

PRESCOTT CITY COUNCIL
COUNCIL WORKSHOP
JUNE 12, 2007
PRESCOTT, ARIZONA

A WORKSHOP OF THE PRESCOTT CITY COUNCIL WAS HELD ON TUESDAY, JUNE 12, 2007, in the Prescott Municipal Building, 201 S. Cortez Street, Prescott, Arizona.

I. CALL TO ORDER

II. ROLL CALL

Mayor Simmons opened the meeting at 2:00 P.M. and asked City Clerk Elizabeth Burke to call the roll, which was as follows:

Present:

Mayor Simmons
Councilman Bell
Councilman Blair
Councilman Lamerson
Councilman Luzius
Councilman Roecker
Councilwoman Suttles

Absent:

None

III. Report and discussion of valuation of a portion of the City of Prescott's municipal water delivery system located within the Town of Chino Valley.

Public Works Director Craig McConnell explained that in January 2007 the Prescott City Council and the Town of Chino Valley Council approved an Intergovernmental Agreement providing for the preparation of a valuation of Prescott's water delivery system located within the town limits of Chino Valley and each entity paid half of the cost of the contract. Dan Jackson, manager of economist.com would present his report today. The analysis was being done because Prescott had retail customer service within the town limits of Chino Valley following the acquisition of Chino Valley Irrigation District (CVID) customers and obligations in the purchase agreement for Watson and Willow Lakes. The Town of Chino Valley was moving toward creating their own water system and some of the CVID properties were commingled with personal residential properties. Following the assessment of the water delivery system the Town of Chino Valley might want to acquire the distribution system within the town limits.

Dan Jackson, Managing Director of economists.com explained the objective of the analysis was to find out what the water delivery system was worth and what

would be a reasonable amount to assess the Town of Chino Valley. (See Exhibit A – the PowerPoint presentation).

Mr. Jackson explained all the information needed to be able to place a value on the water system; there were current connections, lines and meters already serving customers and there were future connections for undeveloped parcels. Prescott would lose the revenue from the customers but would also save money by not owning and maintaining the system.

Mayor Simmons asked what time frame they used in their analysis and Mr. Jackson said they used 20 hard years and 21-50 soft years.

They looked at other communities who had sold utilities, both new and older systems; had done three separate analyses and all came in around \$3,000 per water connection.

Councilwoman Suttles asked if the presentation would be made to the Town Council of Chino Valley and Mr. Jackson said it would on the 28th.

They placed a value on future accounts in Chino Valley of currently undeveloped land and made the assumption the property would develop in the next 15 to 20 years.

Mr. Jackson explained the Council was seeing what the connections were worth to Prescott. Chino Valley would look at the information from a buyer's view, and Prescott was looking at it as the seller. The assumptions used for the calculations were build-out over the next 15 years, 138 accounts per year, or about 2,000 connections at build-out. Under the existing connections, the value ranged from \$2,700 and \$3,100 per connection, with an average of \$3,000 and CVID connections valued at \$587 per connection. If Prescott was to reach a deal with Chino Valley and they paid the average, it would come to a total of \$3,116,000.00. If the accounts were sold to Chino Valley the ratepayers in Prescott would be repaid in full.

Manager Steve Norwood commented the graph on Page 9 showed an average of \$2,726, but if they looked at the last three cities that had sold their utilities, the connections were increasing in value. Mr. Jackson responded the average range was \$2,500 to \$3,000 in the last two years.

Mr. Norwood pointed out on Page 13, the revenue forecast noted the City would eliminate out of City rates for Chino Valley accounts and Mr. Jackson responded during research one of the topics was the City wouldn't charge out of city rates; Mr. Norwood countered that was only an assumption.

Councilman Lamerson asked about the high number of approximately \$3,000 per connection and Mr. Jackson that they took existing connections and estimated future connections in the transaction.

Councilman Lamerson said he understand that but rolling them into one transaction was risky when some of the value might never be there and Council had to decide if it was worth taking \$3 million today and dumping the water delivery system or keep it and hope it would increase in value in the future.

Mr. Jackson affirmed it was an economic decision and also a political one; both sides would be taking a risk, whether selling or buying.

Councilman Blair asked what precluded Prescott from selling the system to an independent water company and then they could sell it to Chino Valley. Mr. Jackson replied he was not sure a private company could buy it since it was only a partial system, but if it could be done he thought that the cost per connection would be less to a private owner because they would have to add in fixed costs which would lower the value; and it would be difficult for a private company to get the water they needed.

Mr. Norwood asked where the water service area was in Chino Valley and Management Analyst Connie Tucker showed the CVID land and Chino Meadows, stating the service area was on both sides of Highway 89.

Mr. Norwood commented he would think with property along the corridor the system would have a higher value and Mr. Jackson responded the assumption was build-out would occur over the next 15 years.

Mayor Simmons added if there was no way to establish what build-out would be how they would calculate how many potential future connections there might be. Mr. Jackson said the agreement gave 1/4-acre foot of water for each acre of undeveloped land, so they knew how much water would eventually be used but didn't know when the properties would be built-out. The population forecasts showed it was reasonable to believe it would build out in 15 years. It was a risk to Prescott that the properties would build out more quickly, and was a risk to Chino Valley that they wouldn't develop as projected.

Mayor Simmons remarked the highest growth was in Chino Valley and Prescott Valley, with Prescott having the lowest amount of growth and he didn't think the consultants had taken the high growth possibility into account.

Mr. Jackson responded there were existing accounts and future accounts. Existing accounts were worth more than something that might never exist and existing accounts were worth \$3,000, future accounts were worth \$500 because they might never happen.

Councilman Blair added if Prescott set a price that was higher and Chino Valley bought the system and growth didn't happen, they would set their rates to accommodate that. Then, if the area began to grow they would recoup their costs.

Councilman Roecker asked if the infrastructure was in place for the undeveloped property and Mr. Jackson said it wasn't there but would be funded through connection fees.

Mr. McConnell interjected the Council now had a value per connection of approximately \$3,000. This information could be used to direct staff to proceed and enter into negotiations with Chino Valley for the conveyance of existing and future connections and a decision was not being made today.

Norm Freeman, CVID Board, asked the media to be careful in the articles they wrote and clarified CVID was not for sale. Prescott had an obligation to provide municipal and industrial (M&I) water to those lands. Also, it was not clear to him if the transfer occurred if it was just the lines and meters, and who would be responsible for their assured water supply. He asked if that would be transferred to Chino Valley or still be a Prescott obligation.

Mr. McConnell said the Legal Department had told them the City obligation to serve CVID was assignable through a sales agreement to the Town of Chino Valley. Wet water could be accounted for annually where Prescott transferred through their portfolio to new connections and it would be a transfer of water.

Mr. Freeman asked if it was assured water credits and Mr. McConnell said yes. Mr. Freeman concluded saying they would be looking for Chino Valley to have those assured water supply credits.

Mr. McConnell said one of the slides showed what Prescott's obligation was to CVID and in the 2005-2010 Water Management Plan there was water set aside for the CVID obligation.

IV. Adjournment

The Prescott City Council Workshop of June 12, 2007, adjourned at 3:00 p.m.

ROWLE P. SIMMONS, Mayor

ATTEST:

ELIZABETH A. BURKE, City Clerk