

**TOWN OF PRESCOTT VALLEY
WORK STUDY MEETING
MINUTES
June 21, 2012**

Library Auditorium
7401 E. Civic Circle
Prescott Valley, Arizona 86314

1. Call to Order Work Study Session

Mayor Skoog called the meeting to order at 5:30 p.m.

2. Roll Call

Present: Mayor Skoog, Council Member Nye, Vice Mayor Tjiema, Council Member Mallory, Council Member Whiting, Council Member Lasker, and Council Member Anderson.

3. Discussion regarding proposed revisions to the water and wastewater rates, fees and charges

Customer Accounts Manager, Cordell Compton gave a detailed report regarding the water and wastewater systems based on the utility rate factors used by the town. That info was followed up with the fact that both the water system and wastewater system are enterprise funds which are essentially propriety funds that reports activity for which fees are charged to external users for goods and services. The rates, charges and fees must cover the costs of those services as well as their related debt obligations so that each system is self sufficient. Debt service, cash reserves, revenue and expenditures and other factors are considered in water rate modifications.

Wastewater rates may increase depending upon the sewer bond refinancing outcome. Without the bond refinancing cash balances and reserve ratios fall off quickly followed by the debt service. With the refinancing cash balances fall but not as drastically. Cash reserve ratios falls, but not as badly. Revenues are falling some, but not terribly bad. Debt coverage is not too bad until year three, four and five.

Current water rates were shown by pipe size not indicating any fee change. Compton commented that the water system base rates have not changed since 2006. The last change was in 2010 when the former municipal water system north of SR 89A was raised to equal the rate of the old former water district south of SR 89A. The rate south of SR 89A was changed four years ago in 2008.

Wastewater base rates have not changed since 2006 and are not recommended for change this year. With bond refinancing to keep the coverage ratio above the minimum, a \$ 0.06 (2 percent) increase may be recommended. Without the bond refinancing and to keep an adequate debt coverage requires a 14 percent increase, or \$0.34.

Compton stated that rate study criteria is based on the cost of providing the service with pricing that encourages water conservation to ensure that the Town is operating within the financial performance measures currently in place. Measures show that customers are being conservative in water use. These reports give the Town the opportunity to forecast what future water use may be. Compton presented the current water and wastewater base rate fees being charged in comparison with other municipalities of comparable size.

Town Manager Larry Tarkowski thanked Compton and Management Services Director, Bill Kauppi for running the water system model which they have been doing since the purchase of the Shamrock Water Company in 1999. This gives us the ability to forecast water use and rates and build a good capital budget. Because of the successful bond sale today, the average user will only realize a \$ 0.36 increase in wastewater, with no increase at all on the water side. When we first started our water system we were among the top two or three when comparing the rates with our index cities. We are below the middle of the pack on wastewater. When we purchased Shamrock we passed along a 36 percent increase in water rates because we had an aggressive capital program that we had to increase pumping capacity in a very short period of time. Because of good management and operations, we are now below the water mid rate being charged.

Council member Whiting commented that the bond ratio is required to be 1.25, but the Town has used the bench mark of 1.60:1. Would that 1.60 rate incorporate the bond requirement plus the cash reserves of 90 days?

Bill Kauppi stated that the bond covenant has a 1.25:1 ratio which means it is 125 percent of net revenue and has to be 125 percent greater than the debt service. The Town's goal is to reach a 1.60:1 ratio of bond covenant versus debt. We see no need to raise the current rates in order to reach the 1.60 level. Small incremental increases will occur. Bond covenant and cash reserves are totally separate.

At every budget cycle Kauppi and staff forecast revenues and expenditures for the current year and forward five years so that projects (Capital Improvement Projects) can be moved further out if needed. The solar farm will help reduce electrical expenses on the operation of the systems. Council complimented Kauppi and Compton for their work on this as well as Neil Wadsworth who oversees the operating component of the systems.

4. Adjournment

Mayor Skoog adjourned the meeting at 6:08 p.m.

ATTEST:

APPROVED:

Diane Russell, Town Clerk

Harvey Skoog, Mayor

STATE OF ARIZONA)

COUNTY OF YAVAPAI) ss:
TOWN OF PRESCOTT VALLEY)

CERTIFICATE OF COUNCIL MINUTES

I, Diane Russell, 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 Work Study Session of the Town Council of the Town of Prescott Valley, held on Thursday, June 21, 2012.

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

Dated this June 26, 2012

Diane Russell, Town Clerk