

Minutes of the Work Session of the Gallup City Council, City of Gallup, New Mexico, held in the Council Chambers at City Hall, 110 West Aztec, at 6:00 P.M. on Tuesday, December 13, 2011.

The meeting was called to order by Mayor Jackie McKinney.

At such meeting, the following were present, constituting a quorum:

Mayor:	Jackie McKinney
Councilors:	Cecil Garcia Allan Landavazo E. Bryan Wall
Absent:	Mike Enfield, Councilor
Also present:	Dan Dible, City Manager George Kozeliski, City Attorney

Mayor McKinney said Councilor Enfield is experiencing some health issues and cannot be in attendance for the meeting.

The Mayor and Councilors presented a Proclamation to John "Jay" Azua, Executive Director of the Na'Nizhoozhi Center, Inc. (NCI), to recognize NCI for their 13th Annual New Year's Eve Sobriety Gourd Dance and Pow Wow.

The following items were presented to the Mayor and Councilors for discussion only:

1. Business Improvement District (BID) Presentation – James Rich and Michael Byrne, Gallup BID, Inc.

On behalf of the Councilors, Mayor McKinney expressed condolences to Mr. Rich for the recent loss of Mr. Rich's father.

Mr. Rich presented a handout containing a summary of the accomplishments of the BID. Mr. Rich said the BID's Board of Directors recommended the continuation of the BID for two more years only if the property assessments of the BID are reduced to .5% of the 2006 assessed valuations rather than 1% as specified in the BID Ordinance. Furthermore, the BID's Board of Directors is recommending the enforcement of the filing of liens on properties for delinquent, unpaid assessments.

Mayor McKinney asked Mr. Kozeliski if the Council could accept the recommendations as presented by the BID Board of Directors for the time being; allow the viability study of the BID to be conducted in accordance with the BID's Bylaws; and to allow the Council to consider the continuation of the BID during the first regular meeting in January 2012. Mr. Kozeliski concurred.

MINUTES

City Council Work Session – 12/13/2011

Page 2

Councilor Landavazo asked if the BID Ordinance would need to be amended if the property assessments are reduced to .5%. Mr. Kozeliski responded yes.

Councilor Garcia asked about the delinquent assessments. Mr. Rich said there are single delinquencies from the most recent assessment and multiple delinquencies since the enactment of the BID. Mr. Rich said there are a total of 43 delinquencies from the most recent assessment. Councilor Garcia asked about the reasons for the property owners not paying their assessments. Mr. Rich said some property owners have not paid their assessments since they are challenging the purpose and success of the BID. Mr. Rich also said some property owners are experiencing financial hardships due to the downturn in the economy. Mr. Rich said the BID's Board of Directors are concerned about the delinquencies since the City's matching funds for the delinquent amounts are also not being paid to BID.

Councilor Wall asked if a property owner could be excluded from their obligation to pay their assessment if the owner improved their property. Mr. Rich said there is a reimbursement program that may be considered in the future to reimburse property owners for aesthetic improvements made to their properties.

Mayor McKinney commended Mr. Rich and the BID Board of Directors for their recommendations. Mayor McKinney said the proposed reduction of the property assessments to .5% will benefit the property owners, the City's budget and will play a positive role in the viability of the BID. He asked Mr. Rich and the BID Board of Directors to meet with Mr. Dible concerning the viability study which is required by the BID Ordinance.

2. Proposed Gross Receipts Tax Financing for the Navajo-Gallup Water Supply Project (NGWSP) – Dan Dible, City Manager

Mr. Dible provided an overview of his presentation entitled "Navajo-Gallup Water Supply Project – Gross Receipts Tax Options." A copy of said presentation is attached hereto and made a part of these official Minutes. Mr. Dible said the numbers in the presentation are slightly different than the numbers in the NGWSP Repayment Contract due the fluctuation in the interest rates. Based on information from Paul Cassidy, RBC Capital Markets, the City may be able to obtain an interest rate of 4% or lower. Also included in the documentation of the presentation is a copy of an article from the December 11, 2011 Albuquerque Journal, entitled "Water Woes," which describes the problem of how demand continues to exceed supply in the Colorado River Basin. Mr. Dible said the City is in an advantageous position since the NGWSP will allow the City primary access to 7,500 acre feet of senior water rights from a river supply that is over appropriated. The documentation of the presentation also includes a graph depicting an

MINUTES

City Council Work Session 12/13/2011

Page 3

overview of the NGWSP's impact on the City's water fund on a base case scenario (with no gross receipts tax financing, 30 year debt repayment) and a separate graph illustrating the NGWSP impact on the City's water fund with a .50% gross receipts tax (30 year debt repayment) to finance the project. The base case scenario would only allow the City to generate \$16 million in cash as the City would need to finance more than \$69 million for the project. At the end of 30 years, the water rates to the consumer would triple. The operating fund balance will accumulate up until the time when water begins to flow in the pipeline by 2024, at which time heavy debt service will also take effect. The City will also need to cover the expenses of the project, which will continue to increase year by year. The .50% gross receipts tax contribution scenario would allow the City to generate \$40 million in cash as the City would need to finance \$45 million for the project. By having \$40 million available by the time water begins to flow in the pipeline by 2024, allows the City to handle the debt service payments more efficiently. The last presentation includes a comparison of a water bill currently costing \$43.00 and how the water bill increases annually by 3.84% by imposing a city-wide .50% gross receipts tax. The same water bill increases annually by a higher rate of 5.04% if an additional city-wide gross receipts tax is not imposed.

Councilor Landavazo asked if the total project cost of \$994,858,000 is the current cost of the project which is expected to increase over time. Mr. Dible said the risk of the project costs increasing over time is greater than the probability of costs being reduced over time. Mr. Kozeliski said a mechanism is in place where all of the project participants are kept informed of the project cost adjustments. Mr. Dible also said there is an "ability-to-pay" option or a "re-opener" in the contract which allows for the City to negotiate every five years its ability to pay its cost share of the project. Councilor Landavazo asked how Gallup's cost share of the project was determined. Lance Allgood, Executive Director, Gallup Joint Utilities Department, said the authorizing federal legislation establishes a base percentage of 25% for Gallup and a maximum of 35%, based on the ability to pay analysis that was conducted. Gallup's ability to pay will be analyzed every five years. Mr. Kozeliski said the City is at the mercy of the federal government for how much the City will have to pay back. Even though Mr. Allgood and the City's legal counsel presented a noble argument for lowering Gallup's ability to pay percentage, Mr. Kozeliski said the federal government established Gallup's ability to pay at 35%. Referring to the graphs in the presentation presented, Councilor Landavazo asked at what point would the City issue bonds for the project under either scenario. Mr. Allgood said the City's financing is structured under a federal loan with an interest rate of about 4%. Mr. Allgood said the majority of the cost of the project will not have to be paid until the City takes use of the facility in 2024, with the exceptions of Reaches 13 and 27. If the City is able to obtain a lower interest rate in the market, Mr. Allgood said the City may consider issuing bonds for the project. Councilor Landavazo asked if the County is willing to dedicate a portion of their gross receipts taxes for the project since

MINUTES

City Council Work Session – 12/13/2011

Page 4

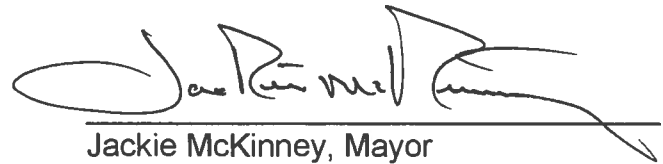
the project will also benefit county residents. Mr. Allgood provided an overview of how the project will benefit areas of the Navajo Nation communities and the unincorporated areas of the County. Mr. Dible said there is a very rational and reasonable basis for the County to participate in the project if they chose to do so. Councilor Landavazo agreed. Mayor McKinney said City officials have discussed the matter with County officials and believes the County will participate in the project. Councilor Landavazo asked about the operational cost share of the project once the debt for the project has been satisfied. Mr. Allgood said there will be an operations contract between the Navajo Tribal Utility Authority (NTUA) as the project operator and the project participants concerning the continuing operational costs of the pipeline. An operations water treatment conveyance contract will also be executed which will delineate how the costs will be broken up based on usage. For the long term, Mr. Dible said the City may want to consider a lease-purchase contract for water rights which would allow the City to own its water rights rather than leasing its water rights.

Councilor Garcia asked about the revenue that was generated from the water rate increase that occurred under the Rosebrough Administration. Mr. Allgood said 75% of the water revenue and 75% of the wastewater revenue was used for the revenue bond issue to finance \$21 million, in which \$11 million was used for the wastewater treatment plant upgrades and about \$10 million for water system improvements. The remainder of the water and wastewater revenue continues to be disseminated into a capital project account for pay-as-you-go improvements.

Councilor Wall expressed his concerns with imposing a higher gross receipts tax rate to finance the NGWSP since Gallup already has one of the highest rates in the state. He said the City should carefully consider the possibility of raising the gross receipts tax rate since it will also need to consider a new contract with Public Service Company of New Mexico for electric services. He also questioned the content of the material from RBC Capital Markets where the City is responsible for financing \$53.2 million of the project based on figures from August 17, 2011 and the current figure of \$73 million as presented during the current meeting. Mr. Dible said there are many ways of assessing the cost of the project since some of the numbers are present value or future value figures. The \$85 million figure used in the graph provided by RBC Capital Markets is a construction indexing future value figure. Although the City is pursuing both options of the gross receipts tax, Mr. Dible said the City will most likely receive one or the other; not both. Mr. Dible is hopeful that the City will be able to utilize .25% of the tax to leverage gross receipts tax contributions from the County. Discussion followed concerning future options for gross receipts tax financing for the project, pre-pay options for the project, and debt service calculations for the project.

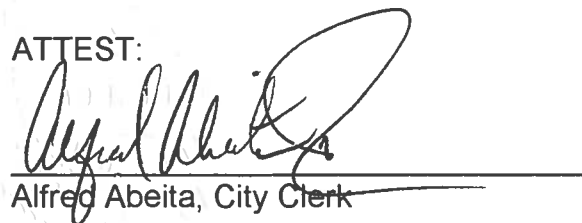
MINUTES
City Council Work Session – 12/13/2011
Page 5

Due to time limitations, the Work Session adjourned.



Jackie McKinney, Mayor

ATTEST:



Alfred Abeita, City Clerk

Approved 1/10/2012

CITY OF GALLUP

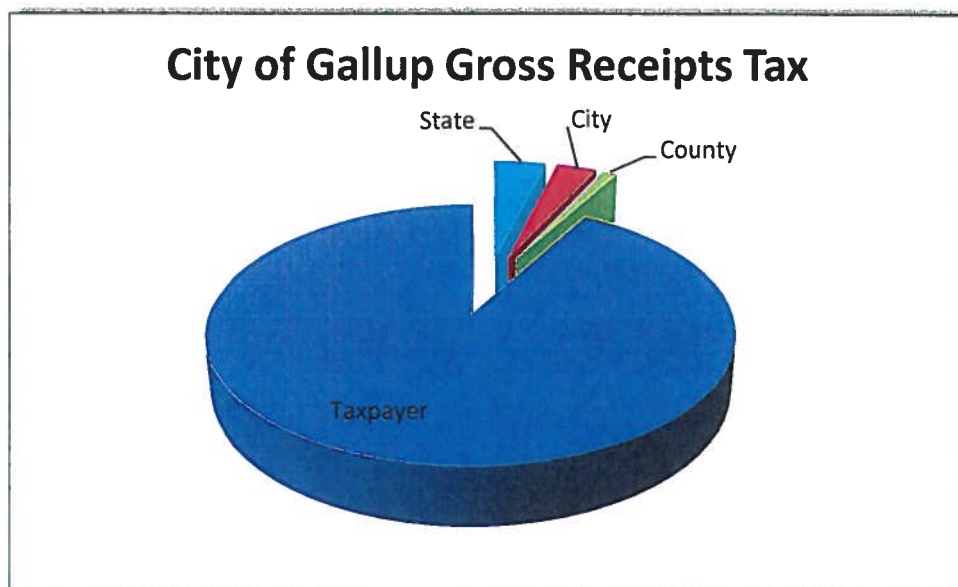
Navajo Gallup Water Supply Project – Gross Receipts Tax Options

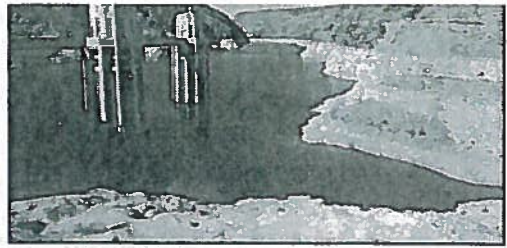
You are considering a proposed \$73,550,000 repayment contract for the Navajo Gallup Water Supply Project (NGWSP). This represents 7.39% of the total project cost (\$994,858,000). The city's water revenues for FY 2011 were \$5,564,467. Funding the City's share of the project with only water rates would result in extremely high water rates.

The City could propose a .25% Capital Projects Gross Receipts Tax for NGWSP but this tax is designed for capital projects only. NGWSP has a significant ongoing operations expense component. There are two other gross receipts tax options that the City has not enacted that could be modified by the state legislature to fit NGWSP.

The first option is to propose modifications to the .5% Environmental Services Gross Receipts Tax. This tax is currently being used to fund a new regional wastewater treatment plant for the Village of Ruidoso and the City of Ruidoso Downs. This tax does not require a public vote. The City of Gallup would like to have this statute rewritten to accommodate NGWSP's unique funding needs. The city would like the authority for two separate .25% GRT taxes in this legislation.

The second option is to expand the Quality of Life gross receipts tax to include language for NGWSP. This .25% tax requires a public referendum. The Village of Cuba is the only municipality that has enacted this tax. I recommend that you authorize the Mayor and me to promote both options to the Governor and the Legislature.





THE ASSOCIATED PRESS

Dropping levels in Lake Mead have left a white “bathtub ring” as demand exceeds supply on the Colorado River.

WATER WOES

Solutions Sought As Demand Exceeds Supply

Copyright © 2011 Albuquerque Journal

By JOHN FLECK
Journal Staff Writer

Demand exceeded supply a decade ago in the Colorado River Basin, source of drinking water for Santa Fe and Albuquerque, and a federal study now under way suggests the problem is only going to get worse.

By 2035, according to new data released last month, annual demand for the basin’s water could exceed supply by 13 percent under the most likely scenario as use continues to grow while climate change reduces flows in the river. Such an imbalance is unsustainable, emptying the reservoirs on which the region depends, said University of Colorado professor Doug Kenney.

“That’s enough to crash the system,” Kenney said.

The risk for New Mexico, which is not yet using its full share, is that others may covet our underused allocation as supply-demand tension grows, said Estevan López, head of the New Mexico Interstate Stream Commission and acting state engineer.

“We should be working with the other states to try and make sure that the other states aren’t looking at water that New Mexico is entitled to,” López said in an interview this month.

López’s comments came as the U.S. Bureau of Reclamation begins the final phase of a two-year study intended to quantify the problems faced by Colorado River users and lay out possible solutions.

In a conference call for Western water managers last week, officials with the Bureau of Reclamation formally launched a search for solutions to try to close the gap between supply and demand.

The Colorado’s overall problem has long been well understood — an over-allocation of the river’s water during a wet period in the 1920s, combined with drought and a forecast of a long-term decline as a result of climate change. But

Western States Face Water Worries

from PAGE A1

it is only in recent years that the federal government and the seven states that share the river have begun acknowledging that increasing demand has finally surpassed its supply.

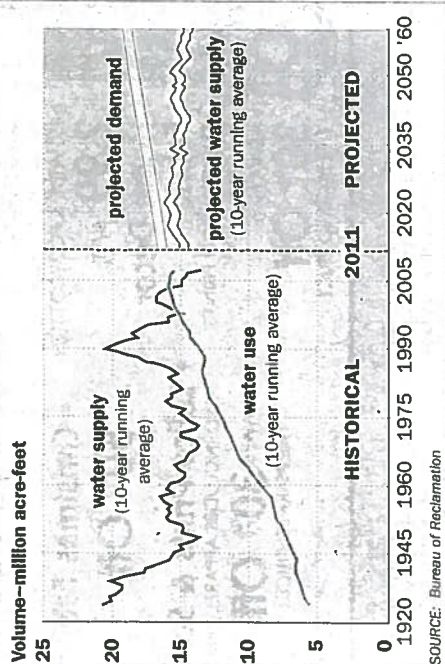
With storage behind dams equal to four times the river's annual flow, the basin's water users have had a cushion against long-term problems, Carly Jerla, the Bureau of Reclamation official leading the study, said in the conference call with water managers. But Jerla's latest data, made public in a late November report, show the cushion disappearing.

"This is the first time ever people have acknowledged there is a demand and supply imbalance in the basin," said Brad Udall, director of the Western Water Assessment, a research group based at the University of Colorado.

Jerla cautioned there are significant uncertainties in both the supply and demand numbers in the new study, especially about the size and speed of economic growth in the West, which drives water demand. She called it "a glimpse of potential imbalances that may occur."

DEMAND OUTPACING COLORADO RIVER SUPPLY

Demand for water in the Colorado Basin exceeded supply a decade ago, and a new Bureau of Reclamation study projects the problem will only get worse. Both Albuquerque and Santa Fe in recent years have turned to the basin for the water supplies.



SOURCE: Bureau of Reclamation

JOURNAL

Jerla said the new supply-demand analysis provides "good information to start framing the challenges ahead."

The Colorado's water is currently shared among seven U.S. states and Mexico. The states of the Lower Colorado Basin — California, Arizona and Nevada — have long used their full allocation, and also in some cases consumed extra water unused by the other states. The Upper Basin states

— New Mexico, Colorado, Utah and Wyoming — have developed more slowly and have yet to use their full share. But that is changing. Santa Fe and Albuquerque, for example, have recently begun using imported Colorado River Basin water for municipal supplies.

In Colorado, two proposals are under discussion for a large new pipeline to serve the growing cities along the east slope of the Rocky Mountains.

Utah officials are pushing for a new pipeline from Lake Powell to the St. George area.

And elsewhere in New Mexico, the Bureau of Reclamation is in the early stages of designing a pipeline to carry water to the eastern Navajo Nation and Gallup.

What is not clear, said Jennifer Pitt of the Environmental Defense Fund, is where shortages will be felt. Under the complex legal rules governing distribution of the river's water, it is possible that new uses in one area of the basin could lead to shortages in another.

In an effort to deal with the problem, the Bureau of Reclamation is soliciting ideas for ways of closing the supply and demand gap, Jerla said during the briefing. The agency is asking for suggestions across a wide range of possibilities, from ways of increasing supply, such as desalinating ocean water, to new conservation initiatives.

The agency is requesting ideas be submitted by Feb. 1. More information is available at www.usbr.gov/lc/region/programs/crbstudy/imbalanceoptions.html

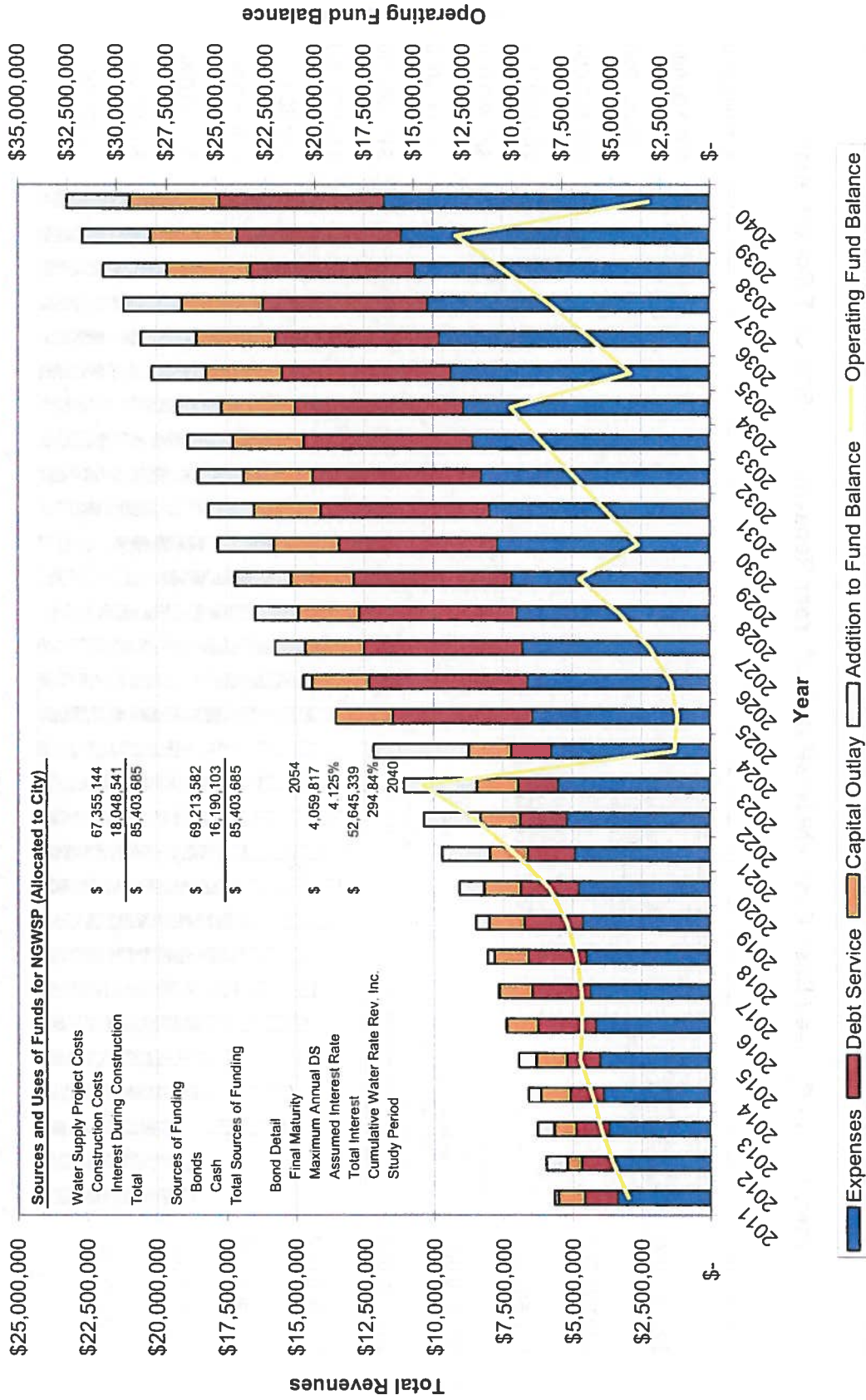


JOHN FLECK/JOU

Over the last decade, the demand for water from the Colorado River exceeded supply, leaving Boulder Harbor, a hot Nevada recreation area on the shores of Lake Mead, high and dry, as shown in this 2010 photo. A good 2011 snowpack returned some water to the reservoir, but long-term short pose problems for New Mexico and other states that depend on the river.

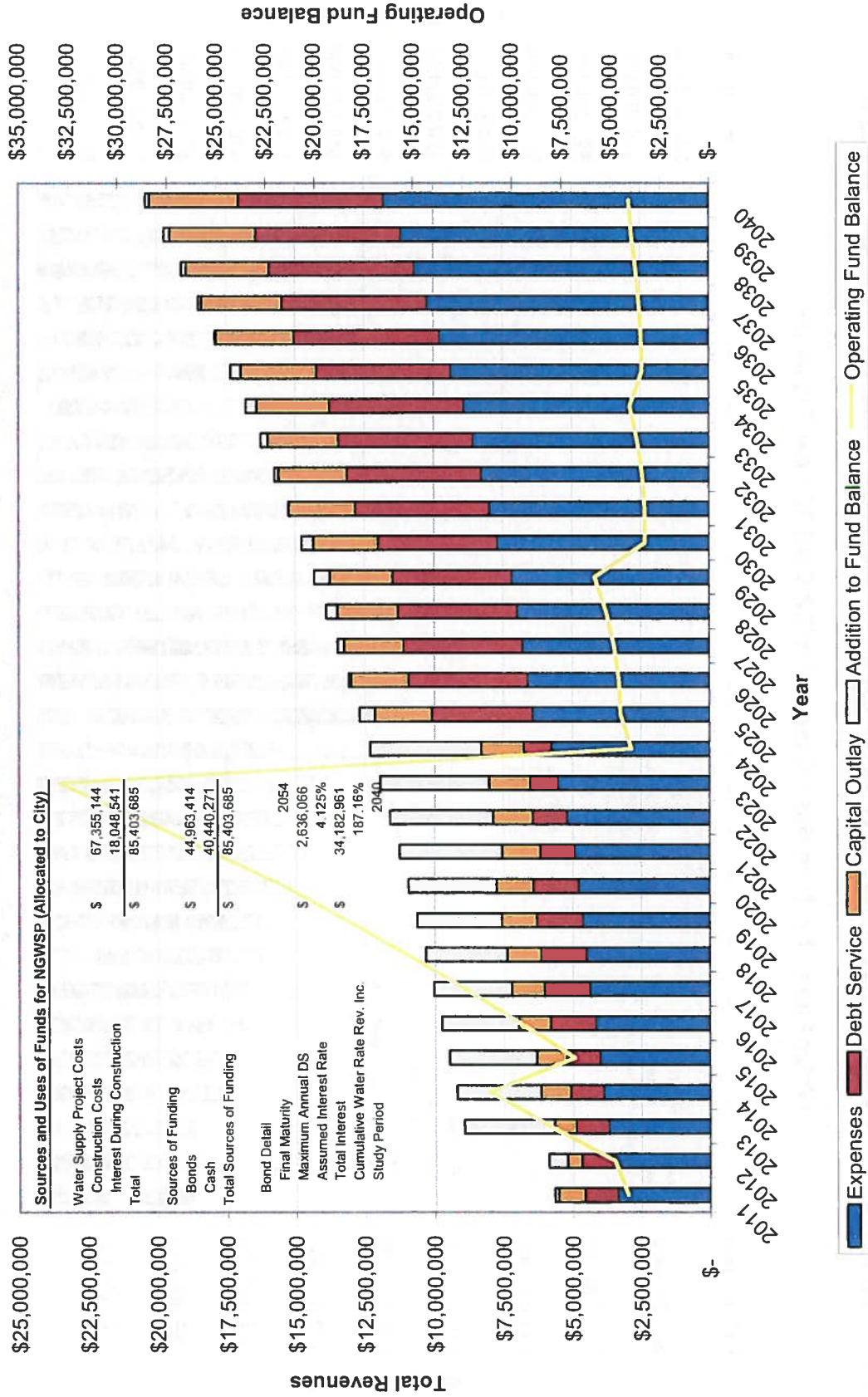
Overview of NGWSP Impact on the City's Water Fund – Base Case

Water Fund - Revised Base Case - NGWSP Debt 30 Year Repayment



Overview of NGWSP Impact on the City's Water Fund – 0.50% GRT

Water Fund - Revised Base Case - NGWSP Debt 30 Year Repayment - .50% GRT Contribution



Account: 11/10/11
 Bill Date: 11/10/11
 Final Bills: Prorate # of days / 30 Min Charges

0.00% Days
 0.00% Days

Utility	Charge Type	Charge Explanation	Consumption	Rate	Charge	
Electric	MIN KWH2	Base Charge on 1st 50 kWh	50.00	-	6.45	
		All other kWhs	753.00	0.1074	80.87	
		Total Energy Charge	<u>803.00</u>		<u>87.32</u>	-
Electric	Pole Light				-	-
		Total Electric Charge			<u>87.32</u>	<u>-</u>
Water	Water	Monthly Charge	5/8" Meter		8.84	-
		0 to 500 Cubic Feet	500.00	0.020973	10.49	-
		501 to 1,000 Cubic Feet	500.00	0.031116	15.56	-
		1,001 to 2,000 Cubic Feet	150.00	0.052331	7.85	-
		2,001 to 5,000 Cubic Feet	-	0.083447	-	-
		Over 5,000 Cubic Feet	-	0.096176	-	-
		Total Water Charge	<u>1,150.00</u>		<u>42.74</u>	<u>-</u>
Sewer	Sewer	Monthly Charge based on Meter Size	5/8" Meter		3.46	-
		Volume Charge 0 to 2,000 Cubic Feet	1,150.00	0.024432	28.10	-
		Total Sewer Charge			<u>31.56</u>	<u>-</u>
Garbage	GBFR	Monthly Charge based on Pick Ups	1 Per Week		15.03	-
		Total of Charges			<u>176.65</u>	<u>-</u>
Electric	Tax - T1	Gross Receipts	87.32	8.0625%	7.04	-
Electric Surchg	Tax - T1	Gross Receipts	3.49	8.0625%	0.28	-
			<u>90.81</u>		<u>7.32</u>	<u>-</u>
Non-Electric	Tax - T3	Governmental Tax*	89.33	5.000%	4.47	-
Non-Elec Surchg	Tax - T3	Governmental Tax*	3.57	5.000%	0.18	-
			<u>92.90</u>		<u>4.65</u>	<u>-</u>
Electric	Tax - T4	Environmental Surcharge	87.32	4.0%	3.49	-
Non-Electric	Tax - T5	Environmental Surcharge	89.33	4.0%	3.57	-
			<u>176.65</u>		<u>7.06</u>	<u>-</u>
Total Amount Due					<u>195.68</u>	<u>-</u>

	CHARGES	ENVIR SCHG	TAX	TOTAL
ELECTRIC	87.32	3.49	7.32	98.13
WATER	42.74	1.71	2.23	46.68
WASTEWATER	31.56	1.26	1.64	34.46
GARBAGE	15.03	0.60	0.78	16.41
	<u>176.65</u>	<u>7.06</u>	<u>11.97</u>	<u>195.68</u>
NON ELECTRIC	89.33	3.57	4.65	

	NO GRT	.5% GRT
	Residential Water +5.04% ANN.	Residential Water +3.84% ANN.
FY 2012	\$42.74	\$42.74
FY 2013	\$44.89	\$44.38
FY 2014	\$47.16	\$46.09
FY 2015	\$49.53	\$47.86
FY 2016	\$52.03	\$49.69
FY 2017	\$54.65	\$51.60
FY 2018	\$57.41	\$53.58
FY 2019	\$60.30	\$55.64
FY 2020	\$63.34	\$57.78
FY 2021	\$66.53	\$60.00
FY 2022	\$69.88	\$62.30
FY 2023	\$73.41	\$64.69
FY 2024	\$77.11	\$67.18
FY 2025	\$80.99	\$69.76
FY 2026	\$85.07	\$72.43
FY 2027	\$89.36	\$75.22
FY 2028	\$93.87	\$78.10
FY 2029	\$98.60	\$81.10
FY 2030	\$103.57	\$84.22
FY 2031	\$108.79	\$87.45
FY 2032	\$114.27	\$90.81
FY 2033	\$120.03	\$94.30
FY 2034	\$126.08	\$97.92
FY 2035	\$132.43	\$101.68
FY 2036	\$139.11	\$105.58
FY 2037	\$146.12	\$109.64
FY 2038	\$153.48	\$113.85
FY 2039	\$161.22	\$118.22
FY 2040	\$169.34	\$122.76
FY 2041	\$177.88	\$127.47
FY 2042	\$186.84	\$132.37