

**THE REGULAR MEETING  
OF THE MAYOR AND CITY COUNCIL OF BENSON, ARIZONA  
HELD MAY 28, 2019 AT 7:00 P.M.  
AT THE BENSON COMMUNITY CENTER, 705 W. UNION STREET, BENSON, ARIZONA**

**CALL TO ORDER:**

Mayor King called the meeting to order at 6:59 p.m. with the Pledge of Allegiance.

**ROLL CALL:**

Present were: Mayor Toney D. King, Sr., Vice Mayor Joe Konrad, Councilmembers Pat Boyle, Nick Maldonado, and Barbara Nunn. Absent were: Councilmember Lupe Diaz and Larry Dempster who were excused by the Mayor.

**EMPLOYEE RECOGNITION:** None

**PROCLAMATION:** Mayor King read a proclamation declaring August as “Drowning Awareness Month.”

**PUBLIC HEARING:** The Mayor and Council will receive comments and questions from the public regarding the proposed water and wastewater rates modifications as set forth in the public document entitled, the “City of Benson, Arizona 2019 Water and Sewer Financial Planning Study,” dated April of 2019.

Mayor King opened the public hearing on the proposed water and wastewater rates at 7:03 p.m. Mayor King stated no one had signed up to speak; then asked if anyone present wished to speak. After no responses were received, Mayor King closed the public hearing at 7:03 p.m.

**CITY MANAGER REPORT:**

Acting City Manager Brad Hamilton addressed Council, giving the dates of upcoming meetings and events.

Monday, June 10, 2019 – City Council Regular Meeting, 7:00 p.m., Community Center

June – City Pool

Friday, June 7 – Dive in Movie “Aquaman” rated PG-13.

Gates open: 7:30 p.m. Movie Starts: 8:00 p.m.

Capacity: 100

Saturday, June 8 – Movie in the Park, “Hotel Transylvania 3”, rated PG, will be showing in Lions Park at dusk (7:00 p.m.), arrive at 6:30 p.m. for free popcorn and sodas while supplies last.

Information on these events, swim lessons, active adult swim hours and the pool activity schedule is available at [www.cityofbenso.com](http://www.cityofbenso.com)

**NEW BUSINESS:**

1. **Discussion and possible action on the Consent Agenda**

1a. Resolution 15-2019 of the Mayor and Council of the City of Benson, Arizona, Authorizing the City Manager and/or the Fire Chief to apply for a grant from the Tohono O’odham Nation to purchase new fire equipment.

1b. Invoices processed for the period from May 2, 2019 through May 15, 2019.

No Council discussion.

Vice Mayor Konrad moved to approve the Consent Agenda. Seconded by Councilmember Maldonado. Motion passed 5-0.

2. **Discussion and possible action regarding Resolution 16-2019 of the Mayor and Council of the City of Benson, Arizona adopting New Water and Wastewater Rates**

Finance Director Seth Judd stated the City's principal source of revenue for water and wastewater utility operations and maintenance is derived from monthly user fees charged for services provided. Mr. Judd then stated the current water and wastewater utility rates, fees and other charges were adopted by Mayor and Council in February of 2017 and went into effect July of 2017. Mr. Judd then stated those rates were put into place to bring the water and wastewater utilities budgets closer to balancing, adding that rate study was completed by Staff and adopted by Council with the understanding there would need to be another professional rate study done later. Mr. Judd then stated as mentioned in previous Council meetings, the water and wastewater utilities have been borrowing from other funds to balance their budgets at the end of the year and they currently owe money to other funds, adding the current rate study does not provide for repayment of that money, nor does it take into consideration debt service from past utility projects, and it does not allow the funds to build a reserve to pay for capital expenditures that may arise.

Mr. Judd then stated that at the January 7, 2019 Council Meeting, Mayor and Council approved a contract with Willdan Financial Services to perform a rate study for our water and wastewater utilities so Council could consider implementing the results of the rate study, adding a Notice of Intent was adopted by Resolution 6-2019 at the March 11, 2019 Council Meeting with a Public Hearing set for May 28, 2019.

Mr. Judd then stated Council has three options regarding this Resolution. They are:

Option A: Move to deny the Resolution and keep the current rate study.

Option B: Move to approve Resolution 16-2019 and incorporate rates from Exhibit A.

Option C: Move to approve Resolution 16-2019 and incorporate rates from Exhibit B.

Mr. Judd stated Kevin Burnett was present from Willdan Financial Services to provide additional information on the rate study and answer any questions from the Council. Mr. Burnett addressed Council stating he was the Project Manager and Lead Analyst for this study, adding he wore multiple hats on this project. Mr. Burnett then stated he wanted to provide Council an overview of the process and where the City is today in terms of the study itself, adding as Mr. Judd mentioned, he has a couple of different financial plan scenarios for the Council to consider for both water and wastewater and he will walk through each of them with Council. Mr. Burnett explained the purpose of a financial plan is to identify if existing water and sewer rates are sufficient to cover the operating expenses, and to the extent they are not, an increase may be recommended in order to cover ongoing expenses, including operations and maintenance expenses and the capital needs of the system. Mr. Burnett stated the targeted reserve for this study was 3 months, adding in a perfect world revenues would all come in before any expenses had to be paid; however, that is not always the case and an available fund balance is needed to pay any expenses in a timely fashion and the City must meet legal obligations associated with outstanding debt. Mr. Burnett shared that two of the proposed plans would have the City issuing debt to fund capital programs and he wanted to ensure the City has adequate funds available to pay debts every year. Mr. Burnett stated 3 months of operations and maintenance expenses for the reserve was targeted, which is standard for the industry, adding the as Mr. Judd reported the water and wastewater funds have borrowing from other funds with the water fund owing the solid waste fund and the sewer fund owing both the solid waste and gas funds, so part of the plan is to make sure the water and wastewater funds pay back those obligations in addition to ongoing O&M (operations and maintenance) and capital needs. Mr. Burnett then spoke about the City's unique situation with growth, stating there may be a couple of years with no anticipated growth, then in 2022 there is the possibility of growth skyrocketing in double digits, with 10, 20 and 30 percent growth a year, to the point where the City may double households in the next coming years. Mr. Burnett stated with these possibilities, he closely worked with Mr. Judd, Public Works Director Brad Hamilton and City Manager Vicki Vivian to address growth, capital needs

and O&M expenses, and in reviewing the financial plans, they discussed rate scenarios back and forth to make certain a plan is in place that makes sense. Mr. Burnett then stated now is the last phase of the rate study, adding as Mr. Judd mentioned, the City issued a notice of intent March and is now at the point of conducting the public hearing and potentially adopting rates. Mr. Burnett then stated the financial plans for both water and wastewater include different options for Council to consider; Option A which entails cash funding of the capital projects and Option B which entails debt funding of the capital projects. Mr. Burnett stated debt funding is an option and because the City does not anticipate growth over the next couple of years, borrowing capital costs to cover those years may be an option, adding when the new growth begins, the City could pay the debt service back.

Mr. Burnett then stated he would address the water financial plan first, adding due to state-mandated requirements on utility rates, any rate changes could not go into effect this fiscal year, noting the study targeted Fiscal Year 2019/2020 for possible rate increases. Mr. Burnett then stated if the City were to cash fund water capital needs, there would be a 15 percent increase in the first year, followed by a 10 percent increase the second year, a 10 percent increase the third year and then inflationary increases of 3 percent after that. Mr. Burnett then stated these numbers are based on the best information available today, adding and it could be very different two years from now, or even six months from now if development happens faster than expected, then noted if the anticipated growth does not occur, there would be the potential need for higher rate increases than presented. Mr. Burnett stated with the debt option, if the City were to issue debt for the capital needs in 2020 and 2021, there would be a 10 percent increase in the first year, followed by a 6 percent increase, as opposed to having to cash fund both those capital needs.

Mr. Burnett then stated additional revenue is needed because operational costs are going up and growth is very static, meaning there hasn't been an increase in revenue from growth, yet operations and maintenance expenses are going up every year eating into the amount of revenue the City is generating. Mr. Burnett then stated Mr. Hamilton identified several repair and replacement needs of the system and as mentioned, the utility funds have been borrowing money from other funds, then reiterated that not only is there no fund balance meeting targeted reserve levels, but there is no positive fund balance at this point, period, because again, the fund has been borrowing from the solid waste fund. Mr. Burnett then stated in looking at the chart, if Council does not raise rates, there will be a negative cash reserve for 2018 and 2019 and the picture gets worse going forward because the City is not generating additional revenue, yet expenses are continuing to increase and there are capital needs to be addressed. Mr. Burnett then stated in the cash funding scenario, Council can see the beginning reserves and the increase in both revenue and cash reserves based on growth and rate increases, adding with these proposed increases in place and the compounding effect of growth, the revenue will really take off from \$812,000 today to a little over \$2,000,000 in FY 2023-2024. Mr. Burnett then stated if the projected growth does occur, it could result in excess reserves which could in turn mean a delay in rate increases shown in the study or even a decrease in rates later on. Mr. Burnett then added that he does not recommend raising rates and then lowering them later; rather he would recommend holding rates static as opposed to decreasing rates and then increasing them again in the future. Mr. Burnett then stated the debt option, which is similar with increasing revenues, the cash balance in 5 years is lower than the cash option because the Council would not be increasing rates as much in the beginning. Mr. Burnett stated this option provides a better match between people coming in and the debt services associated with paying for the capital needs. Mr. Burnett then stated he could continue and address the wastewater utility or he could address Council questions on the water utility before continuing.

Vice Mayor Konrad asked if Mr. Burnett could lay out in simplistic terms, the effect this would have on a family of five for Option A versus the other options. Mr. Judd stated he had distributed information he created using a random utility bill and implementing each of the rate increase scenarios with the proposed increases for the first 2 years of each option, adding on the chart Option A is the rate increase currently in place, Option B is the debt funded plan and Option C is the cash funded plan. Mayor King stated it appeared the second year of the chart shows Option A increasing by \$11, Option B by \$9 and Option C by \$16. Mr. Judd stated Mayor King was correct, adding those examples include water, wastewater and gas increases. Vice Mayor Konrad confirmed that the examples included all utilities with Mr. Judd indicating they did. Vice Mayor Konrad stated he would like it clarified that on the examples Mr. Judd gave the Council, Option A is the currently scheduled increases and Option B and Option C are actually Exhibits A and Exhibit B the Council is considering.

Mr. Burnett then spoke about the wastewater (sewer) fund, stating it's a bit more dramatic on the cash funded option because the sewer has more upfront capital needs in the early years of the plan as \$1.4 million or \$1.5 million dollars over the next three years are anticipated. Mr. Burnett further explained that if the City were to cash fund, rates would need to be increased by 75 percent in Fiscal Year 2019-2020 in order to generate the revenue stream required to cover the capital needs in the early years versus debt funding the capital needs for Fiscal Year 2019-2020 through Fiscal Year 2021-2022, which would require an increase of 10 percent each year. Mr. Burnett then stated this is because in debt funding, costs are being spread over a longer period of time as opposed to having the money up front, adding it is similar to buying a house with a mortgage; if you have a monthly mortgage on your house, the monthly payments are going to be a lot lower than if you try to generate the cash you need to buy the house outright. Mr. Burnett then stated the need to raise revenue for the sewer side is the same as with the water, to meet increasing operational costs, repair and maintenance of the system, and reach the targeted reserve levels. Mr. Burnett stated if the City stays with the current rates, the picture is not very good moving forward because the fund is in a negative cash flow position to begin with and with the capital needs going forward, it just gets that much worse. Mr. Burnett then spoke about the cash funding option, stating this is where the effect of raising rates before growth happens comes into play because once growth comes and kicks those rates in place with a compounding effect, in Fiscal Year 2023-2024, cash reserves are just shy of \$2.5 million dollars and the target is \$247,000, noting there is a disconnect, but the fund will need that big cash infusion up front to pay for capital. Mr. Burnett then stated under the debt option, the revenue line item and the increases are going up a little less than they did on the cash funded option while still developing a pretty healthy balance in Fiscal Year 2023-2024. Mr. Burnett then stated if the growth does come in as expected, the City may not need more rate increases at that point in time. Mr. Burnett then stated the debt funding option provides more flexibility to examine the rates and look at year-end results versus the cash funding option that needs that one big increase in the beginning; however, not everyone likes to issue debt. Mr. Burnett stated he had clients opposed to debt and clients ok with debt, so it really is Council's preference.

Mr. Burnett stated Mr. Judd provided specific comparisons using mock utility bills at a monthly water consumption of 10,000 gallons a month and because everyone frequently asks how their rates compare to neighboring cities, they compared these figures to Benson's neighboring cities, including Douglas, Sierra Vista, Elfrida, Pearce, Willcox, Bisbee and Huachuca City and with both the cash funding and debt funding options, the City came out with below average rates on the water side. Mr. Burnett then stated at the end of the day the rate plan financials in the rate study are based on the costs of serving customers in Benson. Mr. Burnett then stated a similar graph was provided for the sewer side with using a monthly consumption of 3,000 gallons for both the debt and cash funding options and the City still came out below average rates compared to neighbors.

Mr. Burnett said he realized this is a lot of information and asked if he could answer any questions. Vice Mayor Konrad stated his question was for Mr. Hamilton, then stated a couple of years ago there was a failure with the Ocotillo line and there was a good portion of construction going on in that area anyway; then asked Mr. Hamilton what impact that had on the City that would be mitigated by these rate increases, and the timing of that, adding the City never has a cash reserve when it's needed and asked where this cash reserve put the City in relation to something like that happening. Mr. Hamilton stated it would help the City get to a more proactive position than reactive, adding right now, the City reacts to a problem when it becomes a problem. Mr. Hamilton then stated Ocotillo is a more modern line, but everyone needs to remember much of the sewer system, the collection system for the City, was built in 1947 and 1948 and it is still that original system. Mr. Hamilton then stated whoever built it did a very nice job, but it is getting to the point where we need to pay it more attention. Mr. Hamilton then stated the wastewater treatment plant seems fairly-new but it is close to 20 years old adding his crew does a wonderful job running it, but the computers running the plant are also 20 years old, and they are very expensive computers, which is why they have not been updated. Mr. Hamilton then stated most people have home computers that are much newer, adding the City has a lot of equipment needing maintenance or updating, but as in the past, one of the ways to save money was to defer replacement and expensive maintenance. Mr. Hamilton then stated he hears a lot about why water is cheaper than sewer; however, there is a lot more equipment invested in treating sewer than in producing water.

Mayor King asked Mr. Hamilton about a potential disaster here today, something ten times larger than Ocotillo and if the budget could handle something like that with Mr. Hamilton stating in the past, the City has not spent

bond funds, and those funds are sitting there in case something like that happens. Mayor King confirmed that bonds funds would have to be used for such a project with Mr. Hamilton confirming they would at this point. Mayor King stated this is another area the Council needs to look at seriously, adding they have talked about it for years and now have a lot of areas of concern. Mayor King then stated seeing what has been accomplished over the years and keeping costs very low for residents is great, but it is time for the Council to be fiscally responsible, take a serious look at this and make some tough decisions to have funding for any serious potential problems and get the City where it needs to be.

Councilmember Boyle asked about the cost of the needed projects with Mr. Judd stating water would be just under \$368,000 and sewer would be just under \$1.3 million to cover projects identified that can no longer be delayed. Councilmember Boyle asked if this would get the City to a point to tread water and be in good shape with Mr. Hamilton stating that is the cost of capacity projects; however, through construction sales tax and actual growth, these are just catching up with things that are wearing out. Mr. Hamilton then stated in the water utility, the 291 well needs to be replaced, as the pump and equipment are sitting at about 19 years old and every other well like it has been replaced, adding it is still operations, but the expenses to replace it need to be included because when it goes, it will be a big expense.

Councilmember Maldonado asked if that was included in the \$2.6 million with Mr. Hamilton stating it was. Mr. Hamilton then stated what was pushed over to construction would be drilling a new well to replace the 302 well to make it higher capacity on the water side, adding although capacity improvements will be paid for by growth, this well will be paid for under maintenance. Councilmember Maldonado then asked Mr. Hamilton how far out and how deep the wells were with Mr. Hamilton stating they were all around 1,100 feet. Councilmember Maldonado then asked Mr. Hamilton if the City is below the San Pedro Aquifer with Mr. Hamilton stating it was, adding the City is outside of that. Mr. Hamilton then stated all the wells in town were purposely shut down because of arsenic, except for the ballpark wells to water the grass in the park. Mr. Hamilton then stated overall the system is sufficiently run, but it's getting older and there have been no rate adjustments for 12 years, adding no one wanted to make adjustments during the recession and has not been addressed since.

Councilmember Boyle asked what kind of interest rates the City would get on \$1.6 or \$1.7, what kind of annual payment it would be and if the City was covered with that, adding he was asking if the rate increases covered debt payment and all the expenses. Mr. Judd stated it did, adding Staff and Mr. Burnett took a very conservative approach on the interest rate because it fluctuates almost daily. Mr. Judd then stated the debt service gets built into the debt funded plan, adding it will also pay back what is owed to the general fund. Mr. Judd then pointed out that the bond funds can only be used for specific projects and a lot of these projects identified do not qualify for using the bond proceeds. Mr. Hamilton then pointed out that when El Dorado starts on Vigneto, adding right now, we are looking at 2022, it has a big effect either way, noting that whether their project starts or doesn't start, it will need to be discussed in the future.

Councilmember Boyle stated there is mention of paying back the funds the water and wastewater funds borrowed and while he understands it would increase those other funds, he asked if it would be necessary or if that debt could just be written off because it's basically all out of the same funds the City has. Mr. Judd stated the Council can decide to do that, however in talking with Ms. Vivian and some of the Councilmembers, it was not recommended because these funds should be paying their own way, and if nothing else, they should be breaking even to prevent this from happening in the future. Councilmember Boyle then stated he realized the funds should be breaking even but asked if this was looking at debt from previous years with Mr. Judd stating that is correct and a repayment was built into the rates. Councilmember Boyle asked Mr. Judd to please break it down with Mr. Judd stating between the two funds, there is a repayment built in of about \$30,000 a year; \$12,000 from one utility fund and about \$18,000 from the other, adding he didn't have the exact numbers with him. Councilmember Boyle asked how many years that repayment would need to be with Mr. Judd stating he believed it was over 20 years, but he could get the exact number for Council. Councilmember Boyle then asked if these funds borrowed a lot of money over the years with Mr. Hamilton stating the repayment was programmed in for 20 years, adding it is a small payment, because it was minimized as much as possible. Councilmember Boyle asked how many years these two funds have been in the red with Mr. Judd stating he would have to get that information for Council. Councilmember Boyle then asked if it would be more advantageous not to borrow the

money and pay the interest on it, but instead wipe that debt off so those accounts can break even in a year and then have them not borrow any more in the future. Mr. Judd stated currently the water fund owes the solid waste fund \$259,215; the sewer owes the gas fund \$101,541 and the solid waste fund \$58,822, adding it's roughly \$400,000 that would be paid back over the next 20 years. Mr. Judd then stated the debt is strictly for capital projects and does not take other debt payments into account.

Vice Mayor Konrad stated he does not think it would be wise for utility funds to not pay back debt they have borrowed from other funds, noting the wastewater fund owes the gas fund and at some point in time, the gas regulators will need to be rebuilt and the gas fund will end up having to borrow from another fund to do so. Vice Mayor Konrad then stated it may make more sense to build a debt payment into the rates and stabilize all the enterprise funds. Mayor King concurred stating for too many years funds have had to borrow from other funds and in these cases, the utility funds should be self-sustaining. Vice Mayor Konrad then stated there are two options, cash versus debt; then asked if the City was even in a position to consider a cash option with Mr. Judd stating either option is available. Mr. Judd then continued, stating he wanted to provide the Council with all the available options and variables, noting his handout shows the effect each option will have; from the current rates in place from the previous rate study to one of the options in the new rate study. Mr. Judd then stated many points have been brought up very well and there are a lot of things to consider with pros and cons to both sides. Vice Mayor Konrad asked if there was an option that would fit better based on growth coming later rather than sooner with Mr. Judd stating the study plans for growth starting in 2022, adding the projection was conservative as everyone knows it may be delayed further. Mr. Judd then stated the City will probably need another rate study done in a year or two and once it is found out what will happen with the proposed development, adding whether the development takes off or not, around 2022 is when the City will be taking another look at this issue and decide if adjustments for growth are needed and what to do at that point.

Mr. Burnett then stated he didn't intend to muddy the waters even more, but there are two separate plans, (cash funding and debt funding) and the Council could choose to do different plans on the different utilities, such as choosing the debt funding approach on water and the cash funding approach on sewer or vice versa, adding they didn't necessarily have to do cash funding or debt funding for both utilities.

Mayor King stated the sewer fund needs more help, but the water fund needs more capital; then asked if the Council had any other questions. Councilmember Boyle asked about choosing the cash funding option and how long it would take to accumulate funds and what would need to be done if there were maintenance issues that needed to be done right away that couldn't wait until those funds were accumulated. Councilmember Boyle then asked if the Council were to borrow money for those maintenance issues, would they be able to get it immediately. Mr. Judd stated that the rates would cover most of the projects in the first year. Mr. Burnett then stated the Council needed to bear in mind that it would take a little time in that first year even with the rate increase, because even if the rate increase was in effect on July 1, the revenue would not be available on July. Mr. Burnett then stated the City might have to wait 6 months, but at least the Council would know money is coming and they could start planning and doing the process to accomplish those needed project, again stating they wouldn't be shovel-ready on July 1. Mr. Hamilton stated it would take some time to ramp up and do any projects, regardless of the option chosen, due to the projects needing design, procurement and all that is involved in the projects. Mr. Judd stated on the handout of example utility bills, Option A includes the new rates that will go into effect on July 1 from the previously approved rate study, adding the difference between the currently scheduled rate increase and the proposed cash funded option is about \$16, noting that includes the scheduled increase in gas and the water and sewer increases; however, he did not provide mixed scenarios with the Council choosing a cash funded option for one utility and a debt funded option on the other utility. Mr. Judd stated those are options for the Council to consider, but he wanted to clarify the examples were based on either debt funding for both utilities or cash funding for both utilities.

Councilmember Boyle stated if the Council chose the cash funding option, they would save the amount of interest they would be paying on the debt funded option and asked how many years the debt would be financed for with Mr. Judd stating the debt funding would be financed over 20 years with the interest rate probably being 4 percent, but he would have to do some research to give Council a definitive answer.

Mayor King asked if anyone else would like to comment or make a motion. Mr. Judd then stated he would like to note that in the Council packets, Exhibit A is the debt funding option and Exhibit B is the cash funding option and asked that any motion made include the specific choice or specific rates. Vice Mayor Konrad confirmed with Mr. Judd that Exhibit B is the cash funding option; then moved to approve Resolution 16-2019 using Exhibit B. Seconded by Councilmember Nunn. Motion passed 5-0.

**CALL TO THE PUBLIC:** None

**DEPARTMENT REPORTS:** None

**ADJOURNMENT:**

Vice Mayor Konrad moved to adjourn at 7:44 p.m. Seconded by Councilmember Maldonado. Motion passed 5-0.

ATTEST:

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Toney D. King, Sr., Mayor

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Vicki L. Vivian, CMC, City Clerk