

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

**TUESDAY, JUNE 24, 2013
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, June 24, 2013.

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

Absent: Councilmember Mike Best; Councilmember Pat McKee

Staff Town Manager Robert Smith; General Services Director Cecilia Watts; Town
Present: Attorney Susan Goodwin; Finance Director Joe Duffy; Town Engineer/Public Works Director Ron Grittmann; Town Clerk Jami Lewis (recorder)

Attendees: Financial Consultant Pat Walker

1) CALL TO ORDER; ROLL CALL

Mayor Marley called the meeting to order at 6:06 p.m.

- 2) Consideration of the SR89 Utility Project, including but not limited to presentation and discussion of the proposed utility project, the SR89 Utility Project Citizens Committee's report and recommendation, and possible November 5, 2013 bond election. (Ron Grittmann, Public Works Director; Pat Walker, Consultant)

Mr. Grittmann and Ms. Walker presented a summary of the proposed utility project, the SR89 Utility Project Citizens Committee's report and recommendation, and possible November 5, 2013 bond election.

Acronyms used in this item:

AV (Assessed Value)
EDU (Equivalent Dwelling Unit)
GOB (General Obligation Bond)
MGD (Million Gallons Per Day)
WWTP (Wastewater Treatment Plant)

Overview

- This project resulted from a fall 2012 survey in which 49% of respondents indicated support for water and sewer along SR 89 for economic development purposes.

- Council appointed a seven member committee of local citizens and business owners to review the potential water and sewer project and possible funding sources.
- The committee met May 1, 6, 16, and 21, and voted on 3 recommendations:
 - Ask Town voters to authorize GOBs for the project (unanimous).
 - The bond amount to be \$9.5 million (6 in favor, 1 opposed).
 - A prioritization of areas to be constructed presented by staff based on input from Committee members (4 in favor, 2 opposed, 1 abstained).
- Prioritization of areas:
 - Only extend transmission lines of 12 inches and larger.
 - Smaller distribution piping will be the responsibility of each individual property owner.
 - Construct Area 2 between Perkinsville Road and Road 2 north parallel to SR 89.
 - Construct Area 3 between Road 2 North and Center Street parallel to SR 89.
 - Construct Area 1A between Road 3 North and Perkinsville Road parallel to SR 89.
- Other recommendations:
 - Expand the WWTP to 1 MGD.
 - Next area for prioritization to be area 4 between Center Street and Road 2 South parallel to SR 89.
- Two committee members were opposed to the priority recommendation due to the areas proposed; they preferred to include Area 4 instead of Area 1A. One abstained due to outstanding concerns/questions.
- The committee felt very strongly that two items must be completed prior to the August 12, 2013 bond election voter information pamphlet deadline:
 - Certainty that the WWTP contract was negotiated.
 - Certainty that the acquisition of Prescott Water Customers and system was negotiated.
- Cost estimates for each Area were:

Area by Priority	Cost	Running Total for Project
2	\$ 2,629,482	
3	\$ 2,775,425	\$5,404,907
1A	\$3,525,000	\$8,929,907
Plant Expansion	\$4,600,000	\$13,529,907
4	\$ 2,492,211	\$16,022,118
5	\$ 4,530,957	\$20,553,075
6	\$ 2,305,775	\$22,858,850
1B	\$1,165,829	\$24,024,679

Financial Impacts

- \$13.5 million total project cost: \$9.5 million GOBs plus \$4 million utility revenue bonds.
- \$1.4 million contingency reserves were built into the project, including engineering

costs:

- Area 2 - \$342,000.
- Area 3 - \$362,000.
- Area 1A - \$350,000.
- Plant expansion - \$400,000.

General Obligation Bonds. Ms. Walker presented a graph of the estimated impact on the tax rate with debt service prepared by Financial Advisor Mark Reader and reported that:

- State law allowed up to certain amount of general obligation debt, based on assessed value; the available GOB capacity for the Town was approximately \$17.5 million.
- The committee recommended \$9.5 million of GOB's sold over 20 years with following assumptions:
 - Interest rate at 5%.
 - FY2013-14 AV decrease of 9.69%.
 - FY2014-15 to FY2033-33 AV growth of approximately 1%.
 - Commercial property AV decrease in 2013-14 down to 18% from 20%.
 - Agricultural from 16% to 15% 2014-15.
 - Average property tax rate over 20 years projected at \$1.0480 per \$100 AV.
- For a home in the Chino Meadows area, AVs were in the vicinity of \$50,000.
- Residential AV was calculated at 10%, or for a \$50,000 home, \$5,000. Total monthly assessment would be \$4.37 ($\$5,000/100 \times \$1.0480/12$).
- Residential AV at 10% for \$100,000 home was \$10,000. Total monthly assessment would be \$8.73 ($\$10,000/100 \times \$1.0480/12$).
- Commercial AV was calculated at 18%, or for a \$100,000 valued commercial property, \$18,000. Total monthly assessment would be \$15.72 ($\$18,000/100 \times \$1.0480/12$).

Utility Revenues and Bonds

- The adopted Water and Sewer Rate Study projected that there will be a \$21/month per customer account from operations and maintenance savings when the WWTP contract ended in August 2014.
- Revenues will support debt service for a \$2 million bond, which was proposed to fund acquisition of the plant.
- This was already included in the current adopted plan and was above the amounts estimated for SR 89 Utility Project.
- The committee's recommendation was to fund \$4 million from revenue bonds.

Rate Impact Scenarios of a \$4 million revenue bond, prepared by Dan Jackson, the Town's Utility Rate Consultant.

- Scenario 1 (worst case) – assumed the Town will add no new accounts from the SR 89 extension: rates would increase from \$119 per month to \$146 by 2017. (Note: This scenario conflicted with the Town's mandatory hookup policy and would require Council to waive all required service connections, which was against Town codes.)
- Scenario 2 (best case) – assumed the Town will add the maximum potential new accounts, including Chino Meadows and Prescott; rates would be at \$102 by 2017.
- Scenario 3 (break even) – assumed the number of accounts needed to ensure that there would be no change to current rate plan.

- These also assumed:
 - Inclusion of 79 EDUs for new water/sewer commercial accounts (scenario 3).
 - Low revenue estimates and high construction cost estimates.
 - High interest rate.
 - Many contingencies built in.
 - Mandatory tie-ins for fire protection.

Town Manager Robert Smith clarified that there were 650 City of Prescott accounts in Town, 435 of which in Chino Meadows that could be connected to water at any time between January 2014 and January 2016 via one connection.

Residential Monthly Water/Wastewater Charges. Mr. Grittmann presented a graph of the current residential monthly water/wastewater charges per 7,500 gallons use.

SR 89 Extension Rate Analysis Summary

- If the Town did not hook up new connections as a result of the SR 89 Extension project, significant additional rate increases on existing ratepayers will be required.
- The Town must hook up half of the identified accounts and Chino Meadows to enable the long-term rate plan to remain unchanged.
- If Town hooked up more than half of the identified accounts, along with Chino Meadows and Prescott, it may begin scaling back future rate plan adjustments.

Customer Financial Impacts.

- These are based on 7,500 gallons per month in January 2017 and \$4.37 in property tax from the GOBs for a home valued at \$50,000 and \$8.73 for a \$100,000 home.
- Under Scenario 3 (break even analysis), utility customers will save on the 30% surcharge by \$11.96 per month. With the property tax, net savings to water customers would be \$7.59 per month for the \$50,000 home and \$3.23 per month for the \$100,000 home.
- Under Scenario 2 (best case), utility customers will save on the 30% surcharge savings of \$11.96 per month, as well as \$17.17 per month of the general fee. Net savings with the property tax would be \$29.13 per month for the \$50,000 home and \$20.14 per month for the \$100,000 home.

Council discussed putting rate reductions in an ordinance; publishing the worst case scenario in the bond pamphlet; and disclosing what the Town hoped to accomplish.

Mr. Grittmann and Ms. Walker related that:

- the reductions presented were all based on assumptions and could not be promised;
- utility rates will be reassessed in two years; and
- Council will decide what goes into the bond pamphlet and could direct staff to include the assumptions.

Construction Area Prioritization

- Area prioritization will provide water and sewer on SR 89 for economic development; staff's intention was to obtain a reduction in costs.
- Extending only transmission pipes in the proposed SR 89 project would provide

utilities to a significant portion of the community, and provide a reduced amount of financial impact to the citizens

- Under Scenario 3 (break even), areas 1A, 2, and 3 will generate approximately 79 EDU's.
- ADEQ regulations required plans for expansion when the WWTP reached 80% of its capacity. At 90% plant expansion must be under construction. This equates to 640 EDUs before planning the plant expansion and 1040 EDUs before construction may begin.
- As areas were constructed, plant capacity should be monitored in order to assure that the Town was not expending the \$4.6 million for plant expansion until it was needed.
- The Town could put off plant expansion as areas were added, then the buy-in fees could go into the plant expansion. If this were possible, the Town would have \$6.4 million through natural growth of the system and could construct Area 4.

Conclusion

- A conference call was held on June 13, 2013 to discuss outstanding issues that the committee recommended significant resolution to before August 12, 2013. In discussions, both town attorney and town bond counsel expressed significant concerns regarding the severe time restrictions between now and then.
- The WWTP and City of Prescott negotiations may not reach "significant resolution" by August 12 or November 5, 2013; thus a November 2013 election would have to move forward with the financial "risk" without knowing for certain how much construction could occur with just utility revenue bonds.

Recommendation. Staff was asking Council to consider the following:

- Reconvene the committee in fall 2013.
- Call for a November 2014 election in March/April 2014.
- Complete the WWTP and City of Prescott negotiations prior to call of election.

Council asked about costs to initiate the project, obtaining an up-to-date assessed value appraisal, public education, and terms of purchasing the Prescott water system. Mr. Gritman, Ms. Walker, and Mr. Smith reported that:

- Costs included \$17,000-\$20,000 plus staff's indirect costs for the election, plus education costs.
- The County provided AVs in the spring.
- A political action committee will be necessary for public education. It will be important to provide the information to the public in an understandable way and to build trust.
- No terms for the Prescott water system had been drafted yet; the Chino Valley Irrigation District agreement with Prescott will have to be considered, as well. Also, until issues over ownership of the WWTP were resolved, the Town could not issue tax-exempt bonds, upon which all the scenarios were based.

Council discussion:

- The school district was going out for bond this year;
- The Town could only include facts in its voter pamphlet.

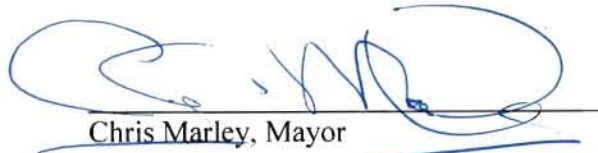
- It appeared that a 2013 election was too soon, as there was uncertainty that the Prescott water purchase could be negotiated quickly enough, and waiting a year would give Council, staff, and citizens a better opportunity to get educated.

Council asked staff to provide Gantt charts and decision timeframes

3) **ADJOURNMENT**

MOVED by Councilmember Linda Hatch, seconded by Councilmember Don Wojcik to adjourn the meeting at 7:18 p.m.

Vote: 5 - 0 PASSED - Unanimously


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 24th day of June, 2013. I further certify that the meeting was duly called and held and that a quorum was present.

Dated this 13th day of August, 2013.


Jami C. Lewis, Town Clerk