revenues by over $700,000 per year. All these funds were projected to run out of money in the middle of fiscal year 2015.
- *General Fund Solution:* After reviewing all possible new revenue options, as well as expenses, departments, and programs for potential cost savings and/or alternate ways of providing services, Council developed a strategic financial plan, reviewed and updated all user fees, increased sales tax 1%, made several program changes to reduce expenditures, updated the financial policy, including the contingency and reserve policies, fully funded the general fund reserve within one year, reformatted the budget, and continued to budget revenues and expenses conservatively.
- The net effect of these steps stabilized the general fund. However, the general fund was still relying on transfers from the capital improvement fund to stay even. Without the transfers from the capital improvement fund, the general fund was still going into the negative each fiscal year, and because of the transfers, the capital improvement fund was

unable to provide funds for capital replacement, such as police cars or maintenance equipment.

- *Water and Sewer Fund Solution:* The Town undertook a water and wastewater rate study and adopted a five-year rate plan that assumed 430 new accounts in 2014 and the town taking over the operation and ownership of the wastewater treatment plant, both of which were still not yet accomplished. The Town also undertook a water connection and valuation analysis of the Prescott water system, which was now completed.
- Even with the new rate structure, the water and sewer funds were still relying on subsidies from the capital improvement fund. Until the Town added more utility accounts, there were no funds available for capital maintenance, major repairs, or system extensions.
- If the Town could take the steps necessary to eliminate the capital improvement fund subsidy to the general fund and the water and sewer funds, it will be able to use these funds to replace capital equipment and begin to tackle road maintenance that had been deferred.

Mr. Duffy concluded by stating that he had reviewed the subject Utilities Rate Structure analysis, and he was confident that its projections were conservative and its assumptions were reasonable.

Dan Jackson, Managing Director and Chief Executive of Economists.com, reported on the results of the updated Utilities Rate Structure analysis:

- *History:* Over the past 18 months, Town staff and consultants had prepared several water and wastewater financial analyses, which included a general long-term water and wastewater rate and financial plan.
- *Purpose of Presentation:* To illustrate the combined impact of project analyses on water and wastewater funds and rates.
- *Current Rate Plan Principal Assumptions:*
    - Most operating expenses increased 3%-5% per year.
    - The Town would experience nominal growth in new accounts.
    - Increased buy-in fees in 2014, which occurred in January.
    - Acquisition of the wastewater treatment plant for $2 million, funded through revenue bonds, resulting in a reduction of $175,000 in annual operating expenses and benefits to ratepayers.
- *Current Rate Plan Annual Rates:*
    - Current water rates encouraged users to be more conservative. Current sewer rates were flat with increases each year through 2017.
    - In Arizona, average rates increased 5%-6% every year.
    - In 2014, average Town water and sewer payments were $94.79 per month; per the rate plan, that amount would increase to $122.45 in January 2018.
- *Scenarios Analyzed:* The proposed rate plan was developed to include three projects that would impact rates: (i) acquisition of Prescott and Wilhoit water accounts; (ii) acquisition of the wastewater treatment plant from Fann; and (iii) utility expansions along SR 89.
    - <u>Scenario 1</u>: The above projects would be financed through a revenue bond.
    - <u>Scenario 2</u>: Voters would enact a property tax to fund general obligation/tax bonds for the above projects.
    - Delays in hooking up SR 89 accounts or acquiring the water accounts will result in the need for additional rate adjustments.
- *Scenario 1 Assumptions*
    - $13 million in total capital costs.
    - 1,000 new water accounts and new utility accounts on SR 89 to offset the total cost.
    - Rate increases will still be necessary, but will not be as significant as the current rate plan.
- *Scenario 2 Assumptions*

- Same as Scenario 1, except that through tax bonds, the Town could eliminate the need for rate adjustments for the next four to five years.
- Rates will not go down.

Mark Reader, bond counsel, with Stifel, Nichlaus added that:

- At Council direction, he will prepare and present a comprehensive analysis regarding the bond issue, tax rate needed, and value of associated properties within the next few weeks.
- He would work to maximize low interest loans and possible grant funds from the Water Infrastructure Finance Authority whom he hoped would deem the Town a "disadvantaged community" and grant forgivable principle. At this point, WIFA was very interested in the project.

Town Manager Smith stated that this plan was important to the Town for these reasons:

- Because of the capital improvement fund's subsidies to the general fund and utilities funds, the Town had thus far deferred $8 million in roads maintenance. Stopping the utility funds' dependence upon the capital funds will allow the Town to use capital funds for needed capital projects.
- As the Town had no way currently to transport the water it owned from the Paulden area, its main resource for water credits now was recharge; thus, it was important to increase sewer users.

Council asked about the following topics. Staff and consultants related that:

- *Current utility customers:* There were 600 customers on both water and sewer, just under 1,700 on sewer only, and 1,200 on water only. The Town's current water customers were in Highlands Ranch and Bright Star subdivisions, with a few commercial accounts near Road 2 North and SR 89. Currently, commercial connection fees were paid to Fann; if the Town negotiated a settlement with Fann, then those capital dollars would come to the Town. Town citizens served by City of Prescott water paid a premium and would realize a rate reduction of 40%-45% if the Town took over those accounts.
- *Bond and tax burden:* Under revenue bonds (Scenario 1), current and new users would pay for the expansions, and there will still be rate increases over the next five years. Under the tax bonds (Scenario 2), all property owners in Town would contribute, and rate increases may not be needed for the next five years. Last year, Council's Utilities Subcommittee projected a tax burden of $8.73 per month for an assessed valuation of $100,000. The bonds would most likely be for 20 years.
- *Changes from last year's plan:* (i) Staff's focus changed from financing through revenue bonds to tax bonds, as the revenue bond impact on ratepayers was found to be status quo, while a tax obligation would made an immediate impact and spread the cost over all homeowners. (ii) While it was previously thought that Fann could not be bought out with bond money, the Town's financial advisor had clarified that the operations and maintenance contract with Fann could not, but the construction manager-at-risk (CM@R) contract could. If the Town could reach a settlement on the CM@R, it would save $175,000 per year and be able to bank water through recharge.
- *Rate plan changes:* While none of the proposed components alone could cause the plan to fail, it would be prudent for the Town to monitor the financial condition continually of the utilities to assess and adapt to change.
- *Next steps:* Council was asked to consider re-activating the SR 89 Utility Project Citizen Committee to review and provide an analysis of this proposal. They could also direct bond counsel to perform an analysis on the property tax issue.

Public members asked about the following topics. Staff and consultants reported that:

- *Utility extensions impacts to businesses:* The proposed expansions would be along SR 89 from Road 3 North to Road 2 North. The current plans were only at 20%, so the affected properties were not identified yet; however, the trunk lines were drawn to avoid residential properties. While property owners would be required to hookup to water for fire flow, they would not be required to abandon their wells. The Town intended to lay water and sewer lines at the same time, to reduce traffic issues.
- *New commercial businesses*: Large chains typically required water and sewer.
- *Commercial utility rates:* Rates were currently undetermined, but Town policy allowed property owners to amortize hookup fees over 10 years.

Public Comment:

Annie Lane expressed concern about tax fatigue.

Dave Mazy, Town business owner, expressed concern about sewer payments adding to small businesses' overhead and possible box stores hurting local businesses.

Tom Payne, Town business owner, spoke about the importance of safe yield, fire flow, Prescott no longer being willing to hook up businesses in Town, as they cannot get recharge credits for those hookups.

3) ADJOURNMENT

MOVED by Councilmember Linda Hatch, seconded by Councilmember Pat McKee to adjourn the meeting at 7:21 p.m.

Vote: 6 - 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 3rd day of April, 2014. I further certify that the meeting was duly called and held and that a quorum was present.

Dated this 22nd day of April, 2014.

Jami C. Lewis, Town Clerk