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

## THURSDAY, JULY 16, 2015
## 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, July 16, 2015.

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| Present: | Mayor Chris Marley; Vice-Mayor Darryl Croft; Councilmember Mike Best; Councilmember Pat McKee; Councilmember Lon Turner; Councilmember Don Wojcik |
| Staff Present: | Town Manager Robert Smith; Assistant Town Manager Cecilia Grittman; Finance Director Joe Duffy; Town Engineer/Public Works Director Ron Grittman; Town Clerk Jami Lewis (recorder) |

**1)** CALL TO ORDER; ROLL CALL

Vice-Mayor Croft called the meeting to order at 6:03 p.m.

(Mayor Marley attended the meeting via conference phone.)

**2)** Presentation and discussion regarding the proposed USDA loan refinance. (Joe Duffy, Finance Director)

Mr. Duffy presented the following information on this item:

Why Finance Through (WIFA) Water Infrastructure Finance Authority

- WIFA offered subsidized interest rates—Chino Valley qualified for a 20% discount.
- WIFA extended grants to underprivileged communities that reduced the amount to be paid back. The Town received grants of $478,929 for the wastewater treatment plant and $636,000 for the Prescott water acquisition.
- WIFA allowed borrowers to fund a reserve fund over five years instead of financing the amount up front.
- WIFA also encouraged a repair and replacement fund, if applicable.

Current Loans

- The Town took WIFA loans of $1.6M and $4.8M in 2007 and 2008 for the Chino Meadows Sewer Project. These had fully funded reserve funds and a repair and replacement fund. If the infrastructure had a major failure, the Town would not have to borrow money to fund it. The latest loan of $2.9M was taken in 2014.
- The Town refinanced one USDA loan of $1.6M in 2007 and two of $1.5M and $1.3M in 2008. Staff proposed to retain the same term, but refinance to cut the interest rate.

Refinance Proposal

- Reducing the current 4.1250% interest rate to $2.45% will net a total cash savings of $771,000, or $53,000 per year.

- In order to refinance the loans, WIFA required that a new project be funded as well. Staff proposed a $600,000 project, with a total debt service of $717,664, to extend sewer up Center Street to Molly Rae subdivision. The 20-year loan will be backed by excise taxes.
- The interest rate could potentially increase before the November projected closing date; if so, Council will have to determine if the project was worth it.
- Debt service payments will be made by the sewer fund.

Molly Rae Sewer Project

- As each home connected to the sewer, the $6,000 buy-in fee and monthly sewer fees will eventually pay for the project. Other homes along Center Street will also be able to connect. Council may elect to offer incentives to hookup during construction.
- As Council needed to discuss whether or not to waive mandatory connection fees for the subdivision's existing four homes, these were not included in the calculations.
- Staff selected Molly Rae for the project, as sewer was already on east side of the highway, and the Molly Rae developer had already installed dry sewer throughout the subdivision.
- Prescott currently served the subdivision's water. Staff hoped that the Town acquiring Prescott's water system and the lower of cost of connecting to the sewer, as opposed to installing a septic, would spur further development in the subdivision.

Council asked for further details and staff responded to the following topics:

- *Town Engineer versus contracting out the design* – The Town could do some design work and WIFA would pre-fund engineering, but the use of federal dollars required the bidding process.
- *Molly Rae project and sewer connection policy* – If Council did not change the current policy, 28 other homes not in the subdivision will be required to tie in. Council might want to consider waiving the mandatory fee to those homes because Molly Rae will eventually pay for the entire project. Council could also do a percentage reduction. As no money was involved until November 10, Council had three months to deliberate on this.
- *Buy-in fees* – Buy-in fees paid for the pipe in the ground, service connection, and plant capacity.

Council comments:

- Having sewer on the west side was a good thing.
- Council needed more discussion, particularly on setting a new precedence.
- One favored a $1,000 voluntary fee for the 28 non-Molly Rae homes.
- One expressed concern that reducing buy-in fees could cause rates to increase.

Council asked staff to invite the Molly Rae developer to present his plans for the subdivision to Council.

3) Presentation and discussion regarding the Town's acquisition of the Prescott Water System. (Joe Duffy, Finance Director)

Mr. Duffy presented the following information on this item:

<u>Project History</u>

- On May 27, 2014, Council adopted Resolution No. 14-1038 authorizing the application to WIFA's Drinking Water State Revolving Fund.
- On June 23, 2014, staff submitted the project finance application to WIFA.
- On August 24, 2014, the WIFA Board passed Loan Resolution 2015-002 approving the Town's loan to acquire the system.
- This project could not be included with the sewer loan above (item 2), as the two projects had different funding sources.

<u>Funding Proposal</u>

- The Prescott acquisition and infrastructure improvements, and Wilhoit water acquisition was $4.6M. After the 14% grant, the total loan amount was $3.9M. The 20-year term loan would be at an estimated interest rate of 2.10% for an annual debt service payment of $256,000.
- Per the 2013 analysis from economists.com, the total projected revenue from the acquisitions of 756 customers was $342,729. Since 2013, Prescott had added some customers.
- Assuming the Prescott acquisition went online in January 2016, the water fund cash flow should go from negative to positive in FY 2015/2016. As the water fund had no cash, it needed to build reserves and would still require transfers in from the general fund until FY 2017/2018. Staff estimated that the fund will break even around FY 2016/2017 or 2017/2018.
- Due to the Town's debt ratio, WIFA will require an excise tax pledge for at least five years. Ideally, enterprise systems should stand on their own, but as the Town had been upside down for quite some time, excise tax from the general fund had been used.

Council asked staff to provide them with the Town's new debt total.

**4)** Council may vote to recess the Study Session and hold an executive session pursuant to A.R.S. § 38-431.03(A)(4) for discussion or consultation with the Town's Attorney in order to consider its position and instruct the Town's Attorney regarding the Town's position on a contract that is the subject of negotiations concerning acquisition of a portion of the City of Prescott water system. (Robert Smith, Town Manager)

MOVED by Councilmember Mike Best, seconded by Councilmember Lon Turner to adjourn to executive session at 6:59 p.m.

**Vote:** 6 - 0 PASSED - Unanimously

(Mayor Marley left the meeting after the executive session.)

Vice-Mayor Croft reconvened the study session at 8:05 p.m.

**5)** ADJOURNMENT

MOVED by Councilmember Mike Best, seconded by Councilmember Lon Turner to adjourn the meeting at 8:06 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 16th day of July, 2015. I further certify that the meeting was duly called and held and that a quorum was present.

Dated this 25th day of August, 2015.

Jami C. Lewis, Town Clerk