D R A F T

MINUTES OF THE SPECIAL MEETING
TOWN COUNCIL FINANCE SUBCOMMITTEE
TOWN OF CHINO VALLEY

TUESDAY, NOVEMBER 7, 2017
4:00 P.M.

The Town Council Finance Subcommittee of the Town of Chino Valley, Arizona, convened for a public meeting in the Council Chambers, located at 202 N. State Route 89, Chino Valley, Arizona.

1) CALL TO ORDER

Chair Croft called the meeting to order at 4:01 p.m.

2) ROLL CALL

Present:	Chair Darryl Croft; Corey Mendoza
Absent:	Cloyce Kelly
Staff Present:	Finance Director Joe Duffy; Town Manager Cecilia Grittman; Public Works Director/Town Engineer Frank Marbury

3) APPROVAL OF MINUTES

a) Consideration and possible action to accept the December 7, 2016 meeting minutes.

MOVED by Corey Mendoza, seconded by Chair Darryl Croft to accept the minutes from December 7, 2016.

Vote: 2 - 0 PASSED - Unanimously

4) OLD BUSINESS

5) NEW BUSINESS

a) Discussion regarding an in-house water and sewer rate study.

Mr. Duffy reported that:

- The Town's last water and sewer rate study was done in 2012 by Dan Jackson of economists.com. The study cost between $20,000 and $24,000 and resulted in a five-year rate plan. The last water rate increase from the plan was instituted in January 2017, and the Council had frozen sewer rates about two years ago.
- The Town was past due for another study, and while he believed the Town was smart to have outsourced the original study, he recommended that he prepare this study and that it be simpler than the current one. He had done five or six such studies in his career; he already had the numbers done, and just needed to put the report together.
- Both enterprise funds were breaking even on cash flow. The sewer fund was doing really well due to additional growth and it was starting to pay back the general fund. The water fund had a current positive cash flow, with no more subsidy, and it was starting to pay back the general fund. However, these revenues did not include depreciation. To set rates to cover depreciation in the sewer fund would currently require an increase in rates to generate an additional $700,000 per year. That was too big a hurdle for the community. Adding depreciation into the water rates would be about $100,000 per year. Eventually, the Town will want to add depreciation into the rate schedule to build cash reserves for equipment replacement.
- For the study, he will present: (i) the current financial picture, with operating costs and expenses, reserves, and paying back the general fund; (ii) three scenarios for sewer: reducing the rate; maintaining the same rate; and increasing the rate; (iii) options for using the positive cash, such as paying down loans or small utility extensions; and (iv) what the Town needed for the future and justification for it.

Staff and Subcommittee discussed the following topics in more detail:

<u>Rate study items:</u>

- The 2012 study recommended that the Town acquire the sewer plant; that had been accomplished.
- Staff recommended another five-year study, but Council could recommend a shorter period. The Code required one every two years. Once the Town had a capital plan, then staff could recalculate the buy-in fees.
- Rather than increasing rates to provide for capital needs, the Town might want a separate study for a possible improvement district or other options.
- Staff believed a 3% water increase would keep up with inflation, but the unknown quantity was rate of growth.
- Due to the Town's sewer rates being higher than other comparable systems in past years, Council had desired to consider reducing rates. However, many of those in the previous market comparison were slowly increasing and coming closer to the Town's. Several municipalities that had to build plants in the last 10 years had rates in the $60s. If the Town had continued raising its rates, they would be in the $70s now.

<u>Sewer plant capacity:</u> The sewer plant was at about 55% capacity and reaching 80% capacity required an expansion plan. This was dependent upon development and physically, there was room for such expansion. There were also plans for a 30-million-gallon plant near Road 5 North. The next 30% of capacity will be mostly profit.

<u>Water and sewer expansions:</u> Two small developments were requesting sewer extensions:

Road Runner trailer park and a development near Bonnie Plant. Mayor Croft and Ms. Grittman were going back to Prescott to talk about buying their water system and they had reached out to county supervisors to assist with that.

<u>Budget considerations:</u> Overages in cash flow of sewer buy-in fees from new construction will be discussed during budget time. Staff believed it would be prudent to use those funds to pay down loans.

<u>Drainage issues:</u> There was no real connection between wastewater and drainage matters with regard to this study. Drainage and stormwater studies would be separate and a utility district could be formed to address those matters.

<u>Recommendations:</u>

- Staff should present the study during a study session.
- Mr. Duffy should include in his presentation comparative rates with other entities and a comparison of Town sewer rates with and without the rate freeze.
- Council needed to review these matters as they related to the Strategic Plan, including the need to develop a long-term capital plan.
- Mr. Duffy proposed to send the draft report to Council in mid-December; present the study during the January study session; issue a notice of intent in late January; and adopt rates to be effective as of July 1, 2018.

b) Discussion regarding the Town's Public Safety Personnel Retirement System unfunded liability status and options to be funded.

Mr. Duffy explained that that the PSPRS was funded through all the individual police/public safety departments throughout the state. Each entity's portion of the cost was based on the number of retired, inactive, and current employees. A board appointed by the governor ran the system. Town employees contributed 7.65%, the amount set when the system was established, while the Town currently contributed 33.32% per employee from the general fund. He then reviewed the Town's status in the system.

<u>Review of Actuarial Statement by Gabriel Roeder Smith & Company (GRS)</u>

- This report covered the Town's funding status with the system from 2007 to 2016.
- The Town's funding, excluding the health insurance subsidy, had dropped from 90% in 2010 to 60% in 2016. The Town's health insurance portion of the retirement benefits was strong at 121% and 123%. The Town's current total unfunded amount was $3,025,000.
- A contribution of $1 million would reduce the Town's rate from 33.32% to 26.76% and save the Town 8.5% for every $100,000 toward future premiums.

<u>Other Facts</u>

- Several years back, the system increased the employee rate to 11%, which resulted in a lawsuit which judgment required employers to refund the money to the employees, while receiving a credit from PSPRS. In July 2017, the Town refunded $143,000 to its affected employees.

- The Town's rate fluctuated based on the number of employees paying into the program. For example, if a long-term employee left the Town and went to another agency, the new agency would acquire his liability, and the Town's funding would improve. Conversely, if the Town acquired a new employee with long-term service in the system, the Town would assume that employee's liability. Retiring employees from this time forward would not greatly affect the Town's liability, as new employees were on a different plan.

Council considerations

- This was an obligation that the Town had to pay now or later. Not all retirement systems were 100% funded. ASRS was considered healthy at 77%. A contribution of $1,250,000 would get the Town to that percentage. The Town was not obligated to do this, but it would be smart.
- Possible options were that the Town: (a) continue at the current rate; (b) use the $143,000 in settlement credit as this year's payment to reduce the unfunded liability, or do nothing and use that money to offset the money being sent right now; (c) contribute an extra $100,000 every year until funded at Council's preferred percentage; or (d) combine (b) and (c) to contribute an extra $250,000 to reduce the Town's rate to 31.67% for a savings of about $21,000 per year.
- The main question for Council was how aggressively they wanted to pay down the liability.
- Staff will present this matter to Council through the budget process. His recommendation would be, at a minimum, to fund the system to keep the Town's funding percentage from decreasing any more. Staff will then review the general fund contingency monies in April/May, and if the Town had no emergencies, it could contribute $200,000 to $300,000 at the end of the year.

Councilmember Mendoza was concerned about retaining a certain amount of reserve funds for economic development projects, such as the Old Home Manor Industrial Park ("Park"). Staff agreed. Mr. Duffy related that the Town could use 1% sales tax money in the capital improvement fund as seed money for the Park, and while there were no more grant funds, the Town could apply for more. Staff briefed the subcommittee on discussions from yesterday's Economic Development Subcommittee meeting relating to steps to be taken to keep momentum going on the Park project and soliciting public input on the design elements.

Subcommittee comments:

- Option (d) might be a little too aggressive in light of the discussion regarding economic development.
- It might be better to work toward funding the system at 80%-85%.
- They agreed with staff's recommendation to fund no less than the minimum required to break even.

c) Discussion regarding alternative road funding options.

Mr. Duffy reported that:

- Staff was now only using HURF funds for roads employees, materials, equipment, and fuel; and as it was no longer being used to supplement the general fund, the materials fund was increasing.
- However, as state HURF funding was not increasing back to former levels, and there was no current move for them to do so, there still was not enough money for roads.
- Two alternative sources were a property tax or sales tax increase. He preferred the property tax option because, as the Town added more homes, the amount collected every year would increase. He reviewed property tax and resulting levy amounts from rates at 0.5% through 2%.
- Such property tax would require a vote and staff would need about year to educate the public. If passed, the Town would place the levy in a restricted fund to be used only for contractors or materials. At the end of every year, the Town would issue a report to public.

Staff and Subcommittee discussed the item in more detail:

- *Bonding versus tax:* The group preferred a tax, since once the roads would be fixed with bond funding, another bond would be needed. Both bond and tax would require voter approval. The Town's 2014 bond failed because it was too complicated and a single-purpose issue might be more palatable for the citizens.
- *Ballot measure timing:* The school district was talking about another bond or tax next year. Mr. Duffy stated he would check with the school district about that.
- *Council considerations:* If Council so desired to pursue a property tax, they would need to consider possibly surveying the voters before putting it on the ballot, developing a roads plan to present to the public, the preferred tax rate, possible sunset date, and timing for an election.
- *Other possible revenue sources:* Another grocery store complex comparable to the Safeway center, which brought in roughly $1 million, as well as the industrial park, could change things. Those two developments could generate enough tax to put $500,000 toward roads.

Mr. Duffy related that this item will on the 2018 retreat agenda and Council will need to tell staff when to move forward.

6) ADJOURNMENT

MOVED by Corey Mendoza, seconded by Chair Darryl Croft to adjourn the meeting at 5:11 p.m.

Vote: 2 - 0 PASSED - Unanimously

Dated this 13th day of November, 2017.

By: *Jami C. Lewis, Town Clerk*

Approved: __________