

**JOINT
TOWN OF PRESCOTT VALLEY COUNCIL MEETING
MUNICIPAL PROPERTY CORPORATION
PRESCOTT VALLEY WATER DISTRICT
MINUTES
MARCH 13, 2008**

*Magistrate Court/Council Chambers
Civic Center
7501 E. Civic Circle
Prescott Valley, Arizona 86314*

1. *CALL TO ORDER*
2. *INVOCATION*
3. *PLEDGE OF ALLEGIANCE*
4. *ROLL CALL*

The meeting was called to order by Mayor Skoog at 5:30 p.m. in the Magistrate Courtroom/Council Chambers. Pastor Kirk Anderson, Emmanuel Lutheran Church, gave the Invocation after which a special Mayor's Recognition appreciation certificate was read and presented to Pastor Anderson. The Pledge of Allegiance was said in unison as led by Ben Harper. The following Council and Prescott Valley Water District Board were present for roll call:

Harvey Skoog	Mayor and Board Chairman
Harold Wise	Vice-Mayor & Board Vice-Chairman
Bob Edwards	Council and Board member
Mike Flannery	Council and Board member
Fran Schumacher	Council and Board member
Lora Lee Nye	Council and Board member

Absent: Mary Baker Council and Board member

The following Municipal Property Corporation members were present for roll call:

Bobby Cohen	President
Carm Staker	Vice-President
Constance Pinney	Board member
Karl Russell	Secretary/Treasurer

Absent: Marcy Pfitzer Board member

5. *ANNOUNCEMENTS & PRESENTATIONS*
 - a. *Chamber of Commerce introduction of new business members*

Karen Benson, Prescott Valley Chamber of Commerce, presented Paul Bunt from Arizona Stone, located at 2601 Lake Valley Rd, 772-0828. She also introduced Erick Loss of Bulleri

Networks, LLC, located in Prescott, but serving the Prescott Valley area. Their phone number is 445-5773.

6. *PROCLAMATION*

a. *American Red Cross Month, March 2008*

Deputy Town Clerk, Candi McElhaney, read the American Red Cross Month proclamation and Mayor Skoog presented the proclamation to Carrie Barros, Lily Aguilera, Alex Barros and Bob Hill.

7. *COMMENTS/COMMUNICATIONS*

a. *Big Chino Project Water Project*

Town Manager, Larry Tarkowski, reported that staff desires to update the Town Council on the status of the cooperative efforts between Town staff and representatives and the staff and representatives of the City of Prescott with regard to the Big Chino Sub-basin Water Project. Staff from the two communities has recently met on several occasions and has developed a framework for working cooperatively to accomplish the many tasks which are involved in a project of this magnitude and importance.

On December 2, 2004, the Town entered into an Intergovernmental Agreement with Prescott for the Town to receive 4,000 of the 8,717 acre feet of imported groundwater from the JWK Ranch located 18 miles northwest of Paulden, in return for paying the Town's pro-rata share of costs for Prescott to purchase the Ranch, develop improvements needed to pump and transport the water, and operate and maintain the Project. On that same date, the Town Council adopted Resolution No. 1423 approving documents needed for the Prescott Valley Municipal Property Corporation to eventually issue \$14,300,000.00 in bonds to generate the funds needed to pay the Town's share of costs to purchase the JWK Ranch.

Water Resources Manager, John Munderloh, along with Assistant Town Attorney, Colleen Auer, showed a Power Point presentation on the plans and intent of this project. An engineering firm hired by the City of Prescott has recently completed a preliminary design of the infrastructure needed to transport water from the Ranch. Under the terms of the IGA, Town staff has participated with Prescott staff in the process. Town staff and legal representatives have also worked with their counterparts in Prescott to address other aspects of the Project, including exploration of potential public/private partnerships for construction and operation of the needed infrastructure.

Vice-Mayor Wise stated that he appreciates all of the groups who are bringing this project to fruition. Hopefully we will have a good solid voice in the rest of the State for the future of Prescott Valley and the region in the AMA. There are a lot of areas to work through but he believes that these groups can work through these issues.

Council member Flannery asked about the steering group and four different working groups. If there is an issue or an item out there will they be addressed? Water Resources Manager, John Munderloh responded that this is the job of the steering committee to see what level of consideration it requires and to assign it to the appropriate sub-work group. Assistant Town Attorney, Colleen Auer, added that the intent here is to insure that the information that is going out to the public has a complete story. We are setting this up to address basically all fronts to make sure that what is being communicated also takes into consideration the rural

community's views on this project and on the need for the resource and a smart and good approach for working through importing that resource. Council member Flannery continued by saying that addresses the outflow of information. What about the inflow? The response was that all bases are being covered in dealing with the issues.

Council member Schumacher said that she hopes that everyone knows that this is a very large collaborative effort with Prescott and we have been working very well with Prescott. This is a great effort on the part of both communities to make sure that we have enough water for this region for many years after we are all not here. She commends everyone for their diligence and their work. She knows there will be an eventual good outcome. She hopes that the message that comes forward is the complete truth so that there should be no question that this is the message we are sending and it is a good message.

Council member Nye stated there is a large and diverse group of people working on this project. She wants her grandchildren and great grandchildren to have water available to them in the future. This is a regional effort and needs to be supported and recognized as such. We are aware of all of the meetings and hard work and we know that this is actually the beginning of the project. She commends everyone for the structure.

Council member Edwards said that we have to understand and not look at perceptions. Follow the information that is coming out from the people that are giving us the technology and understanding of what we are doing. Do your homework. If you have questions, ask.

Mayor Skoog said that this is a huge undertaking. He thinks it is larger than the purchase of the water company. This is the largest undertaking the Town has ever taken on and it is going to be an ongoing process of study and hard work.

Town Attorney, Ivan Legler, wanted to remind everyone that what we are showing tonight is an administrative process for Prescott and Prescott Valley to bring these things forward. Eventually the two Councils can participate. This is a framework whereby the staff will be doing the legwork to bring to you for your consideration. We are going to be busy in trying to move ahead in an expeditious way and a careful way so that everything is covered so the two Councils can then have all the information and the framework in place to move forward.

Bill Fain, Fain Signature Group, spoke of the roadblocks and new considerations in importing this water. It is very important to be approaching this project the way the Town is. We are proceeding under the authority of the State Legislature at the present time. It is time to address this water importation for future generations.

8. *CONSENT AGENDA*

Town of Prescott Valley Consent Agenda

- a. Approval of Minutes – February 28, 2008*
- b. Accepting Easements and Temporary Construction Easements for the Robert Road Improvements Phase B, Spouse to Tranquil (CIP#412.2)*
- c. Authorizing the Mayor to sign Resolution No. 1571 (CDBG funds application) committing the Town to provide up to \$150,000 to complete the Enterprise Parkway extension*

- d. *Authorize the approval of the firework displays in the agreement with Dynamic Pyrotechnic Services/Any Pyro for the 4th of July Celebration, World Arts Festival/30th Anniversary and New Year's Eve celebration for a total of \$44,500.00*
- e. *Accepting eighteen (18) easements needed for the improvements being financed by the Southside Community Facilities District No. 1*
- f. *Approving Accounts Payable for February 22 – March 6, 2008*

Prescott Valley Water District Consent Agenda

- a. *Approval of Minutes (February 14, 2008) – Prescott Valley Water District*
- b. *Approving the PVWD Financial Report for January 2008*
- c. *Approval of Accounts Payable (February 08 – March 6, 2008) – Prescott Valley Water District*

Vice-Mayor Wise made the MOTION, seconded by Council member Schumacher to accept the Town of Prescott Valley consent agenda as read, by roll call vote. MOTION carried with 6 ayes and 0 nays.

Board member Schumacher made the MOTION, seconded by Board member Nye to accept the Prescott Valley Water District consent agenda as read, by roll call vote. MOTION carried with 6 ayes and 0 nays.

9. UNFINISHED BUSINESS

- a. *Consideration of approving the second reading, by title only, and passage of Ordinance No. 713 adopting by reference the “Amendments to Chapter 7 ‘Building’, 2006”*

The council had no further comments as this was the second reading of this ordinance. The Deputy Town Clerk, Candi McElhaney, read Ordinance No. 713 by title only. Mayor Skoog asked “Shall the Ordinance pass?” Ordinance No. 713 passed with 6 ayes and 0 nays.

10. NEW BUSINESS

- a. *Consideration of authorizing the Chairman of the Prescott Valley Municipal Property Corporation to sign Board Resolution No. 08-01 concerning all matters relating to the sale and issuance of the Corporation's “Senior Lien Water System Revenue Refunding Bonds, Series 2008”*

Town Manager, Larry Tarkowski, reported that in 1996 the Town of Prescott Valley got into the water business when the Viewpoint subdivision moved forward they built their water system. Per the agreement, once the wells, tanks and lines were in place, they then dedicated it to the Town of Prescott Valley for operations. That is the Town of Prescott Valley's water system. After a number of years, starting as far back as 1978, the citizens of Prescott Valley repeatedly said they would like to own the water system that delivers water to their homes. The effort started forward in 1978. Town and Shamrock representatives renewed discussions about ways for the Town to acquire Shamrock. The discussions picked up momentum in 1996 when the IRS proposed a new tax rule that would likely foreclose any chance of acquisition. Since the Legislature had since provided the tool of forming separate community facilities districts, a concept developed of forming a separate CFD to acquire Shamrock. The CFD would issue

bonds and use the proceeds to purchase Shamrock's stock, change Shamrock to a non-profit corporation with the CFD as sole member, and use the new corporation's revenues to operate the water system and pay off the bonds. With this concept in mind, the Town and Shamrock reached an "Agreement-in-Principle" on October 15, 1997 to purchase Shamrock for \$14.7 million, contingent on an IRS ruling that the corporation's income following acquisition would be exempt from taxation and that the transaction would not be taxable as a "deemed liquidation" of assets. After protracted negotiations with IRS representatives, the required rulings were obtained on June 5, 1998.

The CFD (Prescott Valley Water District) was formed on September 24, 1998. Under state law, the Town Council members also served as CFD Board members. On November 9, 1998, the Board approved a Stock Purchase Agreement for \$14.9 million, plus an amount equal to the value of any new capital improvements prior to the final purchase date. On December 14, 1998, the Board authorized revenue bonds in an amount needed to complete the purchase and to fund a capital improvement program of \$7 million over three years. The purchase was completed on January 21, 1999, and Shamrock was converted to a non-profit corporation (Prescott Valley Water Company). The CFD and the Company then entered into a Service Agreement for the CFD to operate the system. In turn, the CFD entered into contracts with the Town for administrative services and with a private company for operation services. Since then, care has been taken to try to comply with conditions required in the IRS rulings by keeping the Town and CFD/Company water systems financially separate. At the same time, efforts have been made to operate the two systems as much as possible as a single system for the benefit of customers. This includes customers historically located outside of the Town limits. After nine years of operating two separate water systems in Prescott Valley, it is now proposed that a number of actions be taken to combine the two systems into one.

It has always been the goal of the Town of Prescott Valley to combine these two systems. There are operational savings that we will realized by the combination of these systems, not only for the operational savings, i.e. being able to move water freely from the municipal water system to the Prescott Valley Water District, but also the administration of the accounting (keeping the two separate) is not only time-consuming but is costing the Town money. We have worked very hard over the last year and hats off to Bill Kauppi and Ivan Legler and our contract attorney that worked with the IRS to accomplish this combination without creating a tax liability. There are now a number of steps that need to be taken.

Michael Cafiso, Greenburg Traurig, explained the legal background of this transaction, describing the steps in summary fashion as they relate to each of the entities that are involved and then there was discussion about the documents. In May 2006, CFD/Town staff applied to the IRS for a new ruling that would allow the CFD/Company to be liquidated and the assets and obligations distributed to the Town. This had been anticipated during the negotiations with IRS staff in 1998. The hope was to remove costs and other difficulties inherent in two accounting and billing systems, two annual audits, two bank accounts, three insurance policies with different premiums, and three separate actions/meetings for the entities involved with the systems. It was also hoped that the systems could be administered without an on-going series of agreements between the two entities. Finally, it was hoped that the customers of the two systems could eventually pay unified water rates. With the assistance of outside legal counsel (Tom Bade) and after two meetings in Washington D.C. with IRS officials, the IRS issued the necessary ruling on January 25, 2008.

It is proposed that the Municipal Property Corporation again work with the Town of Prescott Valley to sell MPC bonds to assist the Town in acquiring needed public improvements. More specifically, it is proposed that the MPC sell approximately \$18,665,000.00 aggregate principal amount of “Senior Lien Water System Revenue Refunding Bonds, Series 2008”. A majority of the bond proceeds will be used to refund all of the outstanding “Revenue Bonds, Series 1999” of the Prescott Valley Water District so that the District and the Prescott Valley Water Company may sell their water utility system to the MPC and then liquidate themselves in accordance with their bylaws or Arizona Revised Statutes (as the case may be). The MPC, in turn, will sell the system to the Town under a Purchase Agreement. The Town’s payments under the Agreement will be taken from system revenues, and the MPC will then use those payments to pay its bond holders.

The Prescott Valley Water Company Board will have taken action by unanimous consent required to sell the system and liquidate the Company in accordance with its Bylaws. The Prescott Valley Water District Board will, in this same meeting, adopt a Resolution approving the refunding of its bonds, sale of the system, and liquidation of the District in accordance with Arizona Revised Statutes. The Prescott Valley Municipal Property Corporation Board will, in this same meeting, adopt a Resolution authorizing the sale of its Refunding Bonds, purchase of the system, and entry into a Purchase Agreement with the Town. And, the Town Council will adopt a Resolution authorizing entry into the Purchase Agreement with the MPC and assumption of all obligations of the Water District.

Bob Casillas, Stone and Youngberg, echoed congratulations to Town and staff and everyone involved. He gave an update on the bonds and insurance with an anticipated close of April 15.

Michael Cafiso, Greenberg, Traurig, wanted to bring to the attention of the Board that in order to get the best financial transaction in the document entitled Town Purchase Agreement there is a covenant that we agree to. It is called the coverage test. It states that the coverage test will produce at least 125% of the annual debt service payments after paying maintenance and operation expenses for that year. It is pretty common. This takes into consideration account connection fees. The insurance company (FSA) came back and said that this is all well and good but they also want to have a test that is at least one times coverage of the debt service without those connection fees. This is not reflected in the documents. He would like an item added to the motions made tonight to include the resolution be adopted reflecting this change in the document. The modification to the Town Purchase Agreement should be referenced in the motion.

President Cohen made the MOTION, seconded by Secretary/Treasurer Russell, to authorize the Chairman to sign Resolution No. 08-01 adopting a Resolution concerning all matters relating to the sale and issuance of the Corporation’s “Senior Lien Water System Revenue Refunding Bonds, Series 2008”, and to reflect the modifications that were stated into record, by roll call vote. MOTION carried with 4 ayes and 0 nays.

- b. *ADJOURNMENT – Municipal Property Corporation –* Adjournment delayed for MPC until after all New Business was completed due to MPC involvement in all items.
- c. *Consideration of authorizing the Mayor of the Town of Prescott Valley to sign Resolution No. 1570 assuming all obligations of the Prescott Valley Water District; authorizing the Management Services Director to cooperate with the Municipal*

Property Corporation to issue not-to-exceed \$20,000,000 aggregate principal amount of bonds for such purposes; authorizing the completion, execution and delivery of all agreements necessary or appropriate for such purposes, including the delegation to the Management Services Director of certain authority with respect thereto; declaring the Water Utility System of the District and the Town to be a single system; providing for the payment of amounts due pursuant to such agreements to be payable from revenues of such system; and authorizing the Management Services Director to expend all necessary funds therefor

Council member Flannery made the MOTION, seconded by Council member Nye, to authorize the Mayor (or, in his absence, the Vice Mayor) to sign Resolution No. 1570, an emergency measure, which (among other things) assumes on behalf of the Town all obligations of the Prescott Valley Water District, authorizes the Management Services Director to coordinate with the MPC to issue not-to-exceed \$20,000,000 aggregate principal amount of bonds for such purposes, and authorizes execution of necessary agreements, and reflect the modifications that were stated into record, by roll call vote. MOTION carried with 6 ayes and 0 nays.

- d. Consideration of authorizing the Chairman of the Prescott Valley Water District to sign Resolution No. 70 approving and authorizing the execution and delivery of an Escrow Trust Agreement to provide for payment of the District's "Revenue Bonds, Series 1999"; approving Articles of Dissolution of Prescott Valley Water Company; and conveying all property of the District and the Prescott Valley Water Company to the Town of Prescott Valley*

Board member Flannery made the MOTION, seconded by Board member Schumacher, to authorize the Chairman (or, in his absence, the Vice Chairman) to sign Resolution No. 70, an emergency measure, which (among other things) authorizes execution and delivery of an Escrow Trust Agreement to provide for payment of the District's "Revenue Bonds, Series 1999", approves Articles of Dissolution of the Prescott Valley Water Company, and conveys all the property of the Company and District to the Town of Prescott Valley, and reflect the modifications that were stated into record, by roll call vote. MOTION carried with 6 ayes and 0 nays.

10.b ADJOURNMENT – Municipal Property Corporation

Secretary/Treasurer Russell made the MOTION, seconded by Member Pinney, to adjourn the Municipal Property Corporation, to adjourn the Municipal Property Corporation meeting, by roll call vote. MOTION passed with 4 ayes and 0 nays. Meeting adjourned at 6:58 pm.

11. COMMENTS FROM THE PUBLIC

Ben Harper – addressed the fixed-route bus system, saying that the current system is fine and we should not be involved in another system.

12. ADJOURNMENT

Council member Schumacher made the MOTION and Council member Edwards seconded to adjourn the meeting, by roll call vote. MOTION carried with 6 ayes and 0 nays. Meeting adjourned at 7:02 pm.

ATTEST:

APPROVED:

Candice McElhaney, Deputy Town/District Clerk

Harvey Skoog, Chairman/Mayor

STATE OF ARIZONA)
COUNTY OF YAVAPAI) ss:
TOWN OF PRESCOTT VALLEY)

CERTIFICATE OF COUNCIL MINUTES

I, Candice McElhaney, Deputy Town Clerk of the Town of Prescott Valley, Arizona, hereby certify that the foregoing minutes are a true and correct copy of the Minutes of the Regular Meeting of the Town Council of the Town of Prescott Valley, held on Thursday, March 13, 2008.

I further certify that the meeting was duly called and held and that a quorum was present.

Dated this 20th day of March, 2008

Candice McElhaney, Deputy Town/District Clerk