

Upon notice duly given under Arizona Revised Statutes, Section 38-431, et seq., as amended, the City Council of the City of Bullhead City held a Special Meeting on Tuesday, July 9, 2019, in the Council Chambers, 1255 Marina Blvd., Bullhead City, Arizona.

CALL TO ORDER

Vice Mayor Wegmann called the special meeting to order at 3:00 p.m.

ROLL CALL

Council Present

Brady (via telephone), Bruck, D'Amico, Ring, Shutts (via telephone), Wegmann

Council Absent

Clark

Staff Present:

CITY MANAGER: Toby Cotter

CITY ATTORNEY: Garnet Emery

CITY CLERK: Susan Stein

POLICE CHIEF: Brian Williamson

INTERIM PUBLIC WORKS DIRECTOR: Angie Johnson

DISCUSSION ITEM

1. Presentation by Raftelis Financial Consultants, Inc., and discussion/questions by City Council with Raftelis, staff and legal counsel concerning valuation of EPCOR Water Arizona, Inc., assets within and around Bullhead City, and any discussion/questions by City Council with staff and legal counsel concerning elections issues related to the possible acquisition of EPCOR Water Arizona, Inc.

City Manager Cotter said the city took great pride in all of its utility systems, parks, and public safety. He said they would like to see a conclusion to this matter. He said official action, through a resolution, would be taken at the July 16th Council meeting when the issue of purchasing or condemning EPCOR would be considered in order to be placed on the ballot in the November 5, 2019 election. He said the proposed resolution would also set a bond amount the city would propose to borrow, and an interest rate.

City Manager Cotter said today they would discuss the valuation of EPCOR's assets in the city. He said the city had hired a consultant to go out with professional appraisers, attorneys, and engineers to look at EPCOR's assets in Bullhead City.

City Manager Cotter provided a brief history of the issue. He said EPCOR filed a rate case in August 2017, which was their second suggested rate increase in a few years, and said they also sought full consolidation of all of their eleven water districts in Arizona. He said the original filing stated the average residential Bullhead City water customer would see a rate increase from \$28 to \$45. He said it was clear that Bullhead City residents would be subsidizing residents in wealthy communities such as Paradise Valley and Scottsdale. He said on May 4, 2018, the city intervened at the Arizona Corporation Commission meeting where Mayor Brady and Council Member Wegmann testified against the rate case and consolidation. He said he testified for an hour regarding the city's position on July 30, 2018. He said the rate case decision ended in a deadlock, a 2-2 tie, with one commissioner abstaining. He said the Council took the position that consolidation

should not be approved and the rate case was extreme, as well as the add-on surcharges that would make rates skyrocket. He said Mayor Brady, Council Member Clark, and he traveled to Edmonton in August 2018 and shared information with EPCOR officials in Canada. He said they came back with information and shared it with Council, at which point the Council decided to pull the issue from the ballot. He said today they would hear about the true value of EPCOR's assets. He said the Arizona Corporation Commission (ACC) voted 3-2 in favor of allowing the interim rate increase to move forward, and said another rate case will come up in May 2020. He said the Council and staff were not going to sit back and do nothing while the residential and business rate payers paid and paid. He said Bullhead City was the most affordable city in Arizona and wanted to remain affordable.

City Manager Cotter said he told the press that EPCOR was a good water company, but they were greedy. He said this community had a 20 percent poverty rate and people struggled to pay their bills. He said it was incumbent upon the elected officials and management to oppose the increasing rates and surcharges. He said there was a point where the residents and businesses could not pay the rates. He said the voters would ultimately make the final decision through the proposed ballot issue.

City Attorney Emery introduced Rick Giardina, representative from Raftelis Financial Consultants, Steve Wene and Chris Kramer, legal counsels.

Rick Giardina, Executive Vice President of Raftelis Financial Consultants, said he would present the results of their work on the preliminary estimate of value of EPCOR water facilities. He provided a brief background on his company and personal experience. He said Raftelis had been around for 27 years, and was the largest financial and management consulting company serving governments throughout the country with more than 100 employees. He said they were considered leaders in the water sector. He said they would discuss the purpose and objective of the study, Phase I methodology, valuation approaches, valuation estimate, and the next steps. He said the Phase I preliminary estimate of the market value of Mohave and North Mohave water systems would provide the information necessary for the Council to consider a ballot measure authorizing acquisition of water system serving the city and issuance of bonds to fund the purchase.

Mr. Giardina said additional work would be needed if the Council approved the ballot measure including further organization/transition assessment, detailed financial analysis, and final valuation figure for the water system.

Mr. Giardina said the first site visit in early April included a physical walk of the sites. He said a second site visit led by EPCOR officials included access inside the fence in order to get a closer close of the facilities. He said they inspected all EPCOR sites and facilities including equipment yard and administrative office, wells, water tanks, booster pumps, vacant land, and abandoned wells; all except for the underground. He said there were approximately 1.6 million feet of water mains and transmission lines serving Bullhead City.

Mr. Giardina said there was a great deal of information on the financial side for regulated utilities. He said they reviewed EPCOR's annual reports and rate filings with the ACC; and corporate documents including audited financial statements, interim financial statements, annual information forms, securities and regulatory filings, and disclosures. He said they used information from EPCOR that was reviewed by the ACC and conducted industry research about utility system sales of other regulated utilities.

Mr. Giardina said there were three valuation approaches for a monopolistic regulated utility: rate base, income, and market or comparable transactions. He said the rate base approach in a regulated utility environment calculated the rate base or investment upon which a utility was allowed to earn a return. He said the ACC used a fair value rate base approach with a 50-50 weighting of original cost and reconstructed cost to calculate the rate base a utility in Arizona was allowed to earn. He said the income approach looked at the value of any business/investment or the sum of the present value of future cash flows (discounted cash flow) reflecting the estimated earning potential of the business. He said the third approach of market or comparable transaction compared sales of other utilities, preferably recent sales in a similar regulated environment, size, location, service area, source of water supply, age and condition.

Mr. Giardina said their rate base approach used the ACC fair value rate base from the 2017 EPCOR rate filing for the Mohave and North Mohave systems. He said they determined the original cost less depreciation (net book value) and reconstructed cost new less depreciation. He said an adjustment was made for planned capital improvements, projected expansion, and ongoing depreciation in 2018 and 2019. He said the 2017 original cost less depreciation and reconstructed cost new less depreciation were both adjusted for planned capital improvements, projected expansion, and ongoing depreciation in 2018 and 2019. He said the ACC Fair Value Rate Base value for the Mohave and North Mohave systems was \$42,165,000.

Mr. Giardina said income approach factors included investor owned utilities regulated by the ACC that received a return on the fair value of the assets (rate base) based on a return. He said the rate of return for Mohave and North Mohave was set at 5.98 percent by the ACC. He said the potential net income for Mohave and North Mohave was based on the assumption of a 5.98 percent capitalization rate, and the net income stream was capitalized into perpetuity assuming the 5.98 percent rate of return. He said they discounted projected future cash flows to the present value assuming a 5.98 percent rate of return. He said they used EPCOR's capital expenditure figures and projections as presented to the ACC through year ten and largely duplicated those numbers for years 11 through 20. He said they assumed a stable average income stream after year 20. He said the net income stream into perpetuity and projected future cash flows reduced to present value, assuming a 5.98 percent rate of return, produced an Income Approach Value of the future income stream from the Mohave systems to be \$71,000,000.

Mr. Giardina said as a check of the two methods, they looked at comparable transactions in the Arizona market where EPCOR was a purchaser. He said in order to bring the values of these systems into today's dollars, they used the Engineering News Record Construction Cost Index (ENR-CCI) adjustment. He said they calculated the value of a system using the number of service connections and the amount paid for the system to obtain a price per connection. He provided the transaction information on five Arizona water companies purchased by EPCOR, and four Arizona water companies purchased by others. He said the average price per connection for all nine transactions in Arizona was \$3,164, and said the average of four comparable transactions outside of Arizona was \$3,374. He said the average value for the five EPCOR transactions was \$3,283 per connection. He said there were 16,527 connections in Mohave-North Mohave. He said using the comparable market transaction approach, the indicated value for the Mohave North Mohave systems was \$54,159,000.

Mr. Giardina said under the fair value rate base approach, the valuation of the systems would be \$42,165,000; under the sales approach, the value would be \$52,291,000; and under the income

approach \$70,700,000. He said the final value would be negotiated, but said he felt that \$55,000,000 was a good valuation estimate.

Mr. Giardina said if Council authorized a bond election, Raftelis would begin Phase II which included an organizational assessment, transition plan, additional financial analysis, and final valuation.

Vice Mayor Wegmann asked if anyone from the public would like to speak.

Monte Dalton, a Bullhead City resident, asked about the price paid by EPCOR to purchase the North Mohave and American Water systems. City Manager Cotter said EPCOR paid approximately \$2.1 million for the North Mohave System, and said approximately \$470 million was paid to purchase American Water.

Al Scigliano, a Bullhead City resident, asked if the city had determined the age and condition of the underground systems and pipes. He said they needed to be careful of what they were buying. He said the city needed to take over the water system.

Shawn Bradford, Vice President EPCOR Water Arizona, said assuming the resolution passed next week, it would be a hostile takeover. He said the final price would be determined through the court process. He said if the city decided to not purchase the system, the city would be responsible to pay all of EPCOR's legal costs.

John Bassen, a Bullhead City resident, said the presentation was very good. He asked if the 5.98 percent capitalization rate was derived from the comparable sales. Mr. Giardina said the capitalization rate was the authorized rate of return determined by the ACC.

Gene Quitmeyer, a Bullhead City resident, said the city would be dealing with the quality control of the water coming into homes. He asked if the homeowners would be assessed the same way as the wastewater system.

Eva Corbett, a Bullhead City resident, said when the water system becomes public, the city should budget funds for infrastructure repairs.

Scotty McClure, a Bullhead City resident, said Mohave Electric Cooperative could take over the water system from the city, as they were doing a good job running the electric company. He said the water system could be run by the city. He said the EPCOR veterans' discount of \$10 per month had not been applied to his account. He said he could not afford EPCOR's rate increases, and said the city should take over the water system.

Greg Valdez, a Bullhead City resident, said it was time for the city to take over the water system now.

Mike Sirchia, a Bullhead City resident, asked if EPCOR was owned by a Canadian government.

City Manager Cotter said the City of Edmonton was the sole shareholder, and said EPCOR's Board of Directors was appointed by the Edmonton City Council. He said the City of Edmonton did not run the water company, the people in Arizona run it. He said ratepayers gave money to the City of

Edmonton through corporate allocations, profit and borrowing. He said all of the revenue goes to the City of Edmonton.

Shawn Bradford said EPCOR Utilities, Inc. was the parent company of EPCOR U.S. which was a stand-alone entity. He said the City Council of Edmonton did not appoint the board members, they were independently elected. He said the City of Edmonton owned all of the stock, but said they ran independently of the city.

City Manager Cotter said EPCOR's website indicated: "*Our sole common shareholder, the City of Edmonton, appoints the Board.*"

Barbara Pape, a Bullhead City resident, said she resented a foreign country owning their utilities. She said the water was not theirs, and said residents could not afford the higher rates.

City Manager Cotter said revenue from the ratepayers would generate the payment of the bonds. He said there would be no special taxing districts. He said they anticipated to pay an approximate three percent interest rate as the City had an AA bond rating. He said some voters did not have EPCOR as their water supplier but said all registered voters in Bullhead City would have the opportunity to vote. He said neither EPCOR nor the City had made any comments about water quality. He said there should be no assumptions made that water quality would be improved drastically under either scenario. He said major investments needed to be made in order to improve water quality. He said future discussions would include how to pay for improved water quality.

Steve Wene, legal counsel for Bullhead City, said the reason Bullhead City got involved in the first place was to keep the water rates low. He said under the proposed consolidation, Bullhead City would be subsidizing rates for Scottsdale and Paradise Valley. He said the last rate increase was just the beginning of more rate cases filed in the future, and said more increases would be approved in the future. He said a profit motive was involved with private corporations, and said the city did not have a profit motive and could operate the water system more efficiently. He said the City's rates would not be regulated by the ACC.

MOTION: Council Member D'Amico made a motion to convene into executive session at 4:29 p.m. Council Member Bruck seconded the motion.

VOTE: AYES: Brady, Bruck, D'Amico, Ring, Shutts, Wegmann NAYS: None
ABSENT: Clark

MOTION CARRIED

EXECUTIVE SESSION

2. Discussion or consultation with the attorney of the public body for legal advice pursuant to A.R.S. § 38-431.03(A)(3) concerning valuation of EPCOR Water Arizona, Inc.'s water utility assets and associated potential ballot/election issues.

MOTION: Vice Mayor Wegmann made a motion to adjourn from executive session and the special meeting at 5:03 p.m. Council Member D'Amico seconded the motion.

VOTE: AYES: Brady, Bruck, D'Amico, Shutts, Ring, Wegmann NAYS: None
ABSENT: Clark

MOTION CARRIED

ADJOURNMENT

Vice Mayor Wegmann declared the special meeting adjourned at 5:03 p.m.

CERTIFICATION

I hereby certify that the foregoing minutes are a true and correct record of the special meeting of the City Council of the City of Bullhead City held on the 9th day of July 2019. I further certify that the meeting was duly called and held and that a quorum was present.

Dated this 6th day of August 2019.

Susan Stein
for Susan Stein, MMC, CPM
City Clerk