

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, September 10, 2019, in the Council Chambers, 1255 Marina Blvd., Bullhead City, Arizona.

**CALL TO ORDER**

Mayor Brady called the special meeting to order at 5:30 p.m.

**ROLL CALL**

Council Present

Brady, Bruck, D'Amico, Ring, Shutts, Wegmann

Council Absent

Clark

Staff Present:

CITY MANAGER: Toby Cotter

CITY ATTORNEY: Garnet Emery

CITY CLERK: Susan Stein

**DISCUSSION ITEM**

1. Presentation by Raftelis Financial Consultants, Inc., and discussion/questions by City Council with Raftelis concerning potential water rates and any discussion/questions by City Council with staff concerning the valuation of and potential water rates associated with the possible acquisition of EPCOR's water system in and around Bullhead City.

City Manager Cotter said the City Council discussed the EPCOR water assets valuation in July and said at that time, the question was not answered as to what the probable water rates would be under city ownership. He said this report would provide probable city water rates under a 3.5 percent interest rate, a 5 percent interest rate, and at 8 percent, which was highly unlikely. He said this was an educational public forum and said no legal action would be taken by the Council. He said the city had a right to inform and educate the public.

Rick Giardina from Raftelis Consultants said the primary purpose of the presentation was to show where they believed the city water rates would go. He said the city was looking at a number of scenarios. He said Phase I included the preliminary estimate of the market value of the Mohave and North Mohave water systems. He said Phase II included organizational and transition planning and financial analysis under city ownership. He said they looked at organization and structure, staffing, operations, water quality, billing and customer service, and financial planning and rates. He said the under the structure of EPCOR ownership, decisions regarding rates were determined by the Arizona Corporation Commission; and under public ownership, the water rates would be determined by the City Council.

Mr. Giardina said from an organizational standpoint, the city already operated the wastewater public utility. He said the water and wastewater utility divisions could be combined into one new utilities department. He said under the administration structure, the city currently provided wastewater billings and said one utility bill could be provided including both the water and wastewater billings. He said all local EPCOR staff would be offered a similar position with the city with the same base pay and city benefits. He said there would be opportunities for efficiencies such as cross training, unified customer service, and a single water and wastewater bill. He said, from an

operations standpoint, the city would employ the same trained people operating the same water system as it was currently operated. He said there would be resource sharing with the wastewater and public works staff, and said some city employees currently have water certifications. He said the city would be subject to the same water quality requirements as EPCOR and the Arizona Department of Environmental Quality. He said the city, with community input, would undertake future water treatment evaluation. He said the water and wastewater billing operations could be combined into one office space with the same meter reading technology, using existing city billing software. He said savings on mailing costs would also be realized.

Mr. Giardina said the average residential water bill since 2012, when EPCOR took ownership of the system; went from \$21.00 to \$40.61 in 2019, which represented a 93 percent increase. He said the Mohave Water System residential monthly water bill amount was based on 7,000 gallons of water use including taxes and other EPCOR surcharges. He said utility systems were capital intensive, and said it was that capital that drove the need for additional revenue. He said EPCOR's actual capital investment in the Mohave System averaged \$3.2 million per year from 2012 to 2017. He said EPCOR's planned capital improvements for 2020 to 2024 was projected to be \$25 million, or an average of \$5 million per year. He said the actual capital spending was \$19 million over six years. He said the residential water bill increased 93 percent. He said EPCOR proposed to spend \$25 million over the next five years which was a 32 percent increase in spending over historic levels. He asked where rates would go in the future under EPCOR's ownership.

Mr. Giardina said EPCOR was a private company, and said there were certain regulatory aspects that did not apply to a local government. He said savings would be realized under public ownership. He said income taxes (\$95,000); property taxes (\$390,000); depreciation (\$2,400,000); interest (\$639,000); and shareholder return (\$285,000), would add up to a \$3,809,000 savings under public ownership. He said the city would have \$3.8 million that could be used for something else, like paying down the debt.

Mr. Giardina reviewed the valuation estimates provided at the July meeting: \$42,165,000 under the fair value rate base; \$52,291,000 under the sale approach; and \$70,700,000 under the income approach. He said with those valuations in mind, they would look at what water bills would be under city ownership. He said they used EPCOR's numbers to perform the estimated rates and applied a borrowing cost of 5 percent. He said the current EPCOR residential monthly rate was \$40.61. He said they had determined the projected city rates to hold constant at \$40.61 for the next five years to 2024 under the \$42 million, \$55 million, and \$71 million purchase price scenarios. He said under the \$130 million purchase scenario, the rates were calculated to be \$53.76. He said there would be another rate filing with the ACC in May of 2020. He said they used the five percent borrowing cost calculation under the notion that this transaction might not be consummated in the next year, and said if it went out longer, the market could change.

Mr. Giardina said the city would continue to refine the proposed transition plan for the water utility under city ownership, management, and operations. He said the city was looking into additional billing system data and technology planning, and making preparations for the potential transition of water staff.

City Manager Cotter said the \$130 million valuation had always been EPCOR's number. He said the city's number was \$42 million under the rate base valuation. He said EPCOR had clearly stated they bought water companies using the rate base approach. He said there were other approaches to

value a utility, and said that was the reason other scenarios were analyzed. He said they agreed with EPCOR that if every new well, every new line, every new tank, every new meter, every new building, every new computer, and every new truck were purchased to replace what was in existence today, the system would be worth \$130 million. He said the city was interested in acquiring the utility as it existed today. He said they had vetted the system. He said the city and EPCOR would not come to an agreement as the city wanted to pay \$42 million and EPCOR wanted \$130 million. He said the current rate could be held until 2024 up to the \$71 million purchase price.

Council Member Bruck asked if the rate included the operational costs and the price of the bond under city ownership.

Mr. Giardina confirmed, and said the proposed rate assumed the price of the bond financing, all debt service, operational costs and capital costs as projected by EPCOR. He said historically EPCOR had spent \$3.2 million annually on capital investment, and said if spending increased to the \$5 million level going forward, EPCOR's rates would have to go up.

City Manager Cotter said this was not a bond measure because the money the city borrowed would be paid back through the water rate. He said the city did not have profit and did not need a rate of return. He said using the estimates, for example; the debt for the first year would be \$3.6 million and said the annual revenue was approximately \$10 million, leaving the rest of the money for other things. He said it was not as complicated as some people made it out to be.

Mayor Brady asked if anyone from the public wanted to speak.

Steven Lee said it was important the city did whatever it could to cut through the lies and inform the public of the truth. He said he hoped EPCOR had to pay a penalty for posting their signs early.

Al Scigliano said the Arizona Constitution specified that the Arizona Corporation Commission (ACC) established a comprehensive fair market value for utilities. He said the ACC had already established a value for the water system of \$42 million.

Gene Quitmeyer said the City Council Members were not experts and should not be making decisions about the water system. He said city employees had the "cushiest" job and did nothing. He said a lot of improvement was needed. He said all of the information presented was hypothetical.

Pamela Smith asked about the reason the voters were being asked to approve an 8 percent interest rate for financing the amount of \$130 million.

City Manager Cotter said Arizona law required the city to submit to the voters the maximum amount of indebtedness and the maximum interest rate. He said the process was similar to other cities, fire and school districts. He said if an offer to purchase happened within the next few months, the interest rate would be around 3.5 percent. He said the Council decided to go with EPCOR's number of \$130 million, but said the city's valuation was \$42 million. He said the purchase price and financing rate would go before the City Council, if the voters approved the purchase, in public meetings. He said there was no reason to bond beyond the purchase price, but said they had to submit the maximum number to the voters according to law.

Harvey Pryor asked about the other systems the city would like to purchase, according to the ballot language.

City Manager Cotter said the question was asked one time, so the city did not have to come back to the voters again. He said the same language was used when the city purchased the wastewater system. He said there were a lot of hypotheticals and said in the future, the city might want to purchase a surrounding water system over the course of time. He said they had not looked at the purchase of Bermuda Water. He said the city had no intention of annexing any land south of the city, and said there was no desire to pursue annexation outside of the city limits.

Dennis Moebs said water was measured by 100 cubic feet. He asked if the city as comparing the rates to the wastewater system. He said billing every three months would cut down on expense. He said he would like to see things go back to the way it was before when everyone got along.

City Manager Cotter said the city representatives brought an “olive branch” to the City of Edmonton and were told no when the city asked them to consider a friendly purchase. He said the city intervened and fought against the consolidation, the consolidated rate case and the interim rate case. He said the Council had been fighting for the citizens of this community.

Larry Tunforss asked if the rates could go down if the city experienced a large growth in new home development.

City Manager Cotter said growth was factored into the proposed rate, and said those types of decisions would be local and made by the City Council.

Greg Valdez said the city would be paying a lower interest rate than EPCOR because it had a higher bond rating. He said at EPCOR’s public meeting, the public did not receive answers to their questions. He said EPCOR used scare tactics, and said Bullhead City had a great response time.

Charlotte Costello said she was paying a lot more for her water since she first moved to Bullhead City. She said only a small percentage of water companies were owned privately, and said water was a life and death issue. She said people in Bullhead City could not afford the rates, and said the city needed to own the water system.

Barbara Pape said this issue had gone to an emotional level. She said EPCOR had increased rates and people could not afford this. She spoke in support of Proposition 415.

Michelle DeMoralis said her water bill had doubled and she was not happy about it. She spoke in support of the city owning the water system.

David Lords said he supported the water system under local control; and said if the water company was controlled by EPCOR, the public would have to attend the ACC meetings in Phoenix in order to comment. He said EPCOR rates were just too expensive. He said he was confident the city could operate the water system and said the city was a well-run operation.

Scotty McClure said EPCOR published a “feel good” ad in the paper that was full of lies. He said EPCOR had not given any of the discounts they stated were available to veterans and low income customers. He said the ACC set the rates for EPCOR. He asked if the city owned the water system, would it be liable to pay the 10 percent back to the developers for new water lines.

City Attorney Emery said the rule was set by the ACC for private companies. He said developers would build and dedicate the lines to the city; and said the city took on the burden for future maintenance, but did not pay anything for the infrastructure.

Rebecca Stenholm, Director of Public and Government Affairs for EPCOR, said they had a loyal, dedicated, talented group of employees. She said they did their job very well despite what was happening. She said they submitted pages of data to the ACC for their last rate case, and said they would need to see the presentation work papers from Raftelis. She said they did not agree to the numbers provided by Raftelis. She said their team responded to 8,000 emergency orders to the tune of \$12.7 million. She said they would not seek consolidation of Bullhead City. She said information on the North Mohave Water System should be included in the discussion.

City Manager Cotter said they had requested documentation from EPCOR, and said it was never provided to the city. He said they had to make assumptions on the labor costs at the current rate of pay. He said the city had provided volumes of documents to EPCOR upon their request.

Dawna Quitmeyer said the line through the Canadian flag seen in some of the billboard ads was offensive. She said Bullhead City had many Canadian residents and visitors and said it was insulting to their country.

Mayor Brady said the city had no control over what goes up on the Lamar billboard sign.

Joe Keunan said EPCOR was not motivated to support the community, and said the City Council was doing a great job. He spoke in support of Proposition 415.

John Pynakker, President/CEO of the Bullhead Area Chamber of Commerce, said at the public forum, EPCOR stated they were not interested in consolidation, but the ACC was requesting consolidation. He said they believed EPCOR would impose another rate increase after their rate case in May 2020. He asked about what the rates would be in the future.

Rebecca Stenholm of EPCOR said the ACC declined their consolidation request, and ordered them to bring a new rate case back with regional consolidation scenarios. She said they would not be recommending consolidation of the Mohave and North Mohave districts.

Eva Corbett said she resigned from the H2O Committee as a Board Member in April. She said she loved this city, and said they would "slay Goliath."

Billy Pershing said a newspaper editorial indicated that Lake Havasu had two water systems operated by the city and EPCOR. He asked if there were different rates between the two systems there. He said under EPCOR ownership, the water rates would continue to go up. He said future interest rate increases would also substantially increase the rates. He said the city would own the water system outright after 30 years after the debt was paid.

Royanne Ortiz said it was in the best interest of the community to own both the water lines and the sewer lines. She said water was important to survive and it was natural for the city to take over the system.

Mayor Brady thanked everyone for coming to the meeting and participating in this important public process.

**ADJOURNMENT**

Mayor Brady declared the special meeting adjourned at 7:07 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 10th day of September 2019. I further certify that the meeting was duly called and held and that a quorum was present.

Dated this 1st day of October 2019.

  
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Susan Stein, MMC, CPM  
City Clerk