

D R A F T*****
*****CITY COUNCIL REPORT AGENDA

DATE: August 29, 1990

DATE:

TO: George W. Britton
Deputy City Manager

ITEM:

FROM: Michael Gritzuk, P.E.
Water and Wastewater Director

SUBJECT: SALE OF PARADISE VALLEY WATER SERVICE AREA

*****CITYWIDE

This report requests Council authorization for the City Manager to enter into a service and sales agreement to sell the Paradise Valley Water Service Area to First National Utilities, Inc., (FNU), doing business as Camelback Water Company for the sum of \$2,789,723.

BACKGROUND

Subsequent to the statutory changes made by the Legislature to prohibit flexible pricing structures from one municipality to another, the City of Phoenix began efforts to sell water service areas that it owned in other municipalities. The City has sold the Scottsdale Service Area to Scottsdale, the Cashion Service Area to Avondale, and the Andy-Tell Water System to Tolleson. The only remaining water service area in another municipality for which the City of Phoenix is responsible is that area in the Town of Paradise Valley.

In 1986, the Town of Paradise Valley developed an appraisal for the purchase of the water system; but since that time has pursued little or no action to submit a proposal. In February of this year, an inquiry was received from FNU. This inquiry subsequently resulted in a letter proposal from FNU to purchase this service area from the City of Phoenix, and contract provisions have now been defined so that a recommendation for sale can be submitted to Council. Simultaneous with contract discussions between FNU, the Town of Paradise Valley initiated additional inquiries regarding the potential sale of the system to the Town. American Water Works Service Company, Inc., (AWWSC), the parent firm of Paradise Valley Water Company, also initiated a request for information to make a proposal. In order to avoid any additional delays in proceeding with the sale of this service area, both the Town of Paradise Valley and AWWSC were requested to submit their proposals to the Department by July 2, 1990. The Town subsequently declined proposal submission (letter attached).

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DISCUSSION

The Paradise Valley Water Service Area includes approximately 1,950 service accounts, of which most are residential. This service area has a very high per capita water use ranging from 500 to 600 gallons per capita per day and a total annual water requirement of approximately 3,300 acre feet.

Proposal discussions with both FNU and AWWSC have occurred. The proposal purchase price offers are as follows:

First National Utilities, Inc.	\$2,789,723
American Water Works Service Company, Inc.	\$1,206,478

The FNU proposal has resulted in a package proposal in which FNU would agree to purchase the system from the City of Phoenix for \$2,789,723 on a contract sale to be completed over an eight year period. The offer for purchase is contingent upon terms of \$300,000 down and annual payments of \$300,000 each. The payments would include 9 percent interest for five years and 12 percent interest for three years, with all funds due and payable at the end of eight years. In addition, a treatment agreement has been developed to treat the Central Arizona Project (CAP) water for FNU, and a service agreement for a limited amount of back-up water supply would also be provided.

The AWWSC proposal is a cash offer of \$1,206,478. The provisions for the treatment of CAP water and support through additional water supply from the City are similar to those of the FNU proposal.

Outside of the purchase price, each proposal is contingent upon a separate water treatment agreement for CAP water and a limited water supply agreement for additional water supplies. The general provisions of the treatment and supply agreements are as follows:

- (a) For treatment of CAP supplies, an agreement would provide for treatment and delivery of an annual limit of 1,438 acre feet of CAP water. The term length would be ten years with additional ten year increments allowable. The delivered price would be composed of Union Hills Water Treatment Plant's actual cost, distribution systems cost, a consumer price index inflation factor and a return on investment.
- (b) For other water supplies, an agreement would provide an annual limit not to exceed 150 million gallons. This limit would decrease to 75 million gallons annually during the past ten years of the agreement. Ten year renewal options would also be allowable. The delivered price would be equal to that of the CAP supply, plus a raw water cost equal to that paid for CAP water.

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Both of the proposals have been compared for their relative merits. Based upon net present value evaluation, the contract offer from FNU far exceeds that cash offer from AWWSC. The CAP treatment agreement and water supply agreements for the proposals are similar. While the Town of Paradise Valley has expressed a preference for AWWSC (Paradise Valley Water Company currently serves the Town), the differences in offered purchase price is substantial. Economically for the City of Phoenix, the FNU proposal far exceeds that of AWWSC.

This sale would conclude the City's efforts associated with not providing direct retail service in another municipality. All other service areas that were similar in nature have been sold. This sale would be advantageous to the City of Phoenix as it would eliminate the City's responsibilities to serve another municipality and eliminate from the City's water consumption base a very high per capita use area. At the same time, this sale would benefit the Town of Paradise Valley by providing them direct access participation on water service activities through the Corporation Commission. This arrangement would be similar to that of other private water companies currently serving the Town.

RECOMMENDATION

It is recommended that Council authorize the City Manager to:

1. Enter into a sales agreement for the Paradise Valley Water Service Area with FNU, doing business as Camelback Water Company, for the price of \$2,789,723;
2. Offer a contract sale with \$300,000 down payment and \$300,000 annual payments at 9 percent interest for five years and 12 percent interest for three years, all due and payable in eight years; and,
3. Enter into a treatment agreement for CAP supply and a limited supply agreement with ten year renewable options for both.

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Attachment

cc: Standard Distribution List