

**CITY OF ALAMOGORDO, NEW MEXICO  
CITY COMMISSION SPECIAL MEETING MINUTES  
6:00 P.M., COMMISSION CHAMBERS  
NOVEMBER 11, 2010**

**RON GRIGGS, MAYOR  
ED COLE, MAYOR PRO-TEM  
MARION LEDFORD, COMMISSIONER  
JOE FERGUSON, COMMISSIONER  
ROBERT RENTSCHLER, COMMISSIONER**

**JOSH RARDIN, COMMISSIONER  
AARON RANCE, COMMISSIONER  
MARK ROATH, CITY MANAGER  
STEPHEN THIES, CITY ATTORNEY  
CAMERON STERN, DEPUTY CITY CLERK  
MARSHA D. BRADY, DEPUTY CITY CLERK**

**CALL TO ORDER, ROLL CALL**

Mayor Griggs called the meeting to order at 6:00p.m. Roll Call was taken by the Deputy City Clerk; she announced there was a quorum present.

Mayor Griggs reminded everyone today is Veterans Day and Alamogordo is home to many veterans and home to many families that may not be with us these days. He asked that everyone take a quick moment of silence to honor those who have gone before and offer respect to those who are still here. Once the moment of silence was over, he thanked all the members on the Commission who have served as well.

Mayor Griggs said he is not sure how long this agenda will be, but he would like that everybody hold their questions or comments until the Directors are finished if they can. We have only had this as a Commission for a few days and it could be that we are not prepared to act, so when we look at this and we feel like we have a good grasp of it we can move forward, but if not we may need to schedule another meeting to address the issues at hand.

**NEW BUSINESS** (No Roll Call Vote required)

**4. Discussion, and possible action, on letter to State Representative Yvette Herrell regarding issues that affect the City of Alamogordo. (Ron Griggs, Mayor)**

Mayor Griggs began by saying since three of the items are particular in nature in relating to our finance options, he wished to discuss item number four first. He then read the agenda report and added this letter is actually directed to all our State Representatives and he would also like to address it to the Governor Elect as well. These are issues that affect our community and they have a potentially large affect on that. He asked if the Commission had any comments, if not, he would like their approval to send this letter, or one very similar, to our Delegation and to our Governor. He opened the floor up and asked if there was any discussion on the letter.

Commissioner Rance stated he concurred with the comments Mayor Griggs made. Mayor Griggs thanked Commissioner Rance and asked if there was anyone who thought we shouldn't send it.

Mayor Pro-Tem Cole asked if the information would be available via the internet. Mayor Griggs stated he sent a draft of the letter to the Commissioners. Mayor Pro-Tem Cole said he also agrees with it.

Mayor Griggs said what this does, just so the Representatives who are present tonight, it talks about specific things that affect Alamogordo. The challenges that they are going to be facing are really big, but in the City of Alamogordo, we have some specific things that we have benefited by the Representatives and he feels they need to know what they are. If there is any discussion on this letter, he asked them to feel free to get a hold of us if they need to. One of the issues is the Film Tax Incentives. Alamogordo and Otero County have benefited substantially from the film industry. The Capital Outlay process is one that they will get the opportunity to work with and there are a few comments in that they can use when it comes times to look at those things. Another issue is the

Liquor Licenses. In the last two Legislative Sessions, there are bills that were sponsored to change or attempted to change the way Liquor Licenses are granted to certain communities, but they have not passed. Alamogordo has maxed out on the number of Liquor Licenses we can obtain, when he says that he means obtain affordably. There have been some that have been sold in Las Cruces for around  $\frac{3}{4}$  of a million dollars. If a restaurant wanted to come to Alamogordo, they couldn't pay that amount to buy a license. Those are the things this letter deals with and if the Commission approves, we will be sending and hopefully it will be helpful. He wanted to let them know they should feel free to contact any of them at any time on any issues that they think impacts Alamogordo, because we will be happy to help in any way we can.

Mayor Griggs wanted to recognize both of our new Representatives Herrell and Little for being here tonight. He noted that Ricky Little came all the way from Chaparral. He stated he looks forward to working with both of them and congratulated them on their elections. If the Commission concurs, we will be sending the letter as soon as we can.

- 1. Presentation on Recap of the Phasing of the Wastewater Treatment Plant Improvement Project (WWTP), WWTP Funding Summary and Financial Forecast for Water and Sewer Fund.** *(Mark Threadgill, Assistant City Manager and LeeAnn Nichols, Financial Director).*

Mayor Griggs read the agenda report and turned the floor over to City Manager Roath.

City Manager Roath said he will have Assistant City Manager Mark Threadgill and Finance Director LeeAnn Nichols come up to speak. While they are coming up to speak, he would like to point out to the Commission that our goal this evening is to present a possible option to fund the initial first phase and future phases of the Waste Water Treatment Plant. What we are asking you to do is look at the bigger picture in terms of the possible funding alternatives that might be available. What we are proposing this evening is for you to consider one option, and this is an option that we feel would work but at the same time we are not asking you to get into specifics tonight in terms of adopting a specific rate, for example, but more of the idea to look conceptually at what we are proposing. If this is something that the Commission wishes us to proceed on, our intent is to bring back specific legislation in the coming weeks or months to address some of the concepts that you have given us the authority to at least explore and bring back to you at a regular meeting in which the citizens would have the opportunity to comment on as well. In talking with Mr. Kevin Powers a few minutes ago, he also reminded him that financially, down the road, if circumstances change, the Commission would have the ability to make adjustments to some of those funding alternatives as well. This is an educational meeting tonight to reaffirm what we have done in the past, to give you an option of how to fund some of these improvements, because they are needed for our community, and to get your blessing to at least begin the process of getting this together and bringing it back before you in more detail. He then turned the floor over to Mr. Threadgill.

Mr. Threadgill began by saying tonight he is going to give you an update on the major project that we are looking at the future of the water side, and that is the Waste Water Treatment Plant. In July of this year, the Commission did approve the phased plan for the upgrade of the Alamogordo Waste Water Treatment Plant. The approved phasing was Phase 1 – 3-basin SBR, electrical system upgrades; Phase 2- Effluent storage reservoir, grit chamber, miscellaneous; and Phase 3 – Disinfection system, digester, septage intake station upgrades. Those three phases constitute a package of upgrades to the Waste Water Treatment Plant that need to get done. The Phase 4 – 4<sup>th</sup> SBR basin is the expansion of the capacity to the Waste Water Treatment Plant. Right now Phase 4 is scheduled to be included, but it can be adjusted, going further out depending on the growth and the amount of usage we have at the Waste Water Treatment Plant; it is the one variable in this phased plan. It is far enough out into the future that several Commissions are going to get to hear about this before we get to the point where a definitive decision needs to be made on that phase. Back in July, when we brought this to you, we had the phasing of the Engineer's Opinion of Probable Costs for all of the phases. The overall plan, including inflation and contingency over the time period consists of Phase 1 was \$12 million, which we are going to be starting on next year. Phase 2 in Fiscal Year 2014, \$3.5 million. Phase 3, in Fiscal Year 2017, and there is a little break there in time, will be \$3

million. In addition, currently Phase 4 has been estimated in Fiscal Year 2020. Again, that is the phase that depending on growth and usage, or if we experience rapid growth and high usage, it could be bumped up earlier. If we continue our growth pattern and usage, it might be able to be pushed out to 2021 or 2022, and that is the one variable in this plan. Right now the schedule is to complete the PER and EID Documentation in June of this year, and that was presented in the July 2010 meeting where you approved the phasing process based on the alternatives in the PER. We are currently in the design and permitting phase and that should be completed during the second quarter of 2011. We will be going out for advertisement and bidding during the third quarter of 2011, and he apologizes, there is a mistake in the package that the Mayor pointed out to him, it should read that construction completed for phase one will be during the fourth quarter of 2012. This sets up the premise for some of the rate increases and financing options that Mrs. Nichols will be presenting to you next. The funding that we still have to put into place for Phase 1, which we are planning to start next year and then start the planning phases so that we can get the funding for Phase 2 by Fiscal Year 2013, of funding for Phase 3, but Fiscal Year 2015 or 2016. He will reiterate again that Phase 4 is the one variable that we are looking at Fiscal Year 2020 or beyond to look at the financing. That is his portion of the presentation and asked if the Commission had any questions for him.

Mayor Griggs asked if anyone had any questions of Mr. Threadgill, hearing none, he turned the floor over to Mrs. Nichols.

Mrs. Nichols asked the Commission to turn to the funding summary for the Waste Water Treatment Plant in their packets. Basically, they took what Mr. Threadgill just went over and we took those numbers and spread them out. We show, in the first year, in the 2010-2011, which is our current fiscal year; we need \$750,000 for the preliminary and engineering design, which is what he just talked about finishing up. In the current fiscal year, we have approximately \$13.1 million and that comes from the 2004 Water and Sewer Improvement Bond, absent some additional money, it can be used for the Waste Water Treatment Plant, so we took \$390,874 from there. Fund 89, is our Environmental Gross Receipts Tax and we took the initial \$748,350 from there, what was originally to cover the Preliminary Design and Engineering because we had to have that before we could have the GO Bond issue. Fund 81, it is funding from the fund balance of \$577,195. The 2009 GO Bond provided \$6,443,000. We have put in here, and we will talk about that later, is the refinancing the 1998 Joint Water and Sewer Bond, which will give us approximately \$5,005,000 towards Waste Water Treatment Plant for this current year. The next column is Fiscal Year 2011-2012; we are going to need approximately \$11,719,000, so we will have the money for that from the current year and the refunding of the 1998 Joint Water and Sewer Bond. In Fiscal Year 2012-2013, we have a couple of options here, but the one she put on there would generate or issue a new bond issue from water and sewer rates to generate \$3,185,000, to go towards Phase 2 where we will need approximately \$3,469,000. In Fiscal Year 2015-2016, we have the opportunity to refund the 2005 Joint Water and Sewer Bond to generate another \$2.5 million to cover the Phase 3 of \$2.7 million in Fiscal Year 2016-2017. During Phase 4, as Mr. Threadgill pointed out, that is the variable, that could change, but in this instance, we put out there that you could increase rates to do another water and sewer bond and see where you are at that time and decide how you want to come up with the \$4 million to do that additional phase. She asked if there were any questions on the funding summary.

Commissioner Ferguson said on the Fiscal Year 2012-2013 column, there is a new bond issue listed, but how do we know what the interest rate is going to be. Right now the interest is really low and that is why we are looking at refunding these other bond issues, but we don't know what the interest rates are going to be in two years; he thinks the way the economy is going it could be 20 percent. What are we going to do if all of the sudden it jumps up from zero or one percent now to 12 or 14 percent, how are we going to handle that. Mrs. Nichols stated she would have to have Mr. Kevin Powers come up and answer that question because she really doesn't think it would jump that high in two years. Commissioner Ferguson said he has seen some insurance rates, health insurance, almost double in as little as six months.

Mr. Kevin Powers, RBC Capital Markets said when we did some of the modeling for this, we took into account just what Commissioner Ferguson is thinking, that rates would have a better chance in going

up in the future than they do staying the same or going down. In today's market, the average rate on a refunded bond issue is somewhere around 3.5 percent; we used four percent in the planning for that 2013 bond issue and that gives us a fairly decent cushion. It is entirely possible that those rates could go up higher than that, but we believe that that will cover a significant increase in interest rates over the next couple of years.

Commissioner Ferguson said with the rates so low right now, why wouldn't we look at getting the money and do it all at three percent instead of taking the chance that it will go up to four or six percent, otherwise we are going to be obligating future Commissioners in Fiscal Year 2019 to buy new bonds and if it is 16 percent, what are they going to do, they are stuck and we did it to them. He is looking at it and trying to figure out a way to do it because we can get cheap money right now. Personally, he thinks we should just borrow the money from the DFA, which charges zero percent and a quarter percent administrative fee. If we let them know we need the money, borrow it, and figure out what type of rate increase we would have to do and know that we are paying very little money and we have all the money we need and we can pay for everything cheaper. He can guarantee that when we get to the third phase, the price of that project is going to be a lot higher. It is just like the Snake Tank deal, every time he turns around, it is costing more money. We know the sewer plant is going to cost this much in each phase, he can guarantee that when we get to those phases, it will be a lot more. Mr. Powers said he understands Commissioner Ferguson's question, but unfortunately it is a very complex answer. There are other factors that come into play here and some of them are financial in terms of if you could borrow the money today at a lower rate but you couldn't spend it for a while, you would have what is called negative arbitrage factors, where you are actually paying a rate of interest, but you can't reinvest it at that rate. There is also a federal tax law issue and Dain Rauscher is here and he could give a brief explanation on that.

Commissioner Ferguson said what he is saying is that if we just get that amount, we could just do the whole thing and we wouldn't have to mess around with doing the phases, we would just do it all. We wouldn't have to worry about a cost increase because we would say this is how much it cost right now and we just get the contractors locked in at that price and we are done. In five years, he can guarantee that it could be close to double what we have estimated now. When he came onto the Commission, the Snake Tank was \$33 million and now it is already almost \$60 million, which is almost double the price in two years. Mrs. Nichols said if everyone will recall, we came to the Commission last year with the latest totals to cover what we thought the Waste Water Treatment Plant was going to cost; at that time, we had the number of \$15 million. When we came in here and said we would have to raise the rates large enough to meet that, the average residential customer would see a \$9 increase a month on their utility bills. The \$15 million number was really not a good number and now we can see that because now it is \$22 million. We would have to raise the rates substantially to come up with enough money to pass a bond issue or to borrow the money from the Finance Authority in order to meet that debt service obligation. We cannot refund the 2005 bond at this time because it is not eligible and it is not eligible until 2015, we would not be able to refinance that issue until that time.

Commissioner Ferguson understands, but he would like to see us put the question out to the citizens and let them decide if they want to pay some now or do they want to pay a whole lot later, because that is going to be their choice and he thinks a lot of them would rather pay less. His personal preference is to do it all at once and get it all done and over with instead of spreading it all out because none of us on the Commission, at this time, will be here at that time and they are going to be asking what we did to them. He doesn't know what the answer is, but he thinks we should write up something and have it ready for the next election and put the question to the voters and ask them how they would like to see it done. Mrs. Nichols believes that we have done basically what the Commission would be satisfied with. The rate increase that we built into this funding plan is very minimal and it would be a matter of sticking to that plan. Of course, things always come up, and there are always other expenses. We have worked very hard to get our rate structure to where we have the ability to do pay-as-you-go capital and minimize those rates. This funding structure that we put together has very minimal rate increases. In the past, if you can remember, we have brought rate increases to the Commission that were anywhere from five to 15 percent per customer. For the next

two years, we have brought to you an average of 1.15 percent and a 1.7 percent from 2013 to 2018. Of course that is a plan and like Commissioner Ferguson said, we don't know where those costs are going to go, we don't know what the inflation rates are going to be or what the interest rates are going to be, but we believe this is a very good plan and feel that it is going to work. Yes, it will take a lot of work to stick to it, but the increase to the citizens is very minimal. If you go out for a General Obligation Bond to try and cover the rest of this, or go out to the citizens and ask them to do it all right now and fund it all right now, you are talking substantial increases and she does not think that is the way the Commission wants to go. Commissioner Ferguson asked if we have tried getting Community Grants. Mrs. Nichols assured him that they have looked for grants, we have looked at funding, we have looked at the state and we are asking them for help and hopefully, they will be able to help us with some of this before we get to phase two, three, or the 2020 phase and there is still hope for that. Right now, we have an Engineering Design, and it was her understanding last year that this Waste Water Treatment Plant needed to be done yesterday. We have worked very hard over the last two years to figure out a way to do it and we have our Engineering Design and we have our cost and she believes they have put together a pretty good plan to get it all done.

Commissioner Rentschler asked Commissioner Ferguson if he has received any calls over the \$2 increase for the Convenience Center, because he has received his fair share. He knows that if the Commission decides that it is a good idea to double our water bills for something like that, we are looking at something like \$1,700 per meter and there are 13,000 meters out there. There is just no way that we can get that back in the short period of time that you are talking about. Even over a five year period, that is still a substantial raise and he thinks we need to try and stick to a plan similar to what is being presented tonight. He has some of the same concerns, especially with what has been happening over the last couple on the federal level, and there is no telling where our interest rates are going to go to or what could possibly happen as far as inflation is concerned. At the same time, he just doesn't know that there is a mechanism that would spread this out enough across enough years to minimize the affect on the people that can't afford it. Commissioner Ferguson said he didn't know either, but he just wanted to bring it up because the Commissioners should not be the only ones making the decision, he thinks the citizens should have a voice in this as well. Many people would like to save money in the long run and he thinks this could be just like the federal government and we are just going to be putting the cost off unto future generations. We are doing the same thing the federal government does by saying we will just raise it a little bit because it won't hurt the people right now, but the future generations are going to have to pay. Nobody wants to stand up and say we need to do something, put it out to the citizens and ask them what they would like for us to do. If they say they are for the plan we have before us, he is fine with that, but he would like for them to have the option to say they would like to get it done to save money, or no lets spread it out and know that it will cost more for us later. He is not saying that he is the only one who is right, but he does not want to be the one to commit future Commissions to have to raise rates by a large percentage. If the citizens decided it, that is one thing but if a future Commission has to decide it, which is clearly a different thing because we are committing them because we don't know what is going to happen and none of us are going to be here and they are going to ask why we didn't raise it a little more because now we have to pay this much more money. He believes the rates are not going to go lower, they are going to continue to go up, if the economy goes up, it is going to cost more money to borrow. He would just like to let the citizens know what is going on and let them make the decision. Commissioner Rentschler said he agrees to a certain extent, but you are comparing us to the federal government, and they are spending money now and are going into a huge deficit and we have a balanced budget here; we are not going to do that. We can't do that and that is what you have to understand we need to have this one way or another. Commissioner Ferguson understands that, but we are committing future Commissions to borrow the money at a higher interest rate and they will really have to jack the rates up, so he would rather the citizens make the choice.

Commissioner Rardin asked Mrs. Nichols, on the proposed change you have here, the .63 cents for residential and the \$11.82 for commercial, is the percentage on the commercial account a greater increase; you said it was a 1.7 percent on the residential. Mrs. Nichols explained that the percentage is the same. Commissioner Rardin said so since the commercial account holders are getting more water it is a little higher. Mrs. Nichols confirmed this and said it actually equates to two percent for

both residential and commercial accounts. Commissioner Rardin just wanted to confirm that the percentage amount is the same for residential and commercial. Mrs. Nichols confirmed this as well.

Mayor Griggs said he wanted to back up just a little. When Staff brought us the first proposal, they were going to increase rates \$10 a month, which is a tremendous increase, the Commission, including Commissioner Ferguson, thought that is a terrible deal and a deal that we can't afford to go to the people with. We then asked Staff to come back with the proposal that might make sense, where we could do it in a combination of rate increases, bond refinances, and potentially a property tax bond. Property tax bonds are the only way that we could potentially raise enough money to do this all at one time, and he is not sure that we are willing to do that and he is not sure there is enough wiggle room in property taxes to do that. We have serious issues with this, the approach that has been presented to us tonight gives us the opportunity to get started with phase one, and then we can address phase two and decide if we need a new bond issue based on rates or if there is another way to address it. Potentially, we could also put that out as a GO Bond question in 2012. We can make those decisions then and don't have to make them tonight. In the mean time, the Water Trust Board is still there and there may be opportunities to use them; staff can work with them to see how those opportunities might come about, but we have to recognize the fact that the State of New Mexico is not doing very well at the moment, so for us to sit here and try to count on that is probably a mistake. Where we are, is we are going to look at this based on what we can do, and this addresses it. Does it push it out to other Commissions to get this done, yes it does and it is too bad, but it is \$22 million as well and it is pretty hard to come up with \$22 million to get something done tomorrow. He thinks what Staff has put together is a viable proposal, it may not be the one we pick, but it is a viable approach. We are sitting here talking about stuff that we made Staff do, so he thinks it is somewhat unfair to turn around and all of the sudden say that you want the people to look at it. The way we got into this is we told Staff to come back and do this and every one of us was a part of that. The people of District Seven voted for him to make decisions such as this, and if you can't do that, he thinks you are advocating some of your responsibilities to the people that you represent.

City Manager Roath wanted to follow up on what Mayor Griggs said. There are two other things that are also important to recognize and one of them is that this is one part of our utility system and we must keep in mind that we also have water needs down the road that may also require funding. To attempt to try and put everything in one basket may hinder other improvements that we may need as well. The other thing that he thinks is important to realize is that while potentially rates could go up, as Commissioner Ferguson has indicated, we also have to look at the fact that hopefully, the City is going to grow, and as it grows, more people will be sharing in the responsibility with making these payments in regards to funding these improvements. To put all of this on the existing community, as it is, and not allow for us to make these improvements stages over a period of time, as the community grows, is really a disservice to the customers that we currently have within the system.

Mayor Pro-Tem Cole said when he read this earlier today, he did not understand a lot of it for sure, but the Mayor did say it well that we did direct Staff, that evening at the Civic Center, to develop a plan over a number of years. He also wanted Commissioner Ferguson to know that when he was reading this, he thought it was a very good plan, based on what we asked Staff to do. Does it need to be tweaked, maybe; has the financial situation changed, yes, substantially downward; but to him the overall plan does what we expected it to do. He guesses we could go back and change it, using a different approach, but he thinks we need to stick with something and move forward and if we need to tweak it down the road we can do that. He wanted to reiterate that this is exactly what we asked Staff to do when we went through the steps. All seven Commissioners were there that evening and we all agreed and directed Staff to proceed with a plan. Commissioner Ferguson admitted that he did agree with it because he didn't think about asking the citizens what their thoughts were and he thinks it would have been the least hurtful. He also admits that this plan is the least hurtful too, but he wants to try and reduce the rate increases as much as we can. But now he thinks that if we let the citizens make the decision and save money in the long run; bite the bullet now or bite the bullet later. He doesn't think there was anything wrong with his vote when he voted to do this, because he thought it was the least hurtful, he didn't think about taking it to the citizens.

Commissioner Ferguson asked if we were getting into the water rates too, because he has some questions about them as well. Mayor Griggs said lets get through some of this first. Commissioner Ferguson understood and said if we are just talking about the Waste Water Treatment Plant, he wanted to know where the money would be coming from, the water rates which will be a .30 cent increase per month over two years.

Commissioner Rance said his question may be for Mr. Powers but he is not sure. He was doing some figuring and he sees that it says we have a 1.3 percent normal growth factor, is that what is being considered in the percentage of increase; does that mean five years from now is the number going to be 6.5 percent, because that is not the number that was shared with us. He is just trying to understand that. Mrs. Nichols explained that the 1.3 percent growth rate was what the finance staff used for the operating revenue. We went and looked at the past three to four years and our average growth on our general customer base is about 1.43 percent for that revenue. She said she may not understand his question. Commissioner Rance said he may be reading it wrong as well. He then asked Mr. Powers if it was estimated at 4.5 percent in five years. Mr. Powers explained that was actually the interest rate on the bond. Commissioner Rance thanked him for clarifying that for him. Mrs. Nichols explained Mr. Powers was talking about was the interest rates and possible future interest rates. The 1.3 percent is the growth rate that we built into our estimates.

Commissioner Ledford thinks the 1.3 revenue, is the guess for the rate increase overall and that is only a small component of the total budget. What we need to concern ourselves with is controlling expenses as well and they estimate 2 percent growth in that, but he thinks that is because that is what we have done in the past. He would like to work on that as well, but that is an operating item, which is another component of the total budget, so when that all adds up, we have to make sure that increase in revenue takes care of it. We've been pondering this for two or three months and his understanding was that we did take to the votes a GO Bond, and part of that was discussed at the Town Hall Meeting, this is not something we just thought up yesterday. He has talked to some of his constituents and we have talked to the people and discussed it on numerous occasions, we went over it and we put it before the people and it did pass based on the fact that we had a plan. We described that plan and they liked that plan, and he will assure you that what we need to do is our job. The people vote for us to make these decisions, not to go back to them every time we can't handle it. He thinks Staff did the right thing; we have to assume certain economic factors. From what he understands the people have spoken and this is how they want us to handle it. They don't want the rate increase and they sure don't want to pay a big property tax increase. Tonight's meeting is about how we get there, because we have already had this discussion. He would like to proceed with talking about this project.

Mayor Griggs asked Mrs. Nichols if she is ready to move forward on the operating revenue and expenses part. Mrs. Nichols indicated she was.

Mrs. Nichols asked everyone to direct their attention to the Joint Utility Debt Service Coverage and Rate Increase Analysis sheet that she handed out, because there was an error on the original sheet in their packets. She wanted to go through this and explain what we did here. She indicated what the current operating revenue and said she entered what was actually collected in Fiscal Year 2010, these numbers represent last year. The Fiscal Year 2011 column represents the current Fiscal Years estimated budget. For Fiscal Year 2012, the Utility Department went back and we looked at what the real growth rate that we experienced in the last three or four years and used the 1.3 percent rate and that is the number reflected there. We carried that out to the other Fiscal Years using that same growth rate. The next row indicates the rate increase. We are going to go over the specific details of the rate increase of both the water and sewer and the tier systems and that will be coming up in a minute and it will tie to this. These are the estimated rate increases that will be generated. The rate increase that we are proposing, we would have one rate increase that would go into effect February 1, of 2011 and a second rate increase that would go into effect February 1, 2012. When you do that, because you would only be recognizing four months, when you put the rate increase into effect on February 1, the money will not be collected until March, April, May and June; so this \$35,422 represents four months of that rate increase. In addition, in Fiscal Year 2012, the \$142, 841 that is the amount of money we would be generating for a full year of what was collected in 2011 and four

months worth of 2012. We have Miscellaneous Revenue in here, and we did put a growth factor in here as well, and that Miscellaneous Revenue is from transfers from the Solid Waste that is paid to the Utility Department in billing.

Mayor Pro-Tem Cole asked Mrs. Nichols if she would define miscellaneous again. Mrs. Nichols explained that miscellaneous is revenue that we receive from Solid Waste, Fund 86, because the utility department also bills for the garbage, so they should share in that cost for the billing service.

Mrs. Nichols continued saying for Operating Expenses, the first column indicates what we actually spent last year, the next is our budget for next year, and we put in a two percent, yes it was an estimate, rate increase. She said Commissioner Ledford did point out that we do have inflation costs and things go up, and we are trying to curtail our expenditures and tone them down, but we do have to figure the inflation costs into the Operating Expenses. The current Operating Expenditures that you see here include all of the operating costs, salaries, benefits, and all of that. Miscellaneous represents \$200,000 a year that we put towards pipeline replacement; that is the normal wear and tear of pipelines underground, and \$50,000 towards capital equipment replacement. Those combined equal the total operating costs. Interest Income, we did do some estimates, and we did do them very conservatively, because they keep going down. It may mislead everyone to the amount of money available for Debt Service. The amount that is available is what we are allowed to borrow from. We currently have in the 1998 Wastewater and Sewer issue. This is the issue we are talking about refinancing right now, it's callable and we can refinance it when we generate new money, approximately \$5 million. When we do that, this payment would go away and we would pick up another payment, so we would pick up approximately \$280,000 per year, which is an increase to our cost. We currently have the series 2005 bond and we carry that out until 2016; where in 2017, you could actually refinance that and generate an additional \$3.2 million for the next phase of the Waste Water Treatment Plant. In 2013, we are proposing a new Debt Service, which would generate \$2.5 million which would cover the third phase of the Waste Water Treatment Plant. This Debt Service gives you big clues in the funding plans and the funding summary. She pointed out a spot lower on the slide and said the Debt Service Coverage ratio is based on the rate proposal and refinancing the issues, would put us at a 2.17 percent. Our ideal goal for the City is 2.0 percent. She has worked here for the past 14 years, and she would say we have worked very hard to bring the rates up to where we could cover our Operating Costs, meet the Bond Obligation, which they did or they would not have passed; but to create enough money to have pay-as-you-go capital. We have an enormous amount of infrastructure in water and sewer to get accomplished. If you have looked at the ICIP, there are some enormous projects that need to get done. It also looks good on your bond rates to provide the pay-as-you-go, which we are trying to use to make some of those improvements. The Bond Ordinance Requirement is 1.20 percent, and the City's goal is two percent, these are a little bit over, and is an estimate, but we feel that this is a good plan and we think it will work. Yes, you are going to have to watch your expenditures because prices could go up more than two percent, you could get a wage increase of more than two percent and those will have to be adjusted as you go. If our natural financial growth rate is 1.3 percent, and our expenditures are going up approximately two percent, then you would need .7 percent to cover that spread. The rate goals that we have given you are a little over that, it's about 1.7 percent. We want to keep our percentages at 2 points. She asked if the Commission had any questions on this spread sheet.

Commissioner Ferguson knows Mrs. Nichols keeps track of our 2011 budget operating expenses, which are \$6.3 million, as of today, are we ahead or are we saving money. We are keeping track monthly on how they are doing, but he does not know if that is good or not. Mrs. Nichols stated she did not look at it today, but she did look at it last week and she believes they are just slightly under. However, there is some expenditure that does not happen monthly; for instance, we pay our insurance twice a year, we pay that in July and December. However, we are just slightly in the savings mark for the quarter for the end of September. Each of the Commission receives a Revenue Expenditure report every month and if you look at the top, it will tell you where everyone should be at and she believes that if they look at the report, everyone was just slightly under. Commissioner Ferguson said if they are under, when we do the budget next year, for example if they were \$50,000 under for the bidding, then we can deduct that out of next years budget, right. For example, the \$6.3

million, say they only spend \$6.2 million, so right now we are saying next years budget will be \$6.4 million and say they saved \$100,000, wouldn't we deduct that off the projection for the following year since they didn't spend that money. Mrs. Nichols wasn't sure what he was referring to. Commissioner Ferguson said he just sees it as extra money floating around there and he doesn't want people to think that just because they have extra money, they might want to run out and spend it.

Commissioner Ledford explained to Commissioner Ferguson that what he is looking at is the operating expenditures, and they will take that into the fund balance and when they do next years budget, they will take that into consideration and help to meet those obligations for that year. He knows \$50,000 is not that much because he knows they could find a place to spend that, but there are other unexpected items and we try to keep that in reserve so that we can take that money and use it for that item. To take that extra money and use it immediately, because we have to maintain a certain amount of reserves to take care of unexpected things, and that is good fiscal management. They do take it forward, and put it in the beginning to evaluate next year's budget to make it easier. If it was that lucky every year, then we could sure service the debt quicker if we wanted to and pay it off quicker. You have to be careful about spending down to zero and not having something to fall back on, and that is usually what they try to do each year.

Commissioner Ferguson said that was his question, he doesn't want to see that they are under budget by \$100,000 when they are getting close to the end of the year and then just go out and spend money so that they can meet their budget. Commissioner Ledford assured him they don't do that. Commissioner Ferguson stated he just don't want to see them go out at the last minute and buy a new vehicle. What he is trying to say is if there is a certain amount of unused money, we need to take that into account and say if we can save this much money, lets try to save more money. We need to save as much money as possible and that is just the way it is these days and time. We have to earn a dollars worth of work for a dollars worth of pay. That is just the way he feels about it and if at the end of the year a department has any money left over, he doesn't want them to just go out and buy some new furniture or buy a new computer, or things like that. He doesn't want to see that happen, but he doesn't know how we can control that.

Commissioner Ledford asked Commissioner Ferguson if he listens to the details when we have the budget hearings. Commissioner Ferguson said he does not because we are hearing about it afterwards because they already spent the money. He would like to know how we can control someone going out and spending the money just for the sake of having it. He just wants to ensure we are spending the taxpayers money wisely and not just because it is there. Mrs. Nichols stated that she believes that everyone will be happy to know that the director's work very hard and we do have policies in place. Our budget actually shuts off on June 1<sup>st</sup>. There are checks and balances in place to ensure that we are spending that money wisely. It is true Commissioner Ferguson that in a lot of governments, if they have excess money, they do start spending that. Within the past five years, the policies and procedures that the City Manager has put in place, we do not allow that spending at the end of the year just to spend money.

Commissioner Ledford asked if we are going to talk about the cost of this project somewhere. This \$22 million freaks him out, and that has a lot to do with how we finance this stuff because what we do to raise revenue is pretty specific and he would like to know how specific we are on the cost. He knows what the fund requirements are, but maybe we don't have an estimate on the cost, but at one time it was \$15 million and now it is \$22. He doesn't know if that is the cost of things going up, but he wanted to know when they will be getting some real numbers. Mrs. Nichols said she would ask Mr. Threadgill to come up and address that.

Mr. Threadgill explained that when we budged the PER back in July and gave it to you, there was a whole section on the cost. The first real numbers we have, other than those at the PER, will be at the final design at the end of Phase one and that will be in March or April of 2011. By then we would have made all of the detailed decisions for Phase one; we will have actual equipment by type and scope going in there. Phase one will be an actual number. The real number, the one you are most

interested in, will come after the advertising and response to bids. He can tell you that during the PER process, we were looking at a long range process that will not be done next year, because we spaced it out over a number of years, that we discussed how to estimate this and how we move forward. The numbers that you are looking at right now are based on Fiscal Year 2010 dollars, with three percent inflation, over the next 10 years, with a contingency built in. Admittedly, they are probably on the high side, but he would much rather come to you with a 10 year plan like this that is slightly on the high side, then to come to you with a plan that is overly optimistic that things are not going up in price, as Commissioner Ferguson mentioned, and that things aren't going to change in the future. We believe, based on the information we have today, the design that we have completed today, that the design for Phase one and Phase two are really good numbers, but admittedly, most likely on the high side. Phase three and four, those are a little less secure only because of the time value of money interest and the construction over that period of years. He hopes that answers the questions. Commissioner Ledford said he doesn't think it does because he still doesn't know. Part of the planning process is figuring out the detail, the specific specs and all that stuff. There are a lot of dollars involved and that influences how we are going to pay for this that is all he is saying. To tell whether he would rather refinance a bond or go through rates, whatever, everyone has to figure out which way to go and it depends on how much we get and where we get it. He is not expecting a signed guarantee, because he knows that can't happen because of the uncertainty involved. His problem is that we are 50 percent different than where we were two years ago and he doesn't know how these numbers get there, but he had \$15 million on the brain forever and now it is a lot higher. Maybe when we get the figures back in March he will feel a lot better and we will still have time to do some thinking. We are going to be looking at this bond issue, but only for Phase one. Mr. Threadgill confirmed that right now we are only looking at Phase one.

Commissioner Ledford hopes some flexibility comes when we have some better numbers to be able to change his thinking. Mr. Threadgill stated the only response he would have to that is if we wait to put the financing in place until we have the final plan specifications ready to go out to bid, we will be delaying the project even more. Commissioner Ledford doesn't want to ask for that, but he is just saying that our estimates are based on some real weird assumptions, and how we approach it, it's not so much about prices as the specs, and he know they have been doing pretty good on that lately; but once we have some more numbers there, it will affect the rest of the project. Mr. Threadgill assured him that we are taking steps to control that and in the increase in the scope of the cost. The City Manager implemented this project, because of the scope of its size and expense, that we go with a quality control engineer to have another set of eyes on the whole project to ensure we reign in any unexpected costs and that we actually look at it to make sure we are getting the biggest bang for our buck from the design engineers. We have been doing that and that is another way that we are reining in the prices, and the City Manager has put that in place in this project.

City Manager Roath wanted to make one comment. Ideally, if our bids came in lower then we would be able to make other improvements out there, if the money is available. Say we came up with the \$12 million we needed for the first phase and the bids came in at \$10.5 million, we may be able to do some additional work there, or have the option to not spend that money and only utilize the \$10.5 million. Commissioner Ledford said that is a good example but his point is he would rather take the excess money and decrease the cost of the utility rates, and he thinks that is all of our desires. He hopes they are not going to go out there and look for something else to do with the excess money. City Manager Roath assured him they would not, but it could potentially reduce future rate increases down the road. Commissioner Ledford said that was his thinking as well.

Commissioner Rardin asked Mrs. Nichols, doing this the way you have the rate increases and refinancing the bonds, he knows we have a desalination plant that we are also looking at doing, does this exhaust all our money to raise any more money to do that desalination plant or do we have other options to raise money to do that also. Mrs. Nichols stressed that we always have an option to raise money; it is just a matter of raising those rates and how much you want to raise them. Commissioner Rardin said but by refinancing all the bonds and all that we are doing to do this, does it waste all our options. Mrs. Nichols explained that we are going to have other issues that come up, but with the 2009 New Mexico Finance Authority loan, she believes that issue was \$5.8 million, that issue will

come up in 10 years, so in 2019 that is going to provide more money. What the City has done financially with the bond issues is trying to do a new issue where the Commission, in the future, will be able to turn around and do new money every two years. We have worked long and hard on that plan too and she believes that they will have some funding options through refinancing in the future for that RO. Commissioner Rardin stressed he did not want to get our hands tied, and when it comes time to find money for the RO plant, we have all our options exhausted on the Waste Water Treatment Plant.

Commissioner Ledford wanted to mention that the RO deal is more of a phasing where this Waste Water Treatment Plant is more of an emergency. We have to do something so we are addressing some of our options. The Desalination Plant, he thinks is going to be a 15 to 20 year layout plan as far as getting it all done, because we don't need it all right now. We have been real lucky with the weather, but if we go back to the way it was five or six years ago, we would be hurting. He thinks the Desalination Plant, because it is phased in, allows us to have these options to look at some refinancing. Mrs. Nichols confirmed that the way the RO plant is set up, it allows us to find additional funding sources. City Manager Roath also wanted to mention that we looked at the issue of all of our revenue sources and one of them is one that the Mayor mentioned in regards to a GO Bond in 2012. We left that off the table for the initial phase, so that should the water project move faster than what we had anticipated, that we have that revenue source available to us as well.

Commissioner Rardin asked if we have a ballpark number of what the RO plant would do as far as rate increases. Mr. Threadgill indicated that they have not looked at that yet. Commissioner Rardin hopes that if we are to bump the rates up that it is a minute amount. This is on the sewer side and the RO is going to be on the water side, but it is all on the same bill. Mrs. Nichols agreed and said if the Commission would like for them to go back and put in some sort of increase for the RO for the future, we would be more than happy to do that. Commissioner Ledford thought they were already doing that. Mrs. Nichols explained that the RO is not in here.

Commissioner Rardin said this is for our own knowledge of what we are looking at as a rate increase to fund the RO along with the Waste Water Treatment Plant. Mayor Griggs stated there is going to have to be as many possible sources to fund water as we can find, be it property tax, be it this, be it state grant, or federal grant. The support we have had at the federal level has been great and he would expect there would be some help there. Hopefully, under the new administration and leadership that we will be having at the state level, that we could get a lot of money, but we can't count on that, but we never can tell. Some of the things we have built in here, two or three years from now, we might have different opportunities as far as funding goes.

Commissioner Rardin wanted to know, as far as hitting 2013 and 2014 where we are looking at \$3.5 million or so, he knows that our State Representatives asking the state for money is like asking for a miracle, but what is the likelihood of them going and requesting that. He is new to this and he isn't sure how it all works. Mayor Griggs said there may be some sources, but one of the things that is fantastic about having them here tonight, they can see that these projects that the City of Alamogordo has is extremely expensive, and up to this point, the citizens of Alamogordo have pretty much stepped up to the plate and said we need it, we have to have it, and we are open to it. There are a variety of communities in the state that do not operate that way, they go immediately to Santa Fe with their hand out and if their name happens to be Albuquerque, where they have half the Representative and Senators in the state, there is a lot of money available to them. He is not sure how to work that out, but he would like to try. Commissioner Rardin said he is assuming it is an option because there is going to be some Capital Outlay money in the future that our two reps could conceivably try to get for us. If we can get help paying for this, we wouldn't have to do rate increases if we can get some grants from the state. Mayor Griggs believes that our five projects, this is one of them, so this is one of the things we will be presenting after the prayer breakfast, and before our reps go to Santa Fe, and if there is available help, we would certainly appreciate it.

Commissioner Ferguson wanted to ask a question about the RO plant since it was brought up. He wanted to know what the estimated cost of the Snake Tank project is going to cost us. Mr. Threadgill

stated the estimate, at total build out, we are looking at a 4,000,000 gallons a day plan, based on construction to date of other communities, specifically the one in California that has an almost identical sized plant, we are looking anywhere between \$70 and \$90 million dollars at total build out. As Commissioner Ledford mentioned earlier, it is a phased project, because we don't need 4,000,000 gallons a day or at day one. Commissioner Ferguson thought we were getting only 2,000,000 gallons at a time or 2,000 acre feet. Mr. Threadgill said no, it will be 4,000 acre feet a year or up to 5,000 acre feet in any one year but it would impact the next year. It will be exactly \$4.3 million gallons a day. Commissioner Ferguson wanted to know if his estimate is correct at \$70 million. Mr. Threadgill said you have to remember, we have 23 miles of pipeline in there, if we get some of that shifted out it might reduce the cost, but he is looking at total build out, 100 percent.

Commissioner Ferguson understands, but when he first got on the Commission, and he asked what the total build-out was, it was only \$33 million, so now it has more than doubled. If it continues to double every year, this is going to be a really expensive project and he doesn't think we have that much money. Mr. Threadgill explained that right now he has to remember that what we are dealing with on estimates when it comes to the Snake Tank project are conceptual ideas. We have very few engineering drawings with specific plans and specifications, and that is only for a few miles of pipeline. Everything else is conceptual, we have tried to factor in cost increases over the life of the project and so when we give you numbers, these are best guesses, based on limited information. We are not even to the preliminary design phase yet. Commissioner Ferguson understands that as well, but that is your best guess and when he first got on the Commission your best guess was \$33 million. Mr. Threadgill explained that no one expected six years for the EIS, but that is what happened.

**2. Discussion, and possible action, on proposed Utility Rates including approval to proceed with Amending Sections 28-02-100 and 28-03-080 of the Code of Ordinances with the proposed Rate Structure to be effective February 1, 2011 and February 1, 2012.**  
*(Armando Ortega, Customer Service Manager)*

Mayor Griggs asked Mrs. Nichols if she was ready to get onto the utility rates and she said she was and turned the floor over to Armando Ortega, Customer Service Manager.

Mr. Ortega began by saying this year we focused on trying to minimize the increases and still be able to make the operational increases. We considered the project that we are working with, which is the Waste Water Treatment Plant, so we focused more on the sewer base rate and commodity, we also did have an increase on the water base rate as well, but we did not increase the water commodity. What we have is a very minimal increase as to how it is going to affect the residential customers, along with the commercial customers. In the ¾ inch meter which is where we have 85 percent of our customers. The base rate for residential customers is going to go from \$12.85 to \$13.00 on February 1, 2011, which is a .15 cent increase. On February 1, 2012, again, very minimal increase as well, .15 cents and the base rate will go up to \$13.15. With the sewer rates, we were focusing on the Waste Water Treatment Plant, so with that in mind, we increased the rates for sewer base rate by two percent. Presently, the residential customer is paying \$13.15 for a ¾ inch meter and it will go up to \$13.30 on February 1, 2011 and another two percent on February 1, 2012, making the rate \$13.45. On the sewer commodity charge, it did increase from \$1 to \$1.05 per 100 cubic feet. When we project our sewer rates, our actual and our percentages have been within a percent for the past three years, so we project them very well. Our water is a little more difficult, because we have to consider conservation and weather, and we were pretty close with those as well, but our sewer rates we do project right on the money. Next, he wanted to show how these rates will affect a residential and a commercial customer. He showed a slide that shows how the rate increase will impact the residential customer and said they will see a .63 cent increase per month and an annual impact of \$7.56. This represents a customer staying within the tier two range; and not going past there.

City Manager Roath asked if that was about a .02 cent a day. Mr. Ortega confirmed this and added that is how we figured it.

Mr. Ortega also showed how it will affect the commercial side. He said commercial customers are

going to see about an \$11.82, and this slide represents a two inch pipe and that is where the majority of our commercial accounts are. They are going to see an impact of \$11.82 a month and an annual impact, at the high end, of \$159.11 a year. If the Commission will remember, the commercial accounts have larger sized meters and so therefore, they have larger size base rates along with their sewer base rate and the commercial accounts can recover that cost, where residential accounts cannot. The commercial accounts can pass the fee onto the customers and that is the approach that some of the previous Commissioners have asked us to take, and that is how we focused on the rate increase. He said if the Commission wishes to look at the 2012 increase, he has that available.

Commissioner Ledford asked Mr. Ortega if the change from tier one to tier two is pretty costly from year to year; does it change much. Mr. Ortega stated they try to minimize that, especially the ¾ inch residential customers and the commercial customers. We feel that the people who are conserving water should not be penalized. The people who are in the higher tiers, we never limit them. He quoted a comment one of the past Commissioners said 'We live in a desert and if you want a back east yard, then you can pay for a back east yard.' Commissioner Ledford asked if the revenue we are raising is based on the historical knowledge. Mr. Ortega confirmed that is the system they used. Commissioner Ledford asked that is how we came up with this current system. Mr. Ortega stated last year was one of our wettest years on record, so we had a lot less consumption. We do encourage conservation, and that is why the tier system was implemented, but we still have an operational budget to meet as well. City Manager Roath added, just for information that is just around .39 cents a day for the commercial side.

Commissioner Rardin asked Mr. Ortega if it would be possible for them to give the Commission a list of what it would cost from tier one to tier three for the residential and commercial sides, with the increase. Mr. Ortega stated he actually has it as part of his presentation. Commissioner Rardin said he was wondering how many residents stay in tier two or tier one. Mr. Ortega said he understands what he is saying, you want a specific listing of who is in what tier. Commissioner Rardin agreed and said he stays in tier one all the time, so he would like to know how many stay in the tier they are in. Mr. Ortega assured him that he will get him a listing with those numbers. Commissioner Rardin said if a resident happens to stay in tier five every month, they like to water their yard, he would like to see what kind of impact that has. Mr. Ortega said he would get those numbers. He went on to explain that a lot of the time, when we have residential customers in tier five, it is because they have a leak.

Commissioner Rardin asked what about on the larger commercial places, such as Betty Dare, where they use a lot of water. How much of an impact is that on them. He doesn't know what tier they are in. Commissioner Rance explained that a water meter is a whole other story. Commissioner Rardin said he would just like to know what type of impact it would have on his business, for example. Mr. Ortega stated on the larger businesses, a lot of the people in tier five, have six inch meters or four inch meters. Commissioner Rardin asked if he could just get a break down just showing a basic ballpark of how it would affect them. Mr. Ortega said he would and showed him an example of a commercial customer in tier five. He reminded him that we did not do any increases in the water commodity rates. This takes into consideration the base rates for water, the base rates for sewer, and the commodity charge for sewer; their monthly impact is only \$14.75.

Commissioner Rance said he couldn't remember if he was asking Mrs. Nichols or the City Manager, but they were going to get us some comparables of other communities. Mr. Ortega stated they did bring those tonight. City Manager Roath confirmed that Commissioner Rance has asked him about them. Mrs. Nichols handed out the comparison and explained that they pulled this down from the New Mexico Environment Department. It shows all the Municipalities in New Mexico and the differences in rates they each are paying. Mr. Ortega went on to explain that we tried to use some communities that were comparable to us. As you can see, Carlsbad is at \$14.43 less than us, but they are currently considering a pretty significant rate increase to cover some capital costs just like we are. It is the same thing with Roswell, they called us up and they actually want to model off of our tier system because they are having some of the same issues we are having with water, and their rate increases are going to be pretty significant. If you look at Ruidoso, it has very high rates, because they are paying for their new capital project for a new Waste Water Treatment Plant through the

residents; \$33.87 a month are being charged to each hook-up for their own Waste Water Treatment Plant. Mrs. Nichols added their average water bill is \$100 a month. Mr. Ortega continued saying he was speaking to their clerks and they are taking a lot of heat for that and the clerks are not real happy about it.

Mrs. Nichols wanted to also point out that in these comparisons, we may be looking at rates and how they compare, but we also need to look at where they are in their infrastructure and where they are at in their pay-as-they-go, how much money do they have available. In just looking at the rates, when we look at some of these cities that are doing what we did years ago in pushing their rates up to their expenditures, but we don't compare that, we compare their rates but there are things that need to be compared to that as well. She thinks the city is better off, and they would love to do a study like that.

Mayor Griggs said he has been with the City for a while now and couldn't remember how long it was that the City went without raising its water and sewer rates. He knows it was years before they raised them. Mrs. Nichols said it was eight years or more, but it was a long time. The very first time we came in to get the rates increased to help fund some of the capital project, because we were using the money from other Gross Receipts Taxes that could have been used for that; it was pretty substantial.

Mayor Griggs stated that the City of Alamogordo was sued for some and it was in court, pending on whether the City Commission could actually raise the rates, absent a memorandum or something along those lines. When the City finally won that it is what lead to allowing us to adjust rates just to the rate of covering costs. That was one of those things that we had to take literally. When you don't do something over a long period of time and then you do it, it does look kind of bad, and that is where we are on some of this other stuff. Our Waste Water Treatment Plant is about 40 years old and it is time to fix it. Our road programs, all those things would have been different, we might not have had the issues that we have to day, but they were, so we had to jump on board and get after some of this. Some of this is just timing and it falls on us to have to deal with a lot of these projects and we are doing the best we can. He thinks some of this stuff, and the best way we go through them just shows how serious we take them.

Commissioner Ferguson had a couple of comments for Mr. Ortega. We have the .63 cents increase, versus today's rates, it is actually in three years, it is going to be \$1.26 cents. Mr. Ortega explained that are based on a 5/8 inch connection. Commissioner Ferguson asked if they are really paying for a 3/4 flow, but they are only going to get 5/8, is that correct. Mr. Ortega stated it is a 3/4 inch meter with a 5/8 inch connection. Commissioner Ferguson said then they are not actually getting the flow of 3/4 inch connection. Public Works Director Brian Cesar said to actually answer your question, what we are actually billing for is the quantity of water, it is not the smaller meter size that is restricting the water flow, what you are actually charged for is the amount of water that is used.

Commissioner Ferguson asked if we are charging people who have a two inch water line more money or are they getting the actual two inches. Commissioner Rance explained that just because he has a two inch water line, doesn't mean that he gets anymore flow than anyone else. Commissioner Ferguson said he doesn't understand that if someone has a 3/4 inch line and someone else has a two inch line, they should be able to get either 3/4 of an inch or two inches of water flowing through there.

Mr. Cesar stated the reason a customer would want a larger meter is because of the volume. There is only so much water that can flow through a 3/4 inch meter, so if we look at a place like Betty Dare, we are talking a four or six inch meter in that area. Commissioner Ferguson understands that they have a four inch meter, but they are only getting the flow of 5/8 inch. Commissioner Ledford explained it is not about flow, it is about volume. Mr. Cesar said they could have a 3/4 inch line, but it is the meter itself is a 5/8 inch meter. Commissioner Ferguson said yes, but they are paying the volume of 5/8 inch. Mr. Cesar confirmed that they are paying for the volume.

Commissioner Ferguson said it is a 5/8 inch meter but we are telling people that they are paying for 3/4

inch. Mr. Cesar corrected them and said we are telling them they have a  $\frac{3}{4}$  inch line. Commissioner Ferguson said that a  $\frac{3}{4}$  inch line can only hold so much water, and a  $\frac{5}{8}$  inch line will hold so much. Mr. Cesar stated that a  $\frac{3}{4}$  inch line can hold so much water, but a  $\frac{5}{8}$  inch meter will pull the liquid past the  $\frac{3}{4}$  inch line. Commissioner Ferguson stated you can pull just as much water through a  $\frac{5}{8}$  inch line as you can a  $\frac{3}{4}$  line because a gallon is still a gallon.

Commissioner Ferguson said his next question is that we have  $\frac{3}{4}$  inch lines, but when he looks at the water line, especially in his district, the people are hooked up to a  $\frac{3}{4}$  inch meter but those water lines have been there 20 years, and our water is so bad that they are most likely only getting  $\frac{1}{4}$  inch of water going through there because those water lines are really bad. He thinks the only way we can increase the pressure to get the same amount of water. Mr. Cesar they cannot do that. Commissioner Ferguson said if we want to get the same amount of water in a certain pipe, the only way they can get the same amount of water is to increase the pressure if you want to get the same amount of pressure. Mr. Cesar stated that since he has been here, they have invested in a very aggressive pipeline replacement program along with the street maintenance program.

Commissioner Ferguson stated that he thinks the water here is pretty rough and he would like to place something on the next agenda to address that. Mayor Griggs stated that the next agenda is pretty long and what he should do is sit down with Staff and try to get some of his questions answered, and if there is a reason, it could be brought up later.

**3. Presentation, discussion, and possible action, on Bond Refinancing Opportunities including approval to proceed with refinancing the 1998 Joint Water and Sewer Revenue Bond; 2000 G.O. Fire Protection Bond and 2000 Municipal Gross Receipts Tax Revenue Bond, Flood Control.** *(Kevin Powers, Financial Advisor, RBC Dain Rauscher)*

Mrs. Nichols said she wanted to turn the floor over to Mr. Powers to discuss our refinancing options.

Mr. Powers said he wanted to make this kind of brief. He asked the Commission to turn to page number three of the handout, and said he just really wanted to focus on three major items here. The first item on this page is the Water and Wastewater Refunding, and was the item that was discussed early by Mrs. Nichols. The 1998 bonds that were issued on the Joint Utility System are currently callable and it makes it a great opportunity for the City to look at replacing those higher interest rate bonds, which were issued back in 1998 with some lower interest rate bonds. We can save money and at the same time by restructuring them at the same time, we can make room for these newer bonds and reduce the impact of the debt service for the City. We are recommending that the City look at doing this transaction sometime in the first or second quarter of 2011, to coincide with the further development with the Waste Water Treatment Plant project. This would coincide well with the point where you are at with the design level so you have a better feel for what the actual cost of phase one will be. Assuming that it is what it is estimated at today, you could generate another \$5.5 million out of refinancing this money and add it to the \$6.5 million that you already have in place which will get you to \$12 million you need for the project. Assuming, that as you are going through that design project, if you determine that Phase one is not going to be a \$12 million phase, it may only be a \$10.5 million phase, you could look at reducing the size you are borrowing at that time. That is why we are looking at waiting until the first or second quarter. There is this delicate balancing act that we are trying to achieve here and that is that we want to make this done before the interest rates go up, but we don't want to pull the trigger too soon and end up financing the wrong amount of money because the project hasn't been further designed, so that is another reason we are recommending the second quarter of 2011 for this transaction. One thing he wanted to point out about all of the planning for the Waste Water Treatment Plant and the water system bonding, we are trying to make sure that the City never gets into a position where the City's hands are tied, we want to make sure you always have options and those options are really in timeframes that are in two to five year increments rather than doing something in 10 years and not having any flexibility, so we are trying to provide the maximum flexibility. Mrs. Nichols mention something like an enterprise fund, like the water wastewater system to be viable and to be healthy, you need to incorporate pay-as-you-go funding as well as bond funding, and by keeping your bond ratios at 2 times or better, that gives you the ability to cash flow

fund pay-as-you-go bonds, and the way that you set your bond repayments up you can issue your bonds over time and provide that bond funding along with the pay-as-you-go funding. Looking at your current situation with your water and wastewater fund, you are in very good positions, certainly much better than what Mayor Griggs talked about when 10 or 15 years ago, you were actually in violation of that 1.2 times coverage factor. You were not even at the minimum and that was one of the reasons the bond holders who were the bond insurers came back to the City and tried to force the City to raise the rates, but that wasn't happening. The other two issues on this page that he would like to mention briefly are two transactions that you can do now and take advantage of the low interest rates. One is the Municipal Gross Receipts Tax Bonds that are outstanding, that go to fund your flood project. The 2000 bonds are callable today, they could be refinanced today and the City could save about \$390,000 in today's market that is about a 12 percent savings. We have been watching this for a while and he thinks that Mrs. Nichols is pretty comfortable in knowing what her future requires for this funding stream, and when this transaction is done, we will set up the additional bonding window so that when you come back in 2013 with some additional borrowing to additional cash flow needs in the flood control area. The third item is the General Obligation Bonds, and we do have some 2000 GO Bonds that are outstanding, and those bonds can be refinanced at this time and you could save about \$160,000 in that area and there are a number of different structuring alternatives that you have for that. Basically what we would want to do is to work with the City to ensure the debt structure of the refinancing would allow you to come back in with future GO Bonds with minimal tax increases. All of this is designed to take advantage of current market conditions, borrow money at attractive interest rates, and replace previous borrowings with more attractive interest rate borrowings. He asked if anyone had any questions for him.

Commissioner Ledford asked Mr. Powers where he expected interest rates to go. Mr. Powers said he actually brought an entire packet of stuff, and we have had two of our RBC Economists in the State, in the last couple of weeks, and both of them have virtually said the same thing and they believe that the interest rates are going to remain stable through 2011 and they have a whole packet of graphs and charts to back that up. In fact, contrary to what has happened in the market during the past couple of days, they believe interest rates will actually be lower by the end of the year than they were a week ago. Commissioner Ledford agreed, but people are having troubles finding investors. Mr. Powers agreed and said right now a situation with the Muni-Market where a lot of folks who have outstanding debts at higher rates that are out refinancing, but with the election, he thinks a lot of people were waiting to see what happened, so they would have a better idea of what will happen next year in terms of tax rate planning. All of the sudden, we have seen a huge jump in the forward supply of the municipal bond market, which has kind of pushed rates up temporary. Once all of that gets absorbed and gobbled up by the system, we expect things will come back down. For our communists, the 10 year Treasury bond yield is something they focus on, and they basically think that for 2011, the 10 year treasury will trade and arrange between 2.25 and 2.75 percent. Yesterday when they closed, it closed at 2.63 percent. It is a little bit at the high end of that right now, but they expect by the end of the year that it will be down at the low end of that, and continue bumping along in that range throughout 2011.

Commissioner Ferguson asked if Mr. Powers thought banks will start loaning money again, because it seems like they don't want to because they are not making any interest on them. Mr. Powers said he has heard many different stories about that, and when you talk to some of the bankers, they will say that they have money to loan but they don't have the demand for that money. He thinks it is different stories and different reasons. One of our economists gave us a presentation the other day and he believes that once Congress does something on taxes and gives people a more solid foundation to make investment decisions on, that a lot of the loan demands will come back. It is a matter of people not knowing what the tax impact will be in the future that is really slowing things down. There are a lot of theories and ideas, but they have to go by what their experts are saying.

Mayor Griggs asked if there were any additional questions for Mr. Powers. Hearing none, he thanked Mr. Powers for his time.

Mrs. Nichols stated that completes our presentation, and what they are hoping to get from the

Commission tonight is for permission to precede with the rate proposal, as we provided it to you. It will be in the form of an ordinance and we would bring that back to you during the first meeting in December. If you would rather wait and think about it, that is fine too, and you can give us that direction later. If you want to give us other options or there is another way you would like us to approach it, we would be more than happy to do that as well. We would also like to have your blessing to go forward with the refunding on the 1998 and the 2000 GO Fire Service Bond and the 200 Municipal Gross Receipts Tax Bond. Those will come before you and you will have another opportunity to discuss them again because we will be bringing them in the form of ordinances; you can always approve or disapprove them at that time. You are not actually approving the rates tonight, you are giving us permission to work on the ordinance and bring that forward, in addition, you are not approving the refunding tonight; you are approving us to move forward and bring you those ordinances and resolutions.

Commissioner Rentschler thinks what has been presented is very reasonable and his opinion is that we continue in the direction that we are already headed. Mayor Pro-Tem Cole said he would agree with that.

Commissioner Rardin asked what other options we have out there if we didn't go with this. Are there any other viable options we could do? Mrs. Nichols stated some of them were brought up tonight, you could vote to raise the rates enough to cover the cost of the phases, or you could wait until the next election and try to pass another GO bond. We discussed other options that you would have available to you, but she thinks that after that, we are kind of out of options. Commissioner Rardin also agrees with Commissioner Rentschler, he thinks it is the least expensive option and best for the tax payers.

City Manager Roath said he believes we have a direction, if that is the consensus of the Commission, and we will proceed on that basis and bring back these items as they become available for the Commission to consider.

Mayor Griggs thinks that it is pretty obvious to him that we have to at least move on the 1998 Bond refinancing so we have the money to do phase one of the sewer plant because he thinks that is critical. He thanked staff for all the hard work they put in on this and they look forward to having the ordinances brought forward so that we can look at those.

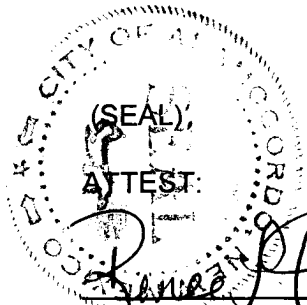
Mayor Griggs wanted to pat Mrs. Nichols on the back, the City of Alamogordo has consistently won top honors in budgeting and as we present them to the Finance Authority and the State. The work that she does behind the scenes to get this ready for us is a lot of work and her and her staff put their necks on the line every time and we appreciate it. He is proud of them and of everyone sitting up here, because this City Commission has taken the bull by the horns on a lot of issues and he is ready to move ahead.

Commissioner Ledford said that if we are going to be given a 65 page document that is this complex, he would like to get it a little more in advance. We have talked about this for two years and he gets two days to review it, and would like to have a little more time. He is talking about anything of this importance, because he thinks the Commission needs adequate time to review it. We are always talking about this stuff and we get it two days before the meeting, it never fails and he would like to improve on that with everything we do. As this ordinance comes forward and we get it on Friday, he will at least have the weekend to review it, and he thinks that okay, but this is a lot of stuff and when you put it in a package and try to tie it all together. Things that were talked about before, he has forgotten the majority of it and by doing it this way, it is like starting all over again.

## **ADJOURNMENT**

Mayor Griggs asked for a motion to adjourn the meeting.

Commissioner Rardin moved to adjourn at 7:57 p.m. Commissioner Rance seconded the motion. Motion carried with a vote of 7-0-0.



*Rance*  
City Clerk Renee L. Cantin

*Ron Griggs*  
Mayor Ron Griggs

*(Prepared by Marsha D. Brady, Deputy Clerk)*  
*Approved at the Regular Meeting held on December 21, 2010.*