

**PRESCOTT CAPITAL NEEDS COMMITTEE
MEETING - PRESCOTT, ARIZONA
APRIL 2, 2008**

A MEETING OF THE PRESCOTT CAPITAL NEEDS COMMITTEE WAS HELD ON WEDNESDAY, APRIL 2, 2008, in the Arizona Room of the Hassayampa Inn, 122 East Gurley Street, Prescott, Arizona.

COMMITTEE MEMBERS PRESENT: Tammy Linn; Malcolm Barrett, Jr.; Joseph Baynes; Paddie Braden; Stephanie Bragg; James Lawrence; Robert Reuillard; Elisabeth Ruffner; Robert Weiss; Ronald Younger; Tilden Drinkard, Dave Maurer; Ken Lain (arrived at 4:20 p.m.); Eloise Esser; Steven Blair; Milbeth Mauer; Roger Swenson.

COMMITTEE MEMBERS ABSENT: Frank Cimorelli; Rowle Simmons; John Stevens; and John Danforth.

1. Call to Order.

Chairman Linn called the meeting to order at 4:00 p.m.

2. Approval of minutes for the March 26, 2008 Committee meeting.

No minutes were presented; they will be provided next week for consideration.

3. Follow-up discussion on Streets Program – Mark Nietupski.

Nietupski provided a sheet that listed the contractual obligations of the City totaling nearly \$25 million. He said that the 2015 expiration of the one-cent tax will affect the City's ability to proceed with future projects and does bear strong consideration by the committee for recommendation for extension in some form.

Maurer asked if the list of obligations was funded, or assumed to be funded. Nietupski said that as the program stands right now, in order to implement these there will need to be some short-term borrowing, but he is not sure of which mechanism to use.

Chairman Linn asked what he meant by short-term. Nietupski said that it would be no longer than the term of the one-cent tax unless it was extended. Ruffner said that is because it is guaranteed with the income of the sales tax.

Discussion was held on the percentage of annual increase in sales tax revenues. Woodfill said that it is budgeted at a 3% increase, which it has

averaged, but this year they are currently at a negative 3.5%. He said that with the competition base by Prescott Valley for retail growth in the next five years, he does not think they will see double digit numbers again.

4. Discussion of Water and Waste Water Capital Needs – Jim Ciaffoni.

Utilities Director Jim Ciaffoni said that he has been with the City about 10-11 months and has become fairly familiar with the City's system, although he may have to defer some questions to other staff.

Ciaffoni said that the first three slides include some concepts; the next ten slides are devoted to water needs and the next ten slides to sewer needs.

At the request of Chairman Linn, Ciaffoni stated that he is a registered civil engineer with a Masters Degree in Public Administration from USC.

Ciaffoni said that he has presented two spreadsheets, the CIP for water for ten years and the CIP for sewer for ten years. He said that he also had larger spreadsheets at the front of the room that included even more information. He said that for every project that they plan to do, they allocate a portion of the cost to growth, and the remainder to existing rate payers. He said that breakdown is only included on the larger spreadsheet.

Ciaffoni said that up until now the committee has been looking at five-year capital plans for the other departments, but they are now talking a ten-year program, which also means twice as much money. They look at a ten-year period because of the nature of their improvements having a much longer life span. He said that the lifespan of some pipe is 60 years.

Ciaffoni said that the first slide shows the distinction between the CIP seen so far where the funding has come from the General Fund, and their programs that are run under an enterprise concept, meaning that the complete costs of the CIP are intended to be covered by rates and fees. The law empowers a utility to recover their costs entirely, and that is the most sensible way, although there are some municipalities that do subsidize their utilities through the General Fund. On the flip side he said, the law also prohibits the utility from charging more than it actually costs.

Ciaffoni said that the threshold for water production is mandated by the Arizona Department of Environmental Quality (ADEQ) and Environmental Protection Agency (EPA), and they also have a threshold of acceptability for such things as odor.

He said that the old model in town was to have a lot of 4" lines in the residential areas, and there are actually some 2" lines, with 4" and 6" in

the periphery; by the square it would be much larger pipes. He said the 4" and 6" model today is a 6" and 8" – in order to meet the fire flow requirements.

He then briefly reviewed the relevant Council Goals. Chairman Linn asked what the time frame was for the Council goals. Mayor Wilson responded that the Council gets together each year in January with department heads, and set goals which vary in time frame, dependent on the specific goal.

Ciaffoni gave a Brief Background on various programs, noting that the Programs Initiated by 2005-2007 Master Plans included computer modeling by Carollo Engineers. He said that the assumption of the modeling was that everything (pipes, valves, etc.) is in the same condition. Ruffner asked why they did that. Ciaffoni said that to modify that would have required an inventory to assign a condition, although in hindsight it would have been helpful, but he added that the model is only speaking to performance.

McConnell said that when the City embarked upon the water model it had two choices; 1) populate the computer data base with existing condition information and that would cost \$1 million and take five years; or 2) do the model based on equal condition. They chose to do the latter because they needed to get into business. He said that it is a calibrated model meaning that actual pressures were obtained. It does reflect existing conditions and gives them the basis for making capital decisions now rather than waiting five years.

Ciaffoni then reviewed Programs Modified by Operations Division, stating that these would include nonspecific items like replacement of hydrants and manholes. Ideally they would have a companion program similar to streets so they don't have to dig up the road two years later. He said that with the one-cent sales tax fund as it is, the procedure is flip-flopping a little. If the one-cent fund can piggyback on their effort, then they are doing that.

In reference to Programs Modified by Rate & Fee Study, Ciaffoni said that the initial rate and fee projects were unreasonably high. Yesterday at the meeting it seemed that they were in the ballpark with proposed numbers.

Younger asked if it covered a whole ten-year period of anticipated growth. Ciaffoni replied that it did, at a 2.5% rate.

Mauer asked if with the programs delineated there were any implications if they added that many more things to what the model told them they

needed to be done. Ciaffoni said that they are saying that those categories should have been smaller.

Mauer asked if there wouldn't be some duplication if they added to what the model was saying was needed. Ciaffoni said that there could be, but everything derived from the model was based on performance. He said that the model does not always know what is needed.

Mauer asked if all of the planning is what is required to satisfy the mandates. Ciaffoni said that the projects that would be intended to address the actual mandates are not broken out separately, but it is not a large percentage of the \$350 million. There are other projects, such as the annexation agreements, to provide infrastructure, e.g. Granite Dells and Storm Ranch.

Chairman Linn noted that this presentation is for the committee's information only. It is not part of the capital improvement plan, but they want them to understand that this all works together. Anything the committee does will not include these costs, but they need to keep in mind that impact fees and/or rates may increase.

Blair said that they need to be careful of what they call new growth and existing needs. They are talking about existing areas where new water lines are needed to meet fire code. He said that they cannot tie that in with new growth just because there is an empty lot or two within the area, and they have areas all over the town that are undersized.

Ciaffoni then gave a brief Overview of the Water System, noting that the 56 square mile planning area does not include the Cavan property, or the property west of the airport.

Ten-Year Water System CIP Ciaffoni then reviewed the Ten-Year Water System CIP chart. Blair asked Ciaffoni to explain the rationale between the 20% existing / 80% new growth, when such things as the Big Chino Water Ranch has to do with safe yield. Mayor Wilson said that he believed Blair was on the Council when that decision was made. Blair said that he did not believe that Council made that decision.

Norwood said that the Council did make the decision, and it was not arbitrary, but pretty close. He said that the Big Chino Water Ranch is not just for new growth. The existing ratepayers need to be responsible for some of it going to safe yield, but the determination was not a real quantitative percentage.

Vice Chairman Weiss asked if the \$79.6 million for the Big Chino Water Ranch included the acquisition. Holt replied that it did not; that has already

been paid. McConnell added that the figure is only Prescott's responsibility of the overall costs.

Ciaffoni said that the next several slides present an example project for each of the CIP categories.

With regard to the Storage Tanks example, Ciaffoni noted that several things are considered when the engineers decide how big to make the tanks: 1) during the course of a day, the level fluctuates and that volume is considered; 2) a domestic emergency storage to last a reasonable amount of time; and 3) the biggest consideration is for required fire flow storage. In residential areas the modern standards of the Fire Code require them to get 1000 gpm for two hours.

Lain asked if they were proposing to replace the existing 100,000 gallon tank with a 500,000 gallon tank. Ciaffoni said that was correct. Blair asked if they take the one down or if there is a way to retrofit it. Ciaffoni said that they could possibly do that; they usually do a feasibility analysis to determine the best route to take. Blair asked if they could set one up for fire flow and the other for residential use. Ciaffoni said that they are all multipurpose tanks.

Swenson asked, of the 30 tanks spread over the area, how much of the system was looped. Dotseth said that the system is interconnected from one end to another; however, they have 79 different zones, which mean 79 different pressures. All projects are looked at to be able to maintain water service during them.

Swenson asked if the tank serves a given zone or zones, so the capacity might allow a larger tank at this location because that would support portions of other zones. Dotseth said that was correct.

Mayor Wilson added that one of the outputs of the water model was to look at how to simplify the system in the future.

Wells and Pump Stations Ciaffoni said that the Mingus North Pump Station is in the CIP for 2015-2016 and is an example of a project where the model did not take into account the condition.

Reuillard asked if the pumps run on electric power and, if so, if they have backup diesel in the case of a fire. Ciaffoni said that they have several portable emergency generators and some of the wells have their own backup.

Reuillard asked if the City was covered at 100%. Dotseth said that they would go to specific locations and move the water there; the time frame

would depend on the individual situation. Barrett added that the gravity flow would help.

Streets-Related Projects Blair asked how old the existing lines were. Dotseth said that he did not know specifically. Blair asked if the City notifies the businesses that they need to have backflow prevent mechanisms when they are doing the water line exposures and replacements. Dotseth replied that was part of the project.

Ten-Year Water System CIP – Annual Expenditures Ciaffoni said that there are two large spikes near the beginning because of the existing deficiencies.

Ciaffoni then briefly reviewed the slides of the Wastewater System. He then referred to the last slide, stating that the top two thirds of the slide were taken out of the presentation given yesterday regarding impact fees.

Swenson asked if any of the sewer system was connected to storm drains. Dotseth replied that it was not. Swenson asked how big of a problem infiltration has been. Dotseth said that it does create challenges, but it is part of the CIP to reduce Inflow & Infiltration (I&I).

Mauer said that she was puzzled by the different percentages on impact fees and asked what was used to reach the numbers. Ciaffoni said that the large spreadsheet includes a separate column that shows the breakdown between existing and new growth deficiencies.

McConnell said that they could spend six months with a room full of attorneys and rate specialists discussing that issue, but there is a legal framework that has to be observed. He said the thing to remember is that there has to be a direct relationship.

Blair said that an example would be in Zone 39 with the tank on the hill. They would not want to unreasonably charge the cost of that project to new growth just because it is helping with infill. McConnell said that is where some judgment comes in. He said that ultimately it is determined by legal action taken in court, but it is so complex and is beyond the scope of today's meeting. He said that the policy of the City is that growth pays for growth.

Blair said that when they start talking about the line on Senator Highway being needed for growth, that has not happened. Some of those lines are inadequate as they speak today. McConnell said that if they have 2000 customers and 200 vacant lots, it won't be funded 80% at impact fees.

Bragg asked how much they were going to be asking for increases, and how often they would ask for increases. Ciaffoni said that was one of the variables given to the Council for consideration.

McConnell said that it is a matter of policy on how they do rate planning. What has been discussed is that the one thing the City should be doing is not having spikes. They should design it so it is uniform and constant so people can plan on it. Staff's recommendation will probably be to look at fees every two years, along with water. He said that it needs to be manageable.

Blair said that it is a policy question, but if there is a ten-year plan and there is a spike between now and 2012, and there is a \$30 difference between today and 2012, he would rather look at year 2012, and possibly reduce their rates on the five-year side.

Chairman Linn said that staff did a great job; very valuable information.

Brief discussion was held on next week's agenda. Ruffner said that she would like costs broken down by how they would be paid. Chairman Linn noted that next week would be a recap of everything they have heard to date. The following week would be parks and recreation, followed by miscellaneous items such as Elks Opera House, new transfer station, rodeo grounds, airport.

5. Adjournment.

The Prescott Capital Needs Committee meeting of April 2, 2008 adjourned at 5:24 p.m.

TAMMY LINN, Chairman

ELISABETH RUFFNER, Secretary