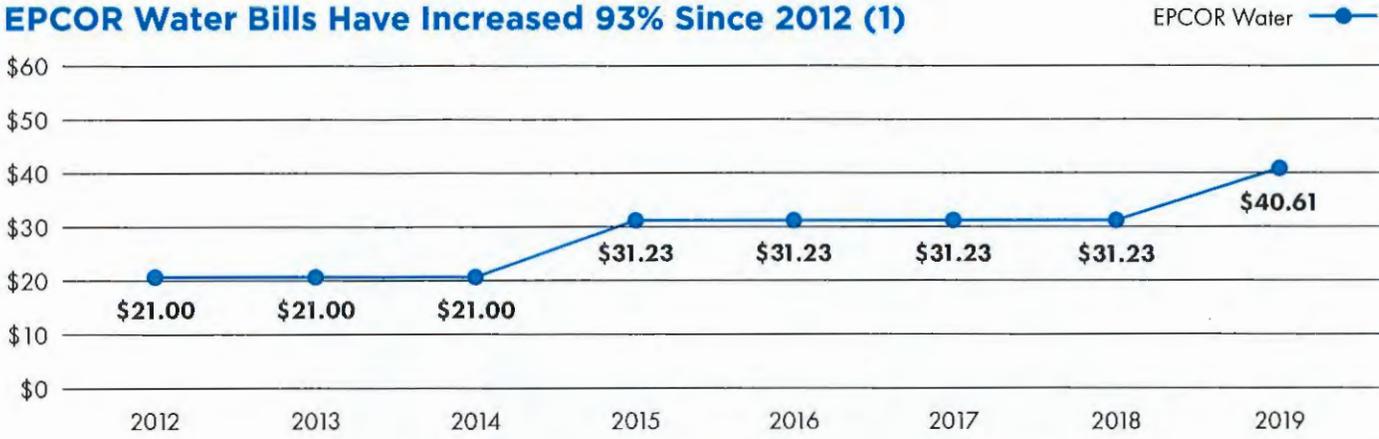


# Bullhead City Water Bills Past and Future

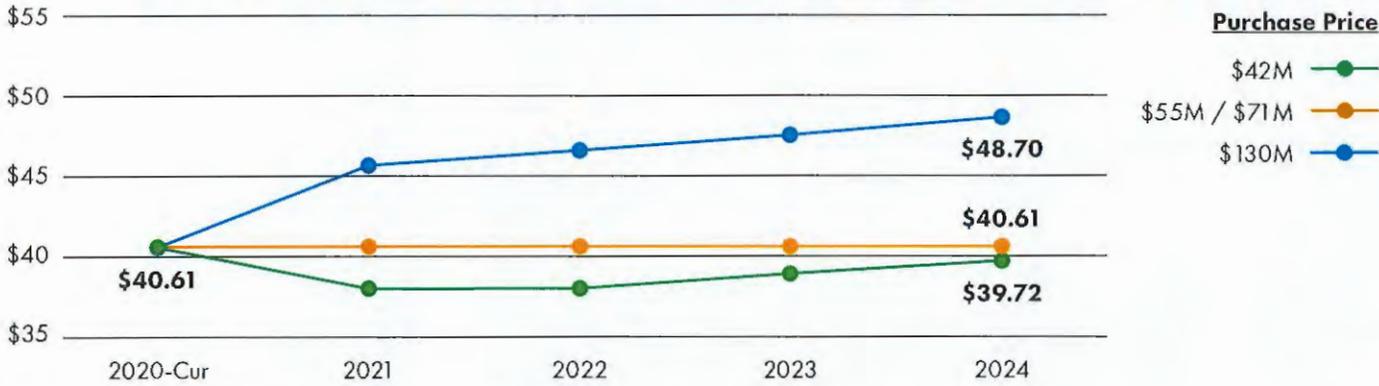


## EPCOR Water Bills Have Increased 93% Since 2012 (1)



(1) Mohave Water System Residential monthly water bill based on 7,000 gallons of water use; includes taxes and other EPCOR surcharges.

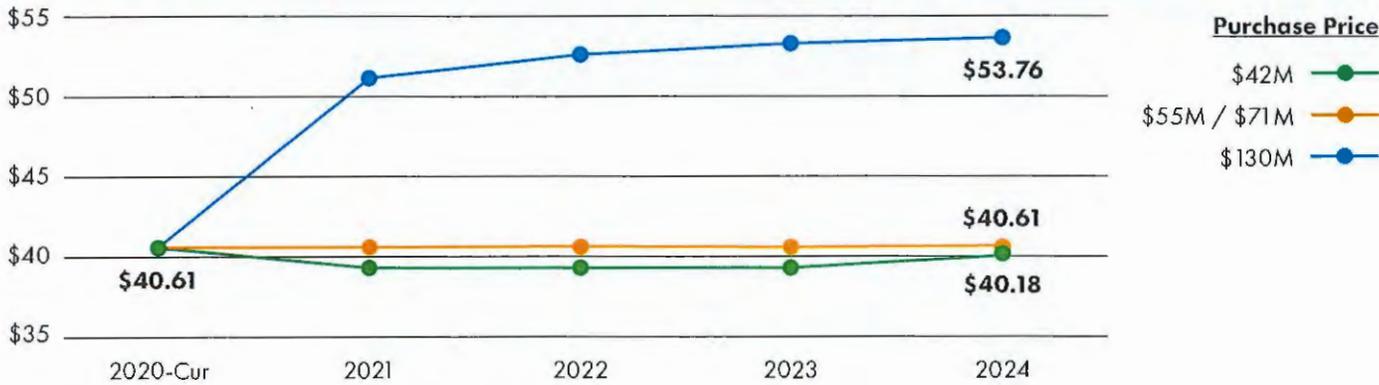
## City Ownership Projected Residential Monthly Bill - Bonds at 3.5% Interest (2) (3)



(2) Per EPCOR 2017 rate case docket number WS-01303A-19-0011. 100% of EPCOR CIP adjusted for inflation.

(3) Assumed ownership date 1-1-21. Values shown are the typical residential monthly water bill based on 7,000 gallons usage.

## City Ownership Projected Residential Monthly Bill - Bonds at 5.0% Interest (4) (5)



(4) Per EPCOR 2017 rate case docket number WS-01303A-19-0011. 100% of EPCOR CIP adjusted for inflation.

(5) Assumed ownership date 1-1-21. Values shown are the typical residential monthly water bill based on 7,000 gallons usage.

On July 16, 2019 the Bullhead City Council approved placing an initiative on the November ballot, Proposition 415, asking voters to determine whether Bullhead City should be allowed to acquire and operate EPCOR Water Arizona's local water system. Proposition 415 also asks voters whether they will approve, issuance of up to \$130 million in municipal bonds to finance the acquisition of the system (and possibly other systems) to be repaid with up to 8% interest exclusively from rates charged for water service.

Questions and answers about Proposition 415 can be found on the City's website at [bullheadcity.com/waterfacts](http://bullheadcity.com/waterfacts).

Pending the result of the ballot initiative, the City is preparing for the potential acquisition by developing a plan to effectively operate the water system, ensuring that safe, timely and reliable water service continues to be provided to Bullhead City residents and businesses.

## **The Plan**

Each of the key elements of water system operation and management are addressed, including appropriate organization and management framework and is intended to ensure that operations staff have the necessary certifications and skills to efficiently and effectively operate and maintain the water system. A summary of the plan elements is included, below.

The City has acquired several private and developer-built wastewater systems over the past 30 years and incorporated them into City operations. In total it has acquired nine wastewater systems. While these individual utility systems were individually smaller than EPCOR's water system, collectively they are of similar size and complexity. The fundamental acquisition and transition steps for incorporating a utility into City operations are well-known to the City.

### **Organization**

The City already manages a large wastewater division with treatment and collection system assets under the Public Works Department (PWD) that is similar in size and scope to EPCOR's local water system. If the acquisition is authorized by the voters, the City initially anticipates operating the water system under the PWD management umbrella. PWD staff already have experience in managing a utility. They develop utility budgets, deploy certified utility staff, and ensure the utility operates specialized equipment to manage utility infrastructure.

The City may consider creating a new water and wastewater department as part of the transition, to share resources with PWD and other City departments, but with greater specialization. Joint water and wastewater departments are common across the U.S. and provide a proven operations model.

### **Staffing**

City and EPCOR staff have worked together since EPCOR purchased the Bullhead City water systems approximately seven years ago. Most local EPCOR employees are residents of Bullhead City or surrounding communities. The City plans to offer all current local EPCOR employees a position with the City at their current base salary with City benefits with the hope that EPCOR employees would agree to make the transition. This will help ensure that the people who have experience operating the water system continue to operate the water system.

The initial period of City ownership will essentially be a time during which EPCOR local operating employees who want to join the City can transition into the City's operations. Some local EPCOR employees may choose to stay with EPCOR or seek other opportunities. The City plans to fill any open positions with new hires or current wastewater division employees, several of whom already have water operations licenses and similar skills as the current operations staff. This staffing model has worked in the past. During the past two changes in ownerships, from the Citizens Utilities Company to Arizona American Water in 2002 and then to EPCOR Water Arizona in 2012, many of the employees of the predecessor organizations elected to stay with the water system.

The City expects that cross training, attrition, and the use of pre-existing staff, capacities and functions should create opportunities for organizational and financial efficiencies without compromising service.



## Water Quality

If voters approve the acquisition of the water system, the City will assume ownership of all system assets including wells, pumps, water storage tanks, meters and pipes. The City already owns the water currently being distributed by EPCOR. With the acquisition of EPCOR's distribution and operational assets, the City will distribute the same water supply that residents are getting now. In the short term, Bullhead City residents should see no change in the quality of the services that they currently receive. Whether the City will be able to improve water quality will depend on available capital, grants or other sources of funding, the amount of investment needed, and the determination by the City Council, after community input, as to the costs and benefits of doing so.

## Utility Billing

Bullhead City currently bills for wastewater services. Adding water service is straightforward. City staff are working with their utility billing software vendor on all the requirements for migrating water account data into the City's utility billing system, in addition to obtaining data from water meters, processing the data, and generating combined water and wastewater utility bills. Combining water and wastewater charges on a single bill will reduce administrative costs.

## Water Rates

A private water utility, such as EPCOR, is entitled to receive a return on its investment for the benefit of its shareholder. The rate of return for regulated Arizona utilities is set by the Arizona Corporation Commission (ACC). EPCOR's current rate of return, as authorized by the ACC, is approximately 5.95% of its rate base. That means a system with an ACC rate base of, for example, \$50 million, would realize a return of almost \$3 million assuming a 5.95% authorized rate of return.

A publicly owned utility does not have shareholders and does not need to realize a return on its investment. All money collected from utility customers is available to be reinvested back into the system and its operation. In addition, the City does not pay income or property taxes. No utility revenues from a City owned system would go to local, state or federal governments for taxes.

Under City ownership the following costs could be eliminated:

Income Taxes	\$ 95,000
Property Taxes	390,000
Depreciation	2,400,000
Interest	639,000
Shareholder Return	<u>285,000</u>
Total	\$ 3,809,000

Source: EPCOR ACC Filing Docket No. WS-01303A-19-0011 Summary of Schedule C1s – amounts are for both Mohave and North Mohave combined as adjusted post surrebuttal.

These savings do not include any reductions in operations costs that the City might be able to achieve.

The City has calculated the projected water utility rates under City ownership. Assuming the same level of EPCOR staffing, historic levels of operational expenses and capital investment, and considering the debt associated with a purchase price of \$71 million and a borrowing cost or interest rate of 5%, the City would not be required to increase the current rates through at least 2024. How can the City do this? The answer is simple: the City does not need to generate a return on investment or pay taxes on the water system.