



BULLHEAD CITY WATER FACTS

General Questions and Answers

Would approval of Proposition 415 enact a new tax or assessment?

No. There will be no new or additional taxes or assessments if Proposition 415 is approved. Financing for the purchase would be repaid through the water rates paid by customers just as debt or financing undertaken by EPCOR is rolled into its rates.

Would the bonds cover only the purchase price and not the operation of the water utility?

Yes. The cost of the bonds plus all operational costs would be rolled into the rates charged to customers. The cost of the bonds would only be a portion of a customer's water bill.

Are there city residents who have the right to vote on the ballot measure who are not EPCOR customers?

Yes. State law provides for the vote of all registered voters within the City, whether they are EPCOR customers or not.

Would I see improvements in water quality?

Both EPCOR and the City agree that water quality can be improved. Both agree that it will require further investment to improve the taste and drinkability of the water in Bullhead City. EPCOR would be entitled to recover and seek a return on any such investment before the Arizona Corporation Commission in the form of rate increases. Whether the City would need to raise rates to improve water quality would depend on available capital, grants or other sources of funding, the amount of investment needed, and the determination by the City Council as to the costs and benefits of any given course of action.

Does Bullhead City have the knowledge and expertise to run a water utility?

Yes. The City Council will develop a detailed transition plan, so in the event residents approve Proposition 415, the City will be ready to operate the system. The City has operated a wastewater system for over 20 years.

How much will it cost Bullhead City to acquire EPCOR's water system?

The City will pay EPCOR the fair market value of the Bullhead City water system. Fair market value is defined as the most probable cash price a willing buyer would pay a willing seller where the seller had a reasonable time to find a buyer and the buyer knows everything about the property being acquired. In a court proceeding to acquire the EPCOR Bullhead City system, EPCOR will be treated as a willing seller, regardless of any claim that it is not for sale.

The City's consultants estimated the fair market value of the Bullhead City water system is \$55 million. EPCOR has stated that the value of the Bullhead City water system is \$130 million. The interest rate on any purchase price will be dependent on the economic conditions in place at the time the Bonds are actually sought.

The City has published potential sample water rates assuming various potential system purchase prices and financing interest rates.

How would water rates be set?

Under EPCOR, water rates are established by the Arizona Corporation Commission. If the City owns the system the Bullhead City Council would set the rates after providing notices required by law and conducting public hearings.

Why hasn't the City just purchased the water system?

The Mayor and City Manager traveled to EPCOR's headquarters in August of 2018. The City was informed that EPCOR's system in Bullhead City was not for sale and that the City would need to go through the legal process in court to acquire the system. If the parties had come to an agreement, the purchase would still have been submitted to the voters for approval.

What does the court process involve and can EPCOR stop the City from acquiring the system?

If Proposition 415 is approved, before filing a lawsuit the City must make an offer to EPCOR based on the City's appraisal and determination of just compensation. If EPCOR rejects the City's proposal and the City and EPCOR cannot negotiate a price, then the City may file the lawsuit that begins the acquisition process.

Upon compliance with statutory and constitutional requirements, the court must allow Bullhead City to acquire the water system. EPCOR will be given an opportunity to explain why the City should not be allowed to acquire or be granted possession of the water system. The only issues are whether the property is being sought for a public use authorized by law and whether the property being acquired is necessary to accomplish the authorized public use. A judge will decide whether the acquisition of EPCOR's Bullhead City system is a public use authorized by law. The court must normally defer to the City Council and the voters as to whether the acquisition is necessary to accomplish the public use.

The only remaining issue would be just compensation, or the amount of money the City will be required to pay EPCOR. A judge or jury, if either party requests one, would determine just compensation if the two parties cannot agree.

The City has the right to dismiss the lawsuit at any time and for any reason, even after a judgment in court. For example, if the verdict in EPCOR's favor were higher than the City wanted to pay, the City could dismiss the lawsuit and the City would be responsible for EPCOR's reasonable and actual

costs, disbursements and expenses, including reasonable attorney, appraisal and engineering fees, and if the City took immediate possession, would also pay statutory interest for the period of time the City was in possession. EPCOR would retain control of the water system.

Did the Arizona Corporation Commission order EPCOR to file a rate case without any request by EPCOR?

Although EPCOR is technically correct when stating it was "ordered" to file a rate case, the order was a result of EPCOR's decision to seek an interim rate increase outside of the usual rate making procedure. Normally, a company must validate a rate increase in a permanent rate case before new rates are implemented. In this case, however, the Arizona Corporation Commission allowed EPCOR to proceed with an interim rate increase on the condition that EPCOR file a permanent rate case in 2020.

Why is Bullhead City considering purchasing the water system from EPCOR?

EPCOR substantially raised rates in 2015. This year City residents saw a 25%, and for residents in the northeast area of the City, up to a 35%, as an interim rate increase. EPCOR has previously asked the Arizona Corporation Commission to allow it to merge rates with EPCOR's systems serving Phoenix area communities. Because EPCOR sought interim rates outside of the usual rate setting process, the Arizona Corporation Commission has directed EPCOR to submit a new permanent rate case by May 2020, and EPCOR's requests for rate increases and a possible regional merger will be before the Arizona Corporation Commission.

Did Bullhead City hire a company to research and evaluate EPCOR's water system?

Yes. In March 2019, the City initiated an investigation to estimate the fair market value of the water system. To make sure the City gets the information it needs, the City Council decided to hire a company that has done this type of estimate before. The company's consultants considered generally accepted valuation methodologies to estimate the fair market value of the water system.

Did the City investigate the current condition of the water system?

Yes. The City's consultants made two site visits to inspect all the relevant sites and facilities. One of those visits was led by EPCOR staff. The City's consultants viewed the equipment yard and administrative office, wells, water tanks, booster pumps and other assets such as vacant land and abandoned wells. The City's consultants also reviewed publicly available information relating to the system, including EPCOR's own records and public filings as well as documents and testimony submitted as part of EPCOR's latest Arizona Corporation Commission rate case.

What's the difference between a privately and publicly owned water utility?

A basic difference between municipally owned utilities and those owned by private companies is who sets the rates for customers and makes decisions about operational matters, such as water treatment. If Bullhead City owned the water system, decisions about rates and water treatment would be made by the Bullhead City Council. If EPCOR continues to own the Bullhead City water system, decisions about rates and whether to approve merger of rates with other communities would be made by the Arizona Corporation Commission. EPCOR would continue making decisions about water treatment.

Another difference is that a City-owned system would operate on a non-profit basis. EPCOR is a for-profit corporation and under Arizona law is entitled to make a profit on its investment in and operation of the Bullhead City water system.

What is the process for the City to take over the water system?

If voters approve Proposition 415 (to be determined by the all-mail ballot by November 5, 2019), the City will make an offer to purchase EPCOR's Bullhead City facilities and seek to negotiate a

price. If the City and EPCOR agree, then the City will implement its transition plan to purchase and operate the water system. If the City and EPCOR do not agree on a price, the City may use its legal authority to acquire the water system at a price to be determined in a court proceeding, during which the City may ask the court for an order allowing it to immediately take over operation of the water system while the case proceeds on valuation. At the end of the court case, the City will own the Bullhead City water system upon final payment of compensation as determined by the court.

Why does Proposition 415 request a bond in the amount of \$130 million?

Because EPCOR claims the system is worth \$130 million. The City disagrees, and estimates just compensation is \$55 million for the acquisition of EPCOR's Bullhead City assets. Approval of the \$130 million by the voters does not mean that the City must seek \$130 million but only authorizes up to that amount.

If an agreement cannot be reached both sides will have an opportunity to present their valuations in court. Using EPCOR's valuation to set the amount of the bond authorization gives the City flexibility to pay an agreed upon purchase price or judgment exceeding the amount of the City's estimate. Whether to accept an agreed upon price or settlement, or pay any judgment, will be a decision made by the City Council at a public meeting with public participation based on information available at that time, including such factors as the effect paying the settlement or judgment might have on water rates or service.

The \$130 million bond authorization also allows the City flexibility to possibly acquire other EPCOR or non-EPCOR water assets. If that were to happen then the total cost of the bond would be spread over all customers affected, not just EPCOR's Bullhead City customers.



FOR MORE INFORMATION GO TO [BULLHEADCITY.COM/WATERFACTS](https://www.bullheadcity.com/waterfacts)

During a recent forum held by EPCOR it talked about some eminent domain (condemnation) cases in which the court’s determination of value ended up being more than the condemning authority’s consultants had estimated. *Could that happen here?*

Both sides will have an opportunity to present valuation evidence. A court or jury could return any verdict within the range of testimony.

EPCOR discussed cases from other jurisdictions in which the value of the water company was determined at the end of the case instead of the beginning. Intervening factors, under such circumstances, can cause the original estimates of value to become outdated.

In Arizona, municipalities have the right to seek immediate possession upon filing a condemnation case, so the date of value is fixed early in the case. The City anticipates that it would seek immediate possession of the Bullhead City water system if the voters approve the acquisition and condemnation becomes necessary. If the court awards the City possession before the end of the case, it must pay EPCOR statutory interest on the final award at the prime rate from the date it takes possession.

EPCOR has stated that city acquisition of EPCOR is “BIG GOVERNMENT overreach.” *Is this statement accurate?*

Arizona law allows cities and towns to acquire and operate a utility only if the voters approve. A utility under Arizona law includes water systems.

During a recent forum held by EPCOR it talked about how a depreciated piece of equipment or property is replaced and that the replacement cost is rolled into the water rate. *How does that differ as to how the city might deal with a depreciated piece of equipment or property?*

Depreciation is an accounting principle which may or may not relate to the useful life of an asset. The City looks at the actual useful life of its assets and determines whether they can continue in use or need to be replaced. Fully depreciated assets may have no “book value” but they may still have a useful life. If so, the City may not need to replace that “fully depreciated” asset.

The ballot language in Proposition 415 includes authority for the City to acquire EPCOR but also “any other privately owned water utility, in and around City corporate limits . . .” *What does that really mean?*

EPCOR is specifically included in Proposition 415 because EPCOR is the water utility that is of interest to the public at this time. If the proposition passes, it would allow the City Council to consider the acquisition of other water utilities in and around the City at some point in the future without holding another public election. If the City Council were to consider the acquisition of other water utilities in the future, the City Council’s proceedings would still be subject to public notice and meeting requirements and allow for community input.



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