

**MINUTES OF THE WORK-STUDY MEETING OF THE
COMMON COUNCIL OF THE TOWN OF STAR VALLEY**

**Tuesday, March 7, 2023
3675 East Highway 260, Star Valley, AZ
(Star Valley Town Hall)**

- **CALL TO ORDER**
- **ROLL CALL**

**Present: Vice Mayor McKinney, Council Member Armington, Council Member Binney, Council Member Dueker, Council Member Highstreet, Council Member McDaniel, Mayor Davis.
Town Manager Grier, Finance Administrator Woody, and Town Clerk Chapin were also present.**

- **PURPOSE OF MEETING:**

Fourth Work-Study Meeting.

Town Manager Grier stated he wants to circle back around and bring in front of the council questions that must have answers to them before a direction of where the council wants to go, as a Town, can be found. This is about policy, which is what the council is all about. The council does not have to come up with answers tonight. Tonight, stated Mr. Grier, we need to roll up our sleeves and see what we want to do next, what the next work study session subject is going to be and see if there are some ideas that are in concert. We do face the challenge of coming up with a municipal budget with six others. Pondered Mr. Grier – How do we reach a goal of consensus? The good news, you only have to convince three others to go along with you because it is a majority vote at this table. Mr. Grier stated he does not know if there is anything more important than this. Towns get in big trouble by making bad policy decisions. Those troubles are then handed off to subsequent councils. Or, stated Mr. Grier, towns can accomplish a great deal with good decisions when it comes to fiscal policy. The council will have to decide what projects they want to do and when. He thinks, for the first time, the council has in front of them different options that could be good, valid options.

1. What do you want your minimum cash fund balances to be?

Town Manager Grier began with the first question that the council has to think about – What do you want your minimum cash fund balances to be? What you decide with your fund balances, stated Mr. Grier, is going to determine what spending you are going to do. At one point in the past the council did have a number of what they wanted their fund balances to be. The Town, explained Mr. Grier, has different funds. The General Fund money can be used for most anything. We are sitting at \$1,981,551 in that fund right now. Then there is the Highway User Fund (“HURF”) which has \$2,153,000 in it. This is a restricted fund, and those revenues can only be used on streets and roads. The Local Transportation is a fund that is restricted to transportation, reported Mr. Grier, and has been sitting at \$19,000. The money in that fund could be used for the \$10,000 pledged to the Beeline Bus. Queried Mayor Davis – Where did that money come from? Mr. Grier responded staff is not sure where it came from. Council Member

Highstreet asked if that was a one-time revenue. The Town hasn't had any revenue coming back into it, answered Mr. Grier, and he believes it must have been through a state shared revenue of some source.

The Judicial Collection Court fund is substantial at \$160,000 and is not the Town's money to spend, reported Town Manager Grier. The Town is a conduit and collects it for the court to use. The Town has \$169,548 in the Water fund, reported Mr. Grier. It doesn't mean that we are in the black. This will be discussed in one of the later questions. Mr. Grier reported that the total CD investments are at \$5,422,000. This is where he thinks it becomes challenging for council. The council has to think about where to have interest bearing money and how much should be interest bearing. With this, there is also the question of liquidity. It is good to have money that is sitting idle to be interest bearing, but then there is the challenge of that money not being available. That means the timing of projects are going to change depending on how much interest bearing money the council wants to have in CDs. The Town, added Mr. Grier, is limited to CDs or municipal bonds. Each of those have the question of liquidity with them.

Town Manager Grier reported the total cash is at \$4,485,000; there is \$393,000 in CDs that mature in 2023; there is \$266,000 in CDs that mature in 2024; and the cash fund balance totals \$5,144,000. All together that puts us at about ten million dollars. Part of that ten million is invested in CDs and not available except in staggered time periods. Some of that money is in restricted funds. One of the starting points that he thinks the council has to make a decision on is – What does the council want those fund balances to be? What is the council comfortable with? In the past, recalled Mr. Grier, the council had a six million dollar mark and a \$600,000 rainy day fund that could only be touched in case of emergencies. The “What is a good number?” has not been discussed since. Mr. Grier stated he thinks that number is needed to be able to know when and how fast we are going to spend the money on different projects in order to maintain that number. As a municipality we are really here to provide services. Mr. Grier confided that he does not know what the balance is. It seems like tangible value for the council to not hand off debt to subsequent council, added Mr. Grier, or a situation where employees have to be fired.

The projected revenues and expenditures by fund, pointed out Town Manager Grier, are rough numbers. In the General fund we are projecting that we are going to have \$1,932,000 in revenues coming in for the 2023-2024 fiscal year; \$499,500,000 in HURF and GRDX; and \$200,000 in the Water fund for water bill payments. Our operating expenditures are the basic day to day expenditures such as keeping the lights on, employee payroll, paying law enforcement and paying the water operator. The revenues of \$1,932,800 and the operating expenditures of \$1,306,500 leave us with a surplus of \$626,300 per year with this projection. Council Member Binney asked if the operating expenditures are what was budgeted or is that what they are really expected to be. That is what we expect based on history, responded Mr. Grier. We haven't budgeted yet because we are just starting the budgeting process. Queried Council Member McDaniel – When we do the budget should we budget higher than that to leave room? When you do a budget, answered Mr. Grier, you don't want to overcompensate. You try to hit it right on the money both with your revenues and expenditures. Council Member Binney pointed out that every year the Town's budget is much higher than what it really costs at the end of the year. That is because we have an expenditure based budget, responded Mr. Grier. The Town has to have all of the expenditures for all of the revenues in the budget or we can't spend them.

Town Manager Grier reported the water department is \$82,000.00 in the red. It is projected to bring in \$200,000 in water customer payments, while the operating expenditures are projected at \$282,000. It would be a ton more in the red if we truly added the cost of the original

purchase price of the water company, which was \$875,000. The Town, informed Mr. Grier, has probably put about two million into the water department. We did not buy the water company as a money making business. It was to secure water and have a reliable water system for generations to come. Queried Mayor Davis – We have not raised the water rates since purchasing the company, right? “Right,” replied Mr. Grier. Mayor Davis stated he is not a fan of raising water rates, but he is also not a fan of seeing an \$82,000 loss. The Town’s water rates are about one third of anywhere else, stated Council Member Binney. There are a lot of different ways to look at subsidizing or not subsidizing water rates, stated Mr. Grier. He could make good arguments on both sides.

Vice Mayor McKinney stated he understands that the total cash of \$4,485,000 is the total of all the various funds and is separate from the CDs. Queried Vice Mayor McKinney – Where does that money reside? It is in the checking account, answered Finance Administrator Woody. Asked Vice Mayor McKinney – Are we getting a benefit from that? The Town has too much sitting in the checking account, answered Ms. Woody. There will need to be a discussion as to what the council wants to do with it. Pondered Ms. Woody – Does the council want to invest that money? Does the council want to make a short-term investment? Right now, added Ms. Woody, it is not making any money sitting there in the bank. Queried Vice Mayor McKinney – Do ordinary passbook accounts have an interest rate at all? Staff has been looking into interest bearing accounts, answered Ms. Woody, and one of them that she likes is the Local Government Investment Pool (“LGIP”). There are also money markets that would get the Town some interest revenues. Ms. Woody stated that she personally likes LGIP because the money is always there and the Town can pull the money out whenever it is needed. She could put all of that money in there, explained Ms. Woody, and transfer out only what is needed to cover expenditures.

Vice Mayor McKinney stated he has the notion that the checking account is not benefitting the Town. That is correct, responded Finance Administrator Woody. Maybe not completely, informed Town Manager Grier. It benefits the Town in that it is money that is available – the liquidity of the money is the benefit. The council has to decide, reiterated Mr. Grier, at what pace they want to attack projects. Council Member Binney stated that interest is still way below the inflation rate, therefore you are still negative. Mr. Grier stated until the council decides how much they want to have in a liquid cash position, then staff does not know where to go to start looking at interest bearing options. And until the council decides at what pace they want to attack these projects and what projects they want to attack; staff does not know how long to put them into a CD for example. Those are the questions that the council has to answer. Mr. Grier stated he thinks Vice Mayor McKinney’s position is – that is too much money to have that is not interest bearing. That, added Mr. Grier, is supported by Council Member Binney’s position – not only is it not interest bearing, but it is being deflated by inflation costs.

Town Manager Grier reported the Town has been investing in CDs – they are interest bearing and safe, but they have to be staggered out. The Town currently has \$393,000 that will be maturing in 2023; and \$266,000 that will be maturing in 2024. Then there is a big bump maturing in 2025 of \$1,863,000. We will have to overlay what we think our project plans and timing on our project plans are going to be if we are going to rely on CD money to do projects. Another question, added Mr. Grier, – Where should we put the checking account money? Do we want to have it where it matures quickly because we want to aggressively attack the pipe replacements? A more simple solution is the LGIP account, stated Mr. Grier, which he believes returns about 2 ½ %. It is also liquid and may be the answer to push some of that checking account money into an LGIP account. Mayor Davis asked if the account he is talking about is

handled by Chase. We bank with National Bank and our CDs are with Stifel, responded Mr. Grier. Interest rates are improving, reported Mr. Grier, because the Feds are raising interest rates. Reiterated Mr. Grier, we can't move forward until we, as a group, decide – What do we want to have in CDs? What money do we think is necessary to be liquid? There is always the question of – What if? What if law enforcement costs go up? What if we have some unknown road issue that we have to deal with? The Town has to plan just like we do with our personal finances. The Town also has to be very malleable with its finances – that things are going to change and as they do we have to be able to change as well.

2. How would you like to approach the asbestos/concrete (older pipes) replacement issue?

(a) A staggered replace program over a period of () years?

OR

(b) Look into a WIFA loan?

Town Manager Grier moved on to the older pipes replacement issue. Asbestos/concrete sounds scary, pointed out Mr. Grier, but they are AC pipes. There isn't any danger with asbestos, confirmed Mr. Grier, but they are fifty to sixty year old pipes that were installed in the old part of Moonlight Drive. Inheriting a \$3 million dollar issue was something that was not contemplated when the Town purchased the water company. Mr. Grier reported that he spoke with engineer Dale Miller with Rick Engineering and his question to him was – Is this something that you think has to be done right away or is this something that can be staggered in say a ten year period? Mr. Miller's opinion was it could be something that could be staggered over a ten year period. If we started to see failures then the Town would have to reevaluate the pace. Staggering is one option, informed Mr. Grier.

The other options, explained Town Manager Grier, the Town could transfer funds from the General fund or the Town could consider a Water Infrastructure Finance Authority (“WIFA”) loan. Mr. Grier stated he has always been against debt because then you have debt service that can go out for a ten to thirty year period on a WIFA loan. He thinks it is popular because councils like to make a splash and they like to have a project. They then hand off the debt to the subsequent council to deal with. Mr. Grier reported that the estimated interest rate on a WIFA loan is 3.1%. What makes the WIFA loan interesting, added Mr. Grier, is that the estimated principle forgiveness is \$500,000 with a principle of \$3,000,000. That may make up for the interest the Town would pay through the term of the loan. The advantage, pointed out Mr. Grier, would be knocking that project out quickly and being done with it instead of doing it in a ten year period. The WIFA loan, reported Mr. Grier, can be amortized for thirty years or less; it cannot be amortized for less than ten years; and it cannot be paid off early. Another advantage, pointed out Mr. Grier, there is a \$50,000 technical assistance grant which is for the use of engineering costs. Queried Mayor Davis – That is not counted in the loan? “No,” answered Mr. Grier. The Town would get \$50,000 in technical assistance.

Vice Mayor McKinney asked if the WIFA loan could be structured to access in increments so the interest wouldn't start until each individual increment was accessed. Town Manager Grier responded he doesn't think that could be done. Queried Council Member McDaniel – If the Town does the WIFA loan council could make a splash by doing all the projects but not dip into the savings because the forgiveness would balance out the interest? We would not be dipping into our savings, answered Mr. Grier, because the Town would be using WIFA money to finance the project. But then, the Town would be putting in place debt for the

next ten years. The disadvantage is the Town would have the debt and the interest on the debt. Council Member Dueker stated he is not familiar with asbestos in concrete pipes. Queried Council Member Dueker – What is the danger to the population with asbestos in concrete pipes? “None,” answered Mr. Grier. It sounds scary, but there is not an asbestos danger to it. The problem that we have is that it is an old pipe that has a fifty or sixty year life span so we anticipate that we are going to start having problems with it. To date, reported Mr. Grier, we have not had any problems. Mr. Grier stated he supposes there could be water loss with older pipes that may be unknowingly leaking underground. Asbestos isn’t bad, informed Council Member Binney, as long as you don’t cut it. We are looking at it because at some point we will have to do it, stated Mr. Grier. The council has to decide at what pace they want to do that project.

Council Member Binney suggested the Town loan the Water Department money from the General fund. It is the same pair of pants, pointed out Town Manager Grier. The water company needs to get to a point where it stands on its own two legs, expressed Council Member Binney. So far, added Council Member Binney, the Town has dumped at least \$2 million into it. That isn’t accounted for and that is fine. That is a good discussion for the council to have, responded Mr. Grier. Pondered Mr. Grier – Does it really have to stand on its own two legs? At least for accounting purposes, responded Vice Mayor McKinney. The Town doesn’t have complete and honest accounting according to general accounting concept. We have that, responded Mr. Grier. The Town is just showing a loss with it. We don’t have that, argued Vice Mayor McKinney. Vice Mayor McKinney stated he has no idea in the world how much the Town has spent on the water company or how it is justified in the overall structure of the Town’s finances. It just seems to be something that the Town ignores. To do justice to the public it needs to be brought to light, advocated Vice Mayor McKinney, so that everybody can easily understand and make decisions from a position of knowledge.

The Town is following general accounting practices, informed Town Manager Grier. What Vice Mayor McKinney is talking about is a profit and loss statement. In order to be able to answer some of those questions, and so that the public can see it, is through a water rate analysis. The staff is going to propose to the council to do a water rate analysis, stated Mr. Grier. That will show what the costs are and whether or not water rates, as existing, are supporting that cost. The arguments are – Should the water users be responsible for all costs with the water company? Are non-water users getting a benefit from what the Town is doing with the Water Department? Mr. Grier stated he would argue, “yes they are”. They may not be on water today, but they may be tomorrow. If wells start to dry out, stated Mr. Grier, or cross contamination occurs between septic systems and individual wells – How do we supply water to our community? Questioned Mr. Grier – We first have to have source water, right? For the last eight years, informed Mr. Grier, the Town has been purchasing wells and building its source water. The Town has plenty of source water for its 365 users. The Town would not have had to purchase those other wells, so if I’m a water user I would say – Why should I be paying for that? Mr. Grier stated he thinks the Town needs to provide secure water for generations for the entire community. We don’t know exactly what that is going to look like.

Pondered Town Manager Grier – If the Town may be in a position to have to provide water to non-water users – How do we do that? There will be a lot of expenses running lines. Mr. Grier stated he argues that non-water users do get a benefit from some of that money. Pondered Mr. Grier – Should water users have the complete expense of the Water Department on their backs? Is it fair that it is subsidized because there is an advantage that non-water users get?

Council Member Highstreet responded he thinks it is simple – find a happy medium. The users break even with the account and the Town comes up with the reserves for the remainder. It's a happy balance and everybody wins. People who are using the water system pay for the day to day operation expenditures, explained Council Member Highstreet, and the Town uses tax dollars to fix, repair and maintain that system. Council Member McDaniel stated she agrees with Council Member Highstreet. Mr. Grier stated he thinks that non-water users get the advantage of property values because property values plummet if a community doesn't have water available.

Mayor Davis asked if the payment of \$24,256 for the WIFA loan is based off ten years. "Yes," answered Finance Administrator Woody. As steadfast as he has always been about debt with the Town, stated Mr. Grier, it all of a sudden comes into play when you start thinking about the difficulty for the Town to place money in interest bearing vehicles because we are limited by statute and then there is inflation on top of it all. With the principle forgiveness and \$50,000 in technical assistance, pointed out Mr. Grier, those two things make up for the \$490,000 of total interest after the ten years. When you start crunching numbers the WIFA loan becomes interesting. Queried Council Member Highstreet – What can we forecast, within ten years or more, that might be an additional problem that we might need to address? Is there anything that's going to blindside us if we were to commit to this ten year loan? That is his concern with debt, confided Council Member Highstreet. The definition of "we didn't see it coming," responded Mr. Grier, is...we didn't see it coming. That is when we get back to – What do you want to have in your fund balance? – because of the unforeseen thing. Council Member Highstreet stated he has reason to believe the WIFA loan is not the only way. Pondered Council Member Highstreet – What if we were to just resolve our current issue with the cash that we have and use this as our rainy day scenario? We are not at that point, opined Council Member Highstreet, where we need to seriously consider this is our only viable option with the task that we currently have ahead of us. It is not our only viable option, answered Mr. Grier. There are several viable options that make sense to him. The argument could be that there is plenty of money in the cash accounts. The Town could take it out of those cash accounts so as not to incur a debt with a loan. Spending down the cash fund balances would be one path, concluded Mr. Grier.

Are there unforeseen things? – pondered Town Manager Grier. "You bet," stated Mr. Grier. The three million dollars in pipes a year and a half ago was unforeseen. It is his job, he thinks, to try to see all of those unforeseen things. Mr. Grier stated he thinks about things like the fire district failing. If the fire district fails, pointed out Council Member Highstreet, that falls under the county and not the municipality. Law enforcement, continued Mr. Grier, is probably a valid increase that the Town will see. He also thinks employees are going to cost the Town more because when he leaves there will be a bump in cost. Other than that, stated Mr. Grier, he doesn't have a whole lot on his radar as to what might be unforeseen. Council Member McDaniel stated she thinks an unforeseen possibility would be if the Town gets a really bad fire that comes through during fire season. Mr. Grier responded there could be damage to roads or damage to the water system. Queried Council Member Highstreet – Is there an insurance claim associated with anything like that? Southwest Risk is the Town's insurance, answered Mr. Grier, but he doesn't know what they do with streets and roads.

Queried Council Member Highstreet – Has there been any discussion on doing a study or considering taking over law enforcement services? Mr. Grier responded there has been discussion about that and there was a committee put in place, which was probably about eleven years ago. The Town Manager at that time wanted the Town to have its own law enforcement.

It was a shock at how expensive running our own police department was. At that time it was estimated to be \$1.2 million a year. When you start talking 365 days a year, 7 days a week, sick time and vacation time, you have to have about seven people on your force. Retirement, added Council Member Dueker. We can't get by cheaper than what we have now with law enforcement, reported Town Manager Grier. You said unexpected costs, stated Council Member Binney, with your belief that the entire Town pays for the improvements to the Water Department. We will be running a lot more pipeline, at the Town's expense, if we have to bring water out to Diamond Point. The water users have to pay for that line, stated Town Manager Grier. Your argument, stated Council Member Binney, is that they've already bought in and paid into the system for future growth. If you are going to make them pay for it again that would be a future expense.

3. Do you want to move forward with the two 25,000 gallon water storage tanks at the Circle K well site?

Queried Town Manager Grier – Does the council want to do the two 25,000 gallon water tanks? Staff thinks this might be a good project for use of the Community Development Block Grant “(CDBG)” money, stated Mr. Grier. We know it is already deemed to be low and moderate, which is the requirement of the CDBG funds. The likely cost (with the pumps and water tanks), reported Mr. Grier, is probably going to be about what the CDBG money is, which is \$260,000. The one thing that might mislead us more than some unforeseen expenditure is not understanding that our fund balance is made up of a large amount of one time revenue. Spend it, pointed out Mr. Grier, and it is gone. Mr. Grier stated he does not see anything on the horizon as one time revenue coming in. That is something important the council needs to look at when deciding what the fund balance should be.

Council Member Dueker acknowledged that he is in favor of the aging pipe being replaced. His recommendation is to start where the most degraded pipes are located. During the pipe replacement process road improvements could be done at the same time. There are a lot of different options to look at with this, stated Council Member Dueker. He was told the Town has a connection to Town of Payson water. If all hell breaks loose with our water, we can start subsidizing our water with Town of Payson water. He thinks that water would be very expensive, responded Mr. Grier, but he doesn't think it is ever going to be needed. Council Member Binney stated he believes the storage tanks are a lower priority than replacing the old pipes. There are a lot of different things that have been done, stated Mr. Grier, that have made the Town a much more fire safe community. The two 25,000 gallon storage tanks would be something that would help with having the water supply for fire safety. Fire protection is a front burner item for the Town, added Mr. Grier, and being able to have more water available certainly plays that. Queried Council Member Dueker – How many water customers are on that side of the 260? We have a lot more now because we have the RV parks hooked up on that side, answered Mr. Grier. Water storage tanks are a legitimate project for us to look at, concluded Mr. Grier.

4. Does council feel that water rates need to be increased?

Everyone is aware, stated Town Manager Grier, that the general fund subsidizes the Water Department. The question to the council – Would you like to see a full Water Department analysis? That will answer the questions as far as what are the numbers and what would the number have to be to support the current day to day operations. Mr. Grier reported that existing

rates have not been increased. Questioned Mr. Grier – Do you want us to take a look? Mr. Grier stated he does not want Finance Administrator Woody to spend two months doing a water rate analysis because they are extensive. If you farm it out, added Mr. Grier, it is expensive. That is something council needs to consider – Does council want to do that water rate analysis? The Town would do it in-house, added Mr. Grier. If the council is thinking about raising water rates, explained Mr. Grier, a water rate analysis has to be done because that is what the state statute requires. The Town also has to justify why water rates are being raised. Council Member McDaniel stated she thinks the Town would benefit from an analysis. The usage rate, informed Mr. Grier, is where we are out of whack. If the Town is going to increase rates, stated Mr. Grier, he thinks it should be done incrementally in small increases. The water rate analysis will be easy for the Town to justify increasing water rates because of all of the expenses we talked about previously.

5. What is a good plan for continued streets and roads maintenance and/or streets and roads projects?

Questioned Town Manager Grier - Does council want to continue to do the streets and roads as we have done them? If you do, it is somewhat predictable with our expenditures. If you want to see it done dramatically differently, then we have to go back into our analysis where we talk about what money we want to spend out of our General fund, our HURF fund and how we want to do that. The biggest culprits, reported Mr. Grier, are the sides of the roads crumbling and ditch maintenance. Council Member Armington asked if there is any truth to the rumor that HURF funding will be dropping. We are still waiting to see what the legislature will do, answered Mr. Grier. He does not see a dramatic drop at this point. Council Member Dueker asked if they are talking about electronic vehicles coming online and doing away with gas tax? He hadn't heard that as part of the discussion, answered Mr. Grier.

We started this adventure, stated Town Manager Grier, with a three year focus. The reason for that was that with three years we can predict better. Outside of three years it starts to get pretty diluted. We have to have direction before we can really do a budget. For example, explained Mr. Grier, he is holding off on CDs now through March because he is waiting to see what the council wants to do with interest bearing money. What you sacrifice, once you make it interest bearing (unless it is the LGIP at 2%), is that you lose the liquidity. The council has to decide – What stamp do you want to have on all of these issues? This is your chance as a council to put your stamp on it.

Questioned Town Manager Grier – Where does the council want to go from here? Do you want to do another work study? The council has two weeks to think about it and see if there is any sort of consensus, stated Mr. Grier. It is a lot of information. The deadline to get the fiscal year up and running is coming quick, commented Council Member Highstreet. Mr. Grier replied he is not as concerned about the timeline. The Town has to have the new budget by July 1st. There is a little bit of a difference between having a budget in place for the statutory requirements and having a good plan in place. He thinks it is more important for the council to have a good plan at whatever pace they get there. Queried Council Member McDaniel – Can it be on the agenda as a discussion and possible action item at the meeting after the next meeting? Mr. Grier suggested that the council have another Work-Study session to discuss the five items presented tonight. Mayor Davis stated he thinks council should have another Work-Study session because they received a lot of information tonight. He thinks it could take two or three

Work-Study sessions, commented Mr. Grier. Staff will put the five questions in the next Work-Study session, concluded Mr. Grier, to give the council a couple of weeks to think about.

- **COMMENTS FROM THE PUBLIC:**

There were no comments from the public.

- **ADJOURNMENT**

A motion to adjourn the meeting was made by Council Member Highstreet and was seconded by Council Member Dueker.

The motion was voted on and passed 7 – 0.

APPROVED:

Bobby Davis, Mayor

Date: _____

ATTEST:

Edie Chapin, Town Clerk

CERTIFICATION:

I hereby certify that the foregoing minutes are a true and correct copy of the minutes of the Work-Study Meeting of the Town Council of the Town of Star Valley held on this day, the 7th day of March 2023. I further certify that the meeting was duly called and held, and that a quorum was present.

Dated this 15th day of March 2023.

Edie Chapin, Town Clerk