

MINUTES OF THE WORK SESSION OF THE CITY COUNCIL OF THE CITY OF COTTONWOOD, ARIZONA, HELD JUNE 11, 2013, AT 6:00 P.M., AT THE CITY COUNCIL CHAMBERS BUILDING, 826 NORTH MAIN STREET, COTTONWOOD, ARIZONA.

CALL TO ORDER AND ROLL CALL

Mayor Joens called the work session to order at 6:00 p.m. Roll call was taken as follows:

COUNCIL MEMBERS PRESENT

Diane Joens, Mayor
Karen Pfeifer, Vice Mayor
Jesse Dowling, Council Member
Tim Elinski, Council Member
Linda Norman, Council Member
Terence Pratt, Council Member

COUNCIL MEMBERS ABSENT

Ruben Jauregui, Council Member

STAFF MEMBERS PRESENT

Doug Bartosh, City Manager
Matt McLean, Deputy Clerk
Rudy Rodriguez, Administrative Services General Manager
Roger Biggs, Utilities Department Administrative Manager

PRESENTATION AND DISCUSSION REGARDING PROPOSED RATE ADJUSTMENTS FOR WATER AND WASTEWATER FEES

Mr. Rodriguez stated this study has gone on for about 18 months. He started out by reviewing the rate review committee. The rate study he gave the Council is a draft and hope to have the final draft within the next week or so. One of the things we worked on in the city has been ensuring that we have a good adequate water supply and pressure. We also need to honor our bond covenants and sustain ourselves and if we can't sustain ourselves we won't be able to improve the system in the future. We have been in violation for three years on our bond covenants due to not having enough revenues to match the coverage. He went over the tiers and staff would like to simplify it so the public can understand it better.

Council Member Elinski asked how the committee was formed.

Mr. Rodriguez stated we reached out the public but have not had a good response.

Wastewater

Mr. Rodriguez reviewed the current rate structure. One of the things we have on there is a possible future bond purchase to improve the system. We might not use it, but at least we are aware of it. Our system is over 20 years old and he showed pictures of water pipes that

have broken. We don't have any customers outside of our wastewater system and we are not expecting a huge amount of growth.

There are three different charts on the bill that breaks out the maintenance and operations costs. There are administrative costs. The depreciation cost is devised by the number of gallons used in millions. The debt service will be one more charge on the sewer part of the water bill. Our current rate is \$16.75 and we are proposing a rate of \$26.25. That will allow us to break even and have a few more coins to start rebuilding that reserve fund that we need to have for the future. The last time we raised the rates was in 2001. The rate increase is not very much and at the rate it is going the general fund will probably have to start pumping in funds into it by fiscal year 2015. Right now the general fund is not in any position to be doing that.

Vice Mayor Pfeifer asked if we were going to set in place for incremental increases like other utilities do every year so we don't have this big jump.

Mr. Rodriguez stated he has a chart that projects out where we should be from year to year. It has both the actual costs, so it grows up gradually. This Council cannot obligate a future council. So even though we do something this year and everything is working fine, basically a future Council could come back and say they are not going to raise rates. It is something staff would like to do from year to year; have a gradual increase from year to year. Mr. Rodriguez then reviewed the charts that show the rates without any debt service. If we don't have to do these huge improvements into the future, it will go very smoothly. For Fiscal Year 2014, we need to have that jump, because we have neglected the system long enough. It kind of smoothes out from year to year, but when we add on the debt service we shift that load to our customers. If we bond in 2014, 2015 will show a spike. We would like to bond in 2016 and 2017 will show a spike because of the debt load. He then went over the financials and the reclamation plant is supposed to save us some money into the future. We really need to put some money back into the reserves and if we had a problem that would cost us over \$300,000 to repair, he would have to go into the general fund to find the cash to cover it, because there is not much money in the reserves to cover that.

Council Member Garrison asked how we are increasing our revenues by putting in the Riverfront reclamation plant in. He can see how we are offsetting costs, but he doesn't see how we can be increasing revenues by \$800,000.

Mr. Rodriguez stated the plant is not necessarily built to increase our revenues.

Council Member Garrison stated it is showing that the operating revenues are going to increase due to the Riverfront plant.

Mr. Rodriguez stated he shouldn't have wrote it that way, because in reality it is not going to increase revenues; there are expenditures involved in the system. He is not projecting a reduction in cost for the new plant for a couple of years. If in a couple of years in 2015 or beyond it does well, and we do have a reduction in costs, then we can adjust those costs

into the future. At this point in time he would like to say that it is going to break even or costs us a little bit more.

Water Rates

Mr. Rodriguez stated he wanted the Council to be comfortable with what staff is proposing because he needs to get the notice out and set the public hearing and have the rate increase starting on October 1. He went over the current population and the current projected population. We had some real big spikes in 2008 and 2009 and part of that was the meter replacement program that we had going on back then. We are now able to see more accurately and project out in the future. The particular thing now is, we look at the pumpage and what we are actually getting out of the ground and sending out there. If we look at the sizable amounts of water that are coming out, it has declined over the years. Up until recent years, this year is going to be one of the lowest pumpage years we have had in a while. The water utility has reduced pumping by 23.4 percent since its peak in 2008. At the same time, deliverables have increased by 22.8 percent. The big thing is new meters and leakage control and that is giving us better numbers that we can track. He reviewed the capital improvement plans for the next five years. The arsenic number is going down and they are looking at new systems to lower that cost. The 260 upgrades are in there along with the sewer system.

Mayor Joens asked if they had looked at completing and upgrading Old Town.

Mr. Rodriguez stated that would need to take some sort of bonding to complete and it would be a major project.

Mr. Bartosh stated they have done quite a few of the lines already.

Mr. Rodriguez stated if we did it in sections at a time we could probably absorb the costs.

Mayor Joens asked if we are going to do sidewalks and if they come out of our sidewalk fund or our water fund.

Mr. Rodriguez stated that is a HURF issue. They don't do sidewalks unless they have to break the sidewalk.

Mr. Bartosh it just has to do with the location of the line. For instance on Cactus it was under the sidewalk, but on Pima it wasn't under the sidewalk.

Mayor Joens stated so we won't be doing sidewalk projects through Old Town.

Mr. Bartosh stated not on the dime of the water system.

Mr. Rodriguez reviewed the projected funding and debt service. For next few years it will have approximately \$5 million in bonding over 2015, but it is highly unlikely. Even though we were not abiding by our bonding covenants we were trying to help out the public by not raising our rates and keeping it low. The debt service \$2.5 million and we need \$3.3 million after we pay all the operating and maintenance bills.

Vice Mayor Pfeifer asked Mr. Rodriguez to explain why the bond rating went down.

Mr. Rodriguez stated the bond rating went down in 2011 by Moody's from an A plus to BAA with a negative outlook. We are still having conversations with Standard and Poor's; they are not happy with us, but they understand what we are trying to do. It boils down to our covenants.

Mr. Rodriguez stated weather plays a factor in determining our coverage. If we have a bad winter we may have pipes freezing all over and bursting and trying to get repairs done.

Council Member Dowling asked what the downgrade has cost us.

Mr. Rodriguez stated the downgrade hasn't cost us anything, because we are locked into the rate right now. If we want to refinance and/or borrow money, then we are going to be paying more. He continued and reviewed the consumables for the water system and stated they continue to rise. He reviewed the current rates and the proposed rates. The proposed rates include an in-city limits rate and outside of city limits rate. There is about a 30 percent differential between the city rate and the proposed outside rate. He reviewed the reason for the differential rates. The first one is the distances are far greater when servicing lines as well as pumps and other equipment outside of the corporate limits. The terrain in the villages is very different from that inside the corporate limits which makes the repairs costly. Most of Cottonwood is fairly flat and easier to manage. The water utilities are publicly owned by the citizens of Cottonwood. When the utility borrowed money for infrastructure, whether inside or outside the city limits, the citizens of Cottonwood bear the risk of any new debt as well as the infrastructure. Take for example, if any contamination happens outside the city limits, the City of Cottonwood will be responsible for that contamination. If we continue to not raise rates they are going to come after the citizens to force them to raise the rates by filing a suit against the City of Cottonwood. We are responsible for anything that happens to that system, whether it is inside or outside the city. The citizens of Cottonwood own that system. Inside the city about 70 percent of the distribution of the system is fed by gravity versus booster power by design which means the electrical costs of providing water is significantly less per account because the only cost for the well pumpage is into the gravity tanks. The villages and Verde Santa Fe are 100 percent pressure distribution systems. Right now, in the evening when it is slow we are using the pumps to fill the storage tanks and then during the day those storage tanks provide the gravity and the pressure for most of the system in Cottonwood. In the villages it is quite the opposite. There are variable pumps that are always running trying to keep the pressure up in those areas and it has a lot to do with the terrain. Approximately 60 percent of the leaks are repaired in the county; mainly in the villages.

Council Member Garrison asked Mr. Rodriguez to explain Verde Santa Fe to him and asked if the city owns the water system and whether or not we purchased it.

Mr. Rodriguez stated we purchased it and they had a private water company that ran it.

Mayor Joens stated that was one our first systems we purchased.

Mr. Rodriguez stated it was one of our first systems we purchased along with Cordes Lakes and Clemenceau.

Council Member Garrison stated but we didn't purchase the sewer collection system and asked if that remains owned by the homeowner association.

Mr. Bartosh stated there was discussion about purchasing that at one time, but they weren't interested.

Council Member Garrison stated he wanted to understand the ownership of both.

Mr. Rodriguez stated the meters in the villages are primarily in small overgrown backyard easements, which make meter readings more labor intensive. There are more small wells, 14, outside of the city limits as opposed to large wells inside the city limits, 7, and all require daily monitoring and regular maintenance regardless of their size. There are 13 arsenic systems outside the limits as opposed to 7 arsenic inside and all require maintenance and monitoring. All that arsenic goes into our wastewater treatment facility. Leak repairs outside the city limits use to be higher until they invested in new pumps and variable speed controllers in the villages, which reduced the back pressure variation and associated water hammers.

Mayor Joens asked why the arsenic from the villages goes into our sewer system.

Mr. Rodriguez stated we have to dispose of it. We collect from all of them and they all go into our wastewater treatment system. The city purchased the Quail Canyon water system exclusively to service Verde Village 6 and 7 at a cost of \$890,000, and the system will continue to cost us an additional \$200,000 just to run lines and pumps and other equipment to connect that system over to the Verde Village 6 and 7 system. He reviewed what they were projecting into the future. With the current rates they are estimating to do about 90 percent of our coverage and with the new proposed rate will get us up to 135 percent coverage in 2014. We are trying to keep the coverage between 135 percent to 150 percent in the future. He reviewed the rate projections which were broken down by two different sections; one in the city limit and one outside the city limits. The rates don't have any real spikes into the future. The outside the city limit rates are a little bit higher. We are currently looking at 35 for in and 45 for out for a connection fee. They made changes to the tiers. If you use about 5,000 gallons, it will be about a \$5.00 increase in the city and if it is outside the city limits it is \$15.00 more. At 10,000 gallons it is \$9.00 difference and \$25.00 outside the city limits. At 15,000 gallons it goes to \$25.00 inside and \$50.00

outside the limits. At 20,000 gallons it gets really steep. It is by design to make people be conservative.

Council Member Dowling asked if we are going to run into the issue where people reduce their use so much so we are not going to make as much.

Mr. Rodriguez stated it is a double edge sword. We want to encourage conservation, but at the same time we will be cutting our revenue stream and we could end up cutting the flow to the sewer plant. He presented a rate comparison that showed what it would be like if we treated everyone exactly the same. The base rate would be \$23 with a differential rate and with a non-differential rate it would be \$27. The committee felt that we should have differential rates and is requesting the council to agree with them.

Council Member Elinski stated one of the consequences of raising the rates like that are they may request to be annexed into the city and was wondering if we have made any plans for it.

Mr. Rodriguez stated if it was successful, then we make some adjustments for it. He then continued and reviewed what 5,000 gallons would cost for differential and non-differential. 5000 gallons would cost us about \$35.44, and if there was no differential it would cost about \$46 for 5,000 gallons. With the differential rate, in city limits customers would be paying \$40. He showed a comparison of rates from around the area. We are about average around the area. They are also looking for adjustments to several other fees related to the system. Most of these fees are a onetime fee such as a deposit, establishment of service, and cut-off fee, but we want to adjust them a little bit and are included in the rate study. If service is turned off for non-payment, they will need to pay an additional \$25 deposit. He reviewed some news articles showing different areas that need improvements. He reviewed the letter that they received from one the bond holders stating the city is in violation of the bond covenants. We have been violating the bond convents for a little over three years.

Council Member Pratt asked if we intend to have flyers in the bills telling people that we intend to raise the rates.

Mr. Rodriguez stated it will be included in the bills and be posted on the internet.

The Council discussed the problem of raising the rates now.

Council Member Garrison stated the problem is that the city was not consistent with the raising the rates, but also the rates should never have been the same. In the past, the people outside the city paid a significantly higher fee for water service because of the cost that was associated with those systems. It is not new that it will cost them more to have that water system.

Dr. Bob Richards, from Cottonwood, stated the citizen component of the study was a little bit slanted and it should have been done several years ago. He would like the public to have all

the information available and it needs to be explained better so the public understands why the rates need to be raised.

Mr. Rodriguez explained the budget to him.

Jules Osher, from Cottonwood, asked how the water is measured and asked if it would be better to have a bigger tank up in the islands.

Mr. Rodriguez doesn't think that will fix the problem because of the terrain.

After further explanation regarding the delivery of water, Mr. Rodriguez stated if there is consent from the Council, he will put together the notice of intent and get it published. They will get the notice of intent into the bills and set a public hearing date.

Mayor Joens stated it is important that the public can understand this.

ADJOURNMENT

Mayor Joens moved to adjourn. The motion was seconded by Vice Mayor Pfeifer and carried unanimously.

The work session adjourned at 8:32 p.m.

Diane Joens, Mayor

ATTEST:

Matthew McLean, Deputy Clerk

CERTIFICATION OF MINUTES

I hereby certify that the attached is a true and correct copy of the minutes of a work session of the City Council of the City of Cottonwood held on June 11, 2013. I further certify that the meeting was duly called, and that a quorum was present.

Marianne Jiménez, City Clerk

Date