COUNCIL WATER ISSUES
COMMITTEE
REGULAR MEETING
TUESDAY, JUNE 14, 2016
PRESCOTT, ARIZONA

MINUTES OF THE REGULAR MEETING OF THE COUNCIL WATER ISSUES COMMITTEE HELD ON JUNE 14, 2016, in the LOWER LEVEL CONFERENCE ROOM, located at CITY HALL, 201 SOUTH CORTEZ STREET, Prescott, Arizona.

A. Call to Order.

Chairman Lamerson called the meeting to order at 9:30 a.m.

B. Roll Call.

COUNCIL WATER ISSUES COMMITTEE MEMBERS:

Present:
Chairman Jim Lamerson
Member Steve Blair
Member Steve Sischka (Absent and Excused)

Staff Present:
Leslie Graser, Water Resources Manager
Clyde Halstead, Assistant City Attorney (arrived at 10:12 a.m.)
Rhonda K. Basore, Deputy City Clerk
Craig Dotseth, Utilities Manager

C. Approval of minutes of the May 10, 2016, Water Issues Committee meeting

MEMBER BLAIR MOVED TO APPROVE THE MINUTES AS WRITTEN; SECONDED BY CHAIR LAMERSON; PASSED 2-0.

D. Alternative Water Portfolio Update

Leslie Graser, Water Resources Manager, presented. She reviewed balances in alternative water categories as of June 8, 2016. She said the alternative water General Pool balance (after set asides are deducted) that is available is 324 AF. She said this report was an update and no action was required.

E. Water Service Agreement Applications

1. WSA 16-005 F.L. Brown Enterprises, LLC

Leslie Graser, Water Resources Manager, presented. She said the project is for thirteen (13) multi-family units; with the water requirement of 3.25 AF. She reviwed the process for approval.

Member Blair asked how long before the applicant would confirm construction and reserve the allocations.

Ms. Graser said within the policy are performance criteria. If the applicant applies and the project is approved, the applicant has one year to pull permits.

Member Blair wanted to ensure the applicant knew of the performance criteria. Ms. Graser said the applicant knows.

Member Blair asked if the zoning was multi-family. Ms. Graser confirmed the zoning was multi-family.

Chair Lamerson clarified the Water Issues Committee recommended to the City Council body as a whole and the City Council either adopts their recommendation or rejects their recommendation. Ms. Graser said she understood the language needed to be changed.

Ms. Graser continued with the presentation. She said staff is watching the numbers closely because the "Alternative Water Allocation Policy for Calendar Year 2016" states after Exhibit A projects, no one project can use more than 50% of the remaining quantity.

Chair Lamerson said the General Plan includes language that projects consisting of work-force/multi-family/apartments/duplex housing/affordable housing were a necessity. He said it is up to the City to ensure there is water available for these types of projects.

Ms. Graser said 2.75 AF was being recognized for this project, pending the outcome of the Planning and Zoning reviews.

IT WAS THE CONSENSUS OF THE SUB-COMMITTEE TO FORWARD THIS ITEM TO THE CITY COUNCIL

2. WSA 16-006 Moeller Properties

Leslie Graser, Water Resources Manager, presented. She said the water service agreement application was filed for two (2) manufactured homes. The water requirement for this use is 0.5 AF. The total requirement of 0.5 AF would be met by a combination of 0.35 AF of groundwater and 0.15 AF of alternative water. The "Alternative Water Allocation Policy for Calendar Year 2016", identifieed a supply for possible allocation to new projects not listed in

Exhibit A. She said residential requests of less than 4 dwelling units may be approved administratively; 4 or more units required Council approval. The report today was information and discussion only. This request is anticipated to be approved administratively.

Chair Lamerson said the project meets all requirements set forth and supported moving the request forward.

IT WAS THE CONSENSUS OF THE SUB-COMMITTEE TO FORWARD THIS ITEM TO THE CITY COUNCIL

3. WSA 16-007 Deep Well Ranches Estates

Leslie Graser, Water Resources Manager, presented. She said the water service agreement was filed for two hundred and fifty-five unit subdivision. The water requirement for 255 units is 89.25 AF. She said this project is subject to available volume and requirements defined in the Workforce/Apt/MF/Duplex column. She said Deep Well Ranch Estates had applied for the allocation prior to the temporary suspension. The project requires 89.25 AF, which is not available in the current water budget. She reviewed possible options:

- 29AF from Workforce and 60.25 AF from Contract 2010-086
- 20 AF from Workforce and 69.25 AF from Contract 2010-086
- <20 AF from Workforce and remaining volume from Contract 2010-086
- 0 AF from Workforce and 89.25 AF from Contract 2010-086

Member Blair asked how the sub-committee can make a determination without knowing the outcome of the Planning and Zoning reviews.

Ms. Graser said a general recommendation could be "if water is not readily available, use water allotments in the reservation account."

Chair Lamerson said there is water available in the reservation account. He said the City needs to be conservative, but be aware water has been set aside for projects (that meet all the criteria) to move forward.

Member Blair understood City Contract No. 2010-086 is a contractual agreement for reservation volume of 1,850 AF/yr (3 increments) for Deep Well Ranch with the understanding Deep Well Ranch would provide workforce housing. He said if Deep Well Ranch were to use a different pool of water would they still be obligated to provide workforce housing. Ms. Graser said no.

Member Blair supported options 1 and 2 to leave water in the portfolio for other projects. Ms. Graser said Deep Well Ranch is a lead project for work force housing development.

Member Blair suggested a policy across the board that everyone adheres too, which stated not one project can use more than ½ of the water supply available.

Chair Lamerson read the recommendation as discussion, with action at a future Committee meeting. He did not feel this needed to come back to the Sub-committee. He supported moving this forward to the City Council.

Ms. Graser said she would have discussions with Deep Well Ranch about 20 to 25 AF from Workforce allocations.

Member Blair understood Deep Well Ranch, by using alternative sources of water would be able to consider different types of development. He was appreciative of the flexibility being put forth.

IT WAS THE CONSENSUS OF THE SUB-COMMITTEE TO FORWARD THIS ITEM TO THE CITY COUNCIL

4. WSA 16-008 Prescott Lake Villas

Leslie Graser, Water Resources Manager, presented. She said the project consists of 210-unit apartment complex and the water requirement is 52.5 AF.

Member Blair asked if the State of Arizona Water Resources Agency looked at the association between a residential well and commercial well. For example, the well on this property was probably a heavily used commercial well. Does the State, in retiring a well, look at the wells being equal. Ms. Graser said there are numerous laws, but for this situation it was what the well was used for in 1998. She said in 1998 the land was determined residential. She read "if any residential groundwater users, including residential groundwater uses served by any exempt well, in existence on August 21, 1998, have been replaced by permanent water service from the applicant after August 21, 1998, multiply one-half acre-foot of groundwater by the number of housing units receiving the service and then multiply that product by 100". She said in this situation the well has a specific path as to what the city can do regarding the groundwater.

Member Blair said moving forward a higher value should be placed on retired high productive wells. Ms. Graser so noted.

Ms. Graser continued with the presentation. She said the property owner is requesting an allocation of 40 AF of alternative water to serve 210-unit apartment complex; however, the Policy states, "no one project can use more than 50% of the remaining volume." At this time, the remaining volume is 23.5 AF. The applicant has been made aware of this condition. She said possible allocations:

- 12.5 AF from credited groundwater and 40 AF from pledged Irrigation Grandfather Rights (IGFR)
- 12.5 AF from credited groundwater, 29 AF from alternative water category for workforce/apts, and 11.0 AF from pledged IGFR
- 12.5 AF from credited groundwater, <29 AF from workforce/apts, and remaining volume from pledged IGFR

Member Blair said this item needs to come back to the sub-committee. He says there are too many unknowns. Ms. Graser said understood further discussion needed to be held with the applicant. She said one question that needs to be answered: Does it make sense to submit plans for 210 units now or submit phases as water becomes available. She said the applicant is working with the Community Development Department and is scheduled to go to Planning Commission on June 30.

Chair Lamerson agreed there are too many unknowns and the item needs to come back to the sub-committee. Ms. Graser said the water supply is there. She said the decision is up to the applicant. Staff would like to continue working with the applicant. She said 20 to 25 AF is being allocated to Deep Well Ranch estates project, which leaves 20 AF left for this project. She said only 10 AF can be allocated and 32 AF could be made available by the project representatives from irrigation grandfather rights.

Chair Lamerson understood there limited allocations left for this year from the workforce/apt/MF/duplex category. Ms. Graser said that is correct. She said Water Resource Managementinforms applicants at initial inquiry or submittal as certain the water allocation categories are nearing zero. Chair Lamerson said don't push applicants away. He asked if a list could be created and when water becomes available first in line has the option of submitting at that time. Ms. Graser said the water policy defines by numbers exactly when the water allocation will be at zero. If there is no water available at time of submittal, she tells applicants they can apply for water the following year or use irrigation grandfather rights. If an applicant wishes to move forward with irrigation grandfather rights they must submit a certificate of water. She said staff would like to continue discussions with this applicant.

Leslie Hoy asked if Deep Well is allowed to take the allocations from other sources than work force housing, then wouldn't the allocations in work force housing be available for this project.

Chair Lamerson said staff is still having discussions with Deep Well and at this time where the water allocations were coming from is not finalized. He said Deep Well is a valuable project, but if the water is not there, it is not there.

Member Blair said as of January 1, 2017, there will be another bucket of water. He said during conversations discuss what is available this year and is available next year. Ms. Graser said ultimately it is up to the property owner. Staff can provide options. She said staff will continue to work with the applicant and bring this back in the future.

IT WAS THE CONSENSUS OF THE SUB-COMMITTEE TO BRING THIS ITEM BACK AT A FUTURE SUB-COMMITTEE MEETING

F. Upper Verde River Watershed Protection Coalition Dues

Leslie Graser, Water Resources Manager, presented. She said this year's dues remain at $52,000.00. The FY16 dues from the City contribute to the Coalition's ongoing efforts that

focus on Watershed Management. She said the Coalition balances the reasonable water needs of the residents of the Upper Verde River Watershed Area with protection of the base flows of the Upper Verde River to the maximum extent while seeking to achieve safe-yield within the Prescott Active Management Area. She said more information on the coalition can be found at yavapaiwatersmart.org.

Chair Lamerson asked Member Blair and staff if the Coalition provides a value to the citizens of Prescott.

Member Blair and staff said yes.

Leslie Hoy said the posting of the coalition meetings have not been happening in a timely manner. She asked the sub-committee to ensure postings would happen according to the open meeting law. NOTE: post Committee meeting it was verified that all Coalition meetings have been posted in accordance with open meeting laws. Ms. Hoay is concerned about the posting on the Coalition website.

Member Blair understood the consultant that was handling the coordination and scheduling of the meetings is no longer handling. Ms. Graser said that is correct. She said the meeting for June 1 posting (to the website) did not happen in a timely manner. The meeting for June 1 was cancelled and rescheduled for June 8. She said information was to be posted on the web and John Munderloh asked the Yapapai Prescott Indian Tribe representative to post the change at the meeting location.

Chair Lamerson said the concerns are duly noted.

IT WAS THE CONSENSUS OF THE SUB-COMMITTEE TO FORWARD THIS ITEM TO THE CITY COUNCIL

G. EZ Street Water Station

Leslie Graser, Water Resources Manager, presented. She said staff was directed to continue to gather and assess information for consideration of a rate adjustment for better consistency with other water rates and water management policy of the City.

Member Blair asked why hookups to construction/hydrant versus bulk water dispensing station costs were different. He asked why the costs were not mirrored the same. Ms. Graser said she would need to review the rate study.

Ms. Graser said Prescott City Code 2-1-18 has a step up plan which sets the rates through 2017. She reviewed the options:

A) Continue to charge rates set by PCC 2-1-18(B)(3) and address in the next rate study (2017); or
B) Initiate process for new rate

a. Preapre in-house report supporting new rate to be specified by PCC 2-1-8(B)(3), Bulk Water Dispensing Station
b. Council resolution stating intent to increase the rate, and setting the public hearing date
c. Advertise in the newspaper at least 20 days prior to the public hearing
d. Hold public hearing
e. Council action on increasing rate, to become effective 30 days after the vote.

Chair Lamerson said his concern is charging residents more to use water than a stranger. He had no problem setting the rate at EZ Station to mirror what the City charges residents. Member Blair agreed. Ms. Graser said staff understands the direction. Chair Lamerson said at some time he would like to see the rates mirrored as to what the rate payers are paying.

Member Blair asked Legal if the City could charge more than what was stated in the rate study. Clyde Halstead, Assistant City Attorney, said there has to be a finding to support the charges. He said State statue does not define support, so a rate study done in-house could be provided.

Ms. Graser said there is a standard of procedures written by Public Works that was adopted June 2015. She said the policy states if someone lived outside city limits the City cannot provide water. Also if the property has a meter, a construction hydrant would not be provided.

Member Blair said information needed to be provided to the preparers of the rate study so it is understood rate payers/citizens should not be charged differently. He said there needs to be a happy medium. Ms. Graser said there is no disagreement. The question is whether to change the rate (at EZ Street) now or wait.

Chair Lamerson said as the demand increases, how long before folks figure out they can purchase water cheaper at EZ station. He said the water is being subsidized by the rate payers of Prescott. Ms. Graser said there is no disagreement. She said people have different preferences.

Member Blair asked if staff was recommending the sub-committee recommend to the City Council to follow the code and prepare the rate study in 2017. Ms. Graser said information was being provided at the sub-committee's request. Ms. Graser showed a chart that showed most consumers are in Tier 1 or 2 and a water rate comparison chart between residents and EZ Station users and water rate comparison if EZ Station rates are increased. The chart showed EZ Station rates would need to be at least $7 to $10 per 1,000 gallons to be comparable to metered customers.

Howard Mechanic said the rates should be doubled, because the City does not get re-charges. He supported doing the study in 2017 as originally planned. He said the consultant needed to be given the correct input so the study reflected the correct information.

Chair Lamerson said at what point does providing water become critical. He wanted to at least charge equally across the board. He said when people buy water at the station, it is a one-time charge.

Member Blair said why wouldn't people buy water at EZ Station if it costs less than using water at their property.

Chair Lamerson asked at what point does the City stop providing water.

Ms. Graser said the thought process is not done. Options being considered are to raise rates or shut down EZ Station.

Chair Lamerson said what would be the responsibility of the City if EZ Station is shut down.

Clyde Halstead, Assistant City Attorney, said the city had no obligation to provide this service.

Chair Lamerson supported moving this forward to the City Council with a recommendation that rates mirror the ratepayers.

Mr. Halstead said staff needed direction on to implement the rate increase now or after the 2017 rate study.

Chair Lamerson said implement the rate increase now.

Member Blair said this issue has been brought up before. He wanted to address this now. He supported raising the rates now and ensure the consultant has all the information to justify a rate increase.

Ms. Graser recapped her workload. She said things will need to be adjusted in order to initiate the rate study process. She said there are steps in the code that increase the rates through 2017. In 2017 a rate study was going to be performed.

Member Blair wanted a rate study done sooner rather than later.

Craig Dotseth, Utilities Manager, said in July water and wastewater model updates will be arriving. He said those models will be the rate and fee update that is programmed to go into effect in FY 2018. He said staff would have the opportunity to start the rate fee early during FY 2017 if that would be the desire of the City Council. He said if staff were to start tomorrow researching and preparing a fee study, there would only be a six month window before the rate and fee update could be implemented. If staff starts on a fee study tomorrow it would be a duplicate of effort. He said it makes sense to go with Option A (continue to follow the code rates) and allow the full rate study to happen in 2017.

Member Blair said he did not want to overburden staff, but he wanted this to move forward.

Chair Lamerson asked why the numbers just couldn't be changed. Mr. Halstead said there is a legal process that must be performed to increase rates. Chair Lamerson said the numbers should all be the same. He said why should the ratepayers of Prescott pay $4.85 for water, when someone that goes to EZ Station only pays $2.50. Mr. Halstead reiterated there is a legal process that needs to be followed to increase rates.

Member Blair asked how long the process would take. Mr. Halstead said approximately two months.

Chair Lamerson said rate payers in Prescott should not have to pay more. He did not understand why this had to be so difficult.

IT WAS THE CONSENSUS OF THE SUB-COMMITTEE TO FORWARD THIS ITEM TO THE CITY COUNCIL WITH RECOMMENDATION TO CONSIDER WHETHER RATE INCREASE IN CODE SHOULD BE IMPLEMENTED NOW AND RATE STUDY PERFORMED IN 2017 OR OTHER OPTIONS

H. Adjournment

There being no further business to be discussed, the Council Water Issues Committee adjourned the Public Meeting of June 14, 2016, at 11:26 a.m.

JIM LAMERSON, Chairman

ATTEST:

DANA R. DELONG, City Clerk