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

THURSDAY, OCTOBER 4, 2012
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, October 4, 2012.

Present:	Mayor Chris Marley; Vice-Mayor Carl Tenney; Councilmember Mike Best; Councilmember Darryl Croft; Councilmember Linda Hatch; Councilmember Lon Turner
Absent:	Councilmember Dean Echols
Staff Present:	Town Manager Robert Smith; General Services Director Cecilia Watts; Town Engineer/Public Works Director Ron Grittman; Utilities Supervisor Chris Bartels; Town Clerk Assistant Liz Hart (recorder)
Attendees:	Lien & Collections Technician Mike Bovee, Utilities Crew Leader Joe Grassi

1) CALL TO ORDER; ROLL CALL

Mayor Marley called the meeting to order at 6:05 p.m.

2) Presentation of Proposed Utility Water and Sewer Rate Analysis by Dan Jackson, President of Economist.com. (Ron Grittman, Town Engineer)

Acronym used in this item:
CIP (Capital Improvement Program)

Town Manager Robert Smith presented an overview of the Town's sewer plant:

- Unlike most Arizona municipalities, the Town did not obtain financing for its sewer plant through the Water Infrastructure Finance Authority (WIFA), which would have resulted in standardized operational procedures and rates. Instead, the Town entered into construction and operating and maintenance agreements with Fann Contracting.
- Under the construction agreement: the Town paid Fann $4,100 from each residential connection on homes built after 2004; he received nothing for homes built prior to that date; there was no mention of any commercial connections; and Fann was required to expand the plant up to one million gallons per day at no cost to the Town. The lack of commercial connection payments and exclusion of connection fees had created legal conflicts between the parties.
- Due to the anticipated pace of growth not materializing and the assumptions failing, upon satisfaction of the agreement, the Town will have paid $12 million to Fann, whereas typical financing for the plant would have cost $7-$8 million.
- Under the operation and maintenance agreement, the Town was paying Fann $21 per month from each utility account, generating $422,000 a year for operation of the plant. As this agreement was up for renewal soon, the Town should consider ending it, as the Town could use the proceeds to fund capital extension of the system.

- Several problems with the Town's utility structure were contributing to the Town's overall structural financial deficit: utility payments were not covering expenses or contributing toward capital improvements; the utility funds had a $900,000 annual shortfall; the Town's current water and sewer connection fees were not covering the cost to install the pipe; utility-related expenses were increasing; and the General Fund had subsidized $2.25 million to the utility accounts and toward sewer plant operation since 2007.
- Adjusting rates and connection fees, and expanding the system will eliminate the drain on the General Fund and spread the costs across more users, resulting in lower increases and a portion of the utility payments going toward capital reserves. There were no rate models that would allow the Town to reduce rates in the next five years.

Mr. Grittman added that Mr. Jackson had valued all the local private water companies and included as an assumption acquisition of Chino Meadows I, currently owned by the City of Prescott. Rate increases would drop dramatically by adding new users.

Dan Jackson reported that:

- Currently, in the water and sewer service business, water and sewer rates were going up 5-6% per year and were expected to triple in the next 15 years; 30%-40% of utilities currently charged rates that did not cover their costs; it was very common for smaller utilities to have higher rates due to economies of scale; rate adjustments were often due to reasons beyond one's control such as inflation, or system replacement; and many Arizona cities had implemented significant rate increases in recent years.
- Due to the annual loss in the utility funds, the Town government would be out of money in a couple years; thus, rates must be increased to prevent bankruptcy. Council had some flexibility regarding the size of rate increases, which will be dependent upon how aggressively Council desired to phase out the carryover subsidy, the terms of taking over the sewer plant from Fann, how much to fund a CIP each year, and whether or not the Town acquired additional water users.
- He had developed three rate increase scenarios, based upon certain assumptions: personnel and operating costs increasing; other expenses, such as chemicals and electricity, increasing; new account growth remaining limited; the Town acquiring Chino Meadows I at no cost; water and sewer buy-in fees increasing to $4,000 and $6,000 for all homes; the Town funding its CIP through pay as you go in lieu of new debt; the Town assuming Fann's interest in operation and maintenance; and any purchase of the plant exceeding $2 million resulting in increased costs and rates.
- Scenario #1 Status Quo: Provided for phaseout of subsidy over four years, no change in Fann relationship, no CIP, no Chino Meadows I acquisition, modest rate increases in water; and substantial sewer increases. This was risky, as it provided no funding for expansion or maintenance.
- Scenario #2 Comprehensive: Provided for phaseout of subsidy over four years, buying out Fann for $2 million, $300,000 CIP beginning in 2014, and Chino Meadows I acquisition, higher water increases in the first three years and higher sewer increases in years three through five. This was the most aggressive scenario, but provided the quickest path toward solvency.
- Scenario #3 Moderate: Provided for phaseout of subsidy over four years, taking over the plant or operations only at no cost, $150,000 CIP beginning in 2014, and Chino Meadows I acquisition.
- Scenarios #2 and #3 depended upon taking over Chino Meadows I. As the two scenarios had the same rate increases for the first two years, if the acquisition did not happen, they would have to reassess the situation.
- Once Council agreed upon a scenario, there was a 60-day window for publishing the

notice of intent, followed by a public hearing, and adoption of the rate change Ordinance, which would be effective 30 days after that.

- He recommended that Council adopt their selected scenario with a five-year schedule, which would be required for future bonding.

Mssrs. Smith and Grittman added that:

- As long as the Town was under the Fann contract, it could not qualify for tax-exempt financing or proceed with establishing improvement districts, which would allow the Town to waive the buy-in fees for those in the district. If the Town took over the plant, it could then qualify for said financing.
- Staff needed direction from Council for negotiations regarding the plant, and if the Town could not acquire the sewer plant, adjustments to the plan would be needed.
- The Town needed to add 400 or more water users, but it did not matter how they were obtained. If the Town purchased Chino Meadows I, those users would not have to pay the buy-in fee; however, others who were along the way would need to buy in and pay for septic abandonment and pipe installation.
- Connection fees in the Town's neighboring cities cost about $22,000.
- The Town could consider giving citizens the ability to prepay their connection fee before the costs went up. Currently, users buying into the system could amortize their payments over 10 years.
- The Council Utility Committee will continue this discussion on October 23.

Council comments:

- Due to the economy, it was a good time to enter into negotiations with Fann.
- Some preferred Scenario 2, as it corrected the problem the quickest, while others preferred Scenario 3, as the assumptions might not materialize and it put less burden on the ratepayers.
- The Town needed to pursue acquisition of water users.

3) ADJOURNMENT

Mayor Marley adjourned the meeting at 7:43 p.m.

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 4th day of October, 2012. I further certify that the meeting was duly called and held and that a quorum was present.

Dated this 8th day of January, 2013.

Jami C. Lewis, Town Clerk