

MINUTES OF THE WORK SESSION OF THE CITY COUNCIL OF THE CITY OF COTTONWOOD, ARIZONA, HELD AUGUST 17, 2011, 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.

COUNCIL MEMBERS PRESENT

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

STAFF MEMBERS PRESENT

Doug Bartosh, City Manager
Steve Horton, City Attorney
Matthew McLean, Deputy Clerk
Rudy Rodriguez, Administrative Services General Manager

ITEMS FOR DISCUSSION, CONSIDERATION, AND POSSIBLE DIRECTION TO STAFF:

PRELIMINARY DISCUSSION AND POSSIBLE DIRECTION TO STAFF REGARDING WATER RATE ADJUSTMENTS

Mr. Rodriguez discussed with Council the possibility of raising the water rates. He discussed the planned rate changes; economic downturn; Arizona Department of Water Resources (ADWR); the cost of doing business; conservation; the Standard & Poor's rating downgrade; and available options. The rate adjustments have not occurred as required by the bond covenants, and the first rate increase was originally scheduled for November 2007 at 20.53 percent. A second rate increase was scheduled for November 2011 at 8.5 percent. The city increased the water rates in late 2010 by 8 percent. The city is currently behind by approximately 21 percent. The economic downturn has affected the interest rates the city had been earning. The current interest rate the city is earning is .03 percent. In 2007 the city was earning 5.26 percent. The city is also required to contribute a fee to the ADWR which is imposed on the customers' bills. As for the cost of doing business, the city has acquired two small water companies; decommissioned the Clemenceau system; increased storage capacity by 900,000 gallons by the end of the year; improved capacity at most of the wells, pumps and boosters; increased fire flows by adding fire hydrants; have become arsenic treatment compliant at all well sites, and have continued to bill at the same rate for all customers including customers outside the city limits. The city has saved money by

maintaining the arsenic systems in house and reducing dependence on outside engineering firms by hiring engineers. Part of doing business is conservation and the rate structure encourages that by using a four tier rate structure plus a base rate; the staff track high water usage variations and follow up with the customer; well upgrades include electronic pump drives that reduce pressure surges resulting in less line leaks; building a conservation fund to assist with future conservation programs; and providing leak detection tablets being provided to each new customer. The bond covenants require that the city produce net revenues of 135 percent of the interest and principal requirement in each fiscal year. Currently the city has only produced net revenues of approximately 102 percent and thus has not met the bond covenants for two years and has been downgraded by Standard and Poors.

Mr. Rodriguez presented a few options for the Council to consider: move forward with an across the board increase to get to the 135 coverage; adjust rates gradually over the course of several years; make rate adjustments with additional tiers; adjust rates to inside versus outside city limits; provide different rates for commercial versus residential properties; or do nothing.

Council Member Pratt stated he has a problem with raising rates in this economy with our population. He likes the additional tier structure. And he would like to see more research providing different rates for commercial and residential properties.

Council Member Elinski stated we should have dealt with this years back and kept increasing them year after year so it wouldn't be such a hard pill to swallow. He thinks there should be a yearly increase that is part of the policy that Council can review. He would like more information on the tiered structure.

Mayor Joens stated one of her main issues is we ensure that we have water for people and ensure when they need it, it is there for them. She is in favor of the increase across the board to the 135 coverage.

Vice Mayor Pfeifer stated we should use small incremental increases. She is in favor of the first and second options.

Council Member Norman asked how much it would take to raise the rates to have the proper coverage.

Mr. Rodriguez stated the last time he looked at it, it was about 20 percent. The expenditures have tapered off and we are looking at trying to get back to right where they should be.

Council Member Jauregui stated we should look at a plan that has a minimum impact on the citizens and still satisfies what Cottonwood needs to run the system.

Council Member Dowling asked if we have ever tweaked and raised the rate or tier structure where it results in more conservation and has the reverse effect and falls below the number we need.

Mr. Rodriguez stated that is a possibility.

Council Member Pratt asked what the effect on revenues will be when Pine Shadows comes online.

Mr. Rodriguez stated we have picked up about \$60,000 per year. It will not solve the problem.

Council Member Dowling stated we should show what not doing anything would do for the public. It might be nice to show what the effect of not raising the rates and what would be the cost in the long run to the city.

Mr. Rodriguez stated it would depend on a couple of things such as if we were going to refinance. If we don't need anymore money over the course of what we have, it's not going to hurt us as far as additional costs for our bonds. We continue to deteriorate our bond rating. So if we go out and refinance, we will have issues.

Council Member Dowling stated it is something that has to be done and do it fairly as we can.

Mr. Bartosh stated the bond holders would have the ability at some point to approach a court and say "they are not meeting the covenants, they need to raise the rates," and force the issue.

Council Member Dowling suggested we put a policy in place so this doesn't happen again. He thinks a few people will ask why we don't pay down the bonds and it is important for the public to know that the bond holders have agreed to a term and a return.

Mr. Horton reminded the Council and the public that these are revenue bonds, and are pledged against the revenues earned from the system. That is the only securities that have been pledged. Not the city's taxing authority.

Mr. Bartosh stated people don't appreciate the city made a promise, and future downgrades if we don't do something are certainly possible.

Darold Smith, a Cottonwood resident, asked how much money existed in the water conservation fund and how much money exists in all the water reserves.

Mr. Rodriguez stated the total money in the water reserves is about \$3 million.

The Council directed Mr. Rodriguez to look at how much it will cost to get the 135 percent coverage; look at creating different levels for commercial and residential; creating various new tiers; and a policy at adjusting rates in November of every year; all to be discussed at a future work session.

ADJOURNMENT

Mayor Joens moved to adjourn. The motion was seconded by Vice Mayor Pfeifer, and carried unanimously. The work session adjourned at 6:53 pm.

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 August 17, 2011. I further certify that the meeting was duly called, and that a quorum was present.

Matthew McLean, Deputy Clerk

Date