

PRESCOTT CITY COUNCIL
JOINT WORKSHOP WITH
PRESCOTT VALLEY TOWN COUNCIL
WEDNESDAY, OCTOBER 1, 2008
PRESCOTT, ARIZONA

MINUTES of the Prescott City Council Joint Workshop with Prescott Valley Town Council held on October 1, 2008 at the Stoneridge Community Center, 1300 N. Stoneridge Drive, Prescott Valley, Arizona.

1. Call to Order

Mayor Skoog, Town of Prescott Valley
Mayor Wilson, City of Prescott

Prescott Mayor Wilson and Prescott Valley Mayor Skoog called the meeting to order at 1:00 p.m.

2. Roll Call

Candi McElhaney, Town of Prescott Valley
Liz Burke, City of Prescott

Prescott City Clerk Elizabeth Burke took the roll for Prescott:

Council Present:

Council Absent:

Mayor Wilson
Councilman Bell
Councilman Lamerson
Councilwoman Lopas (arrived at 1:03 p.m.)
Councilman Luzius
Councilman Roecker
Councilwoman Suttles

None

Prescott Valley Deputy Town Clerk Candi McElhaney took the roll for Prescott Valley:

Council Present:

Council Absent:

Mayor Skoog
Vice Mayor Schumacher
Councilman Baker
Councilman Edwards
Councilman Flannery
Councilwoman Nye
Councilman Wise

None

3. Introduction & Purpose

Mayor Wilson, City of Prescott (5 minutes)

Mayor Wilson began the workshop with a brief PowerPoint presentation that addressed the following:

- ▶ Three Simple Questions
- ▶ Cost of Using PPP Approach?
- ▶ What Will be Gained From a PPP?
- ▶ Financial Feasibility – When?

4. P3 Update-Expressions of Interest

James Holt, BCR Project Manager (5 Minutes)

Mr. Holt said that as a result of the August 12 joint workshop, staff was directed to proceed with PPP for the project. On September 4 they issued a Notice of Request for Letters of Interest for those parties that might be interested. It was an 11-page document that spelled out the scope of services.

He said that on September 24 they conducted a tour of the Big Chino Water Ranch and took 22 participants, representing six firms, out to the ranch, and were accompanied with five resource people from Prescott, Prescott Valley, Southwest Ground-water and Black & Veatch.

September 29, 2008 was the deadline to receive letters, and they received 13 expressions of interest, representing 33 firms which were interested in various aspects of the project.

Mr. Holt said that the next step is for the staff from the two communities to begin reviewing and analyzing the documents and refine the project requirements to be able to draft a Phase II solicitation, Statement of Qualifications, and they hope to do that in December of this year. He said that as they continue to analyze and review, they will provide results to both councils.

5. Presentations

- A. Public Private Partnerships (PPP) John Sellers (60 Minutes)
An Overview

Mayor Skoogs reported that Mr. Sellers would not be at the meeting.

- B. P3 Projects in the Western U.S. Alistair Sawers, (30 Minutes)
RBC Capital Markets

Mr. Sawers said that he had just heard yesterday that Mr. Sellers was not going to be at the meeting talking on the more general issues of Public Private Partnerships. He then gave a PowerPoint presentation, attached hereto as Exhibit A, that addressed the following:

- ▶ Introduction to RBC Infrastructure Finance
 - ▶ RBC Infrastructure & Project Finance
 - ▶ Current US PPP Engagements
 - ▶ RBC in the Water Sector
- ▶ PPP Concepts
 - ▶ The Problem with Terminology

Mr. Sawers said that internationally PPP means design/build/finance/operate. They are not privatization; the whole idea is there is a contract behind it and the public sector monitors everything, and if things go wrong the private sector takes the risks. Unlike a true privatization where ownership passes, it is a contract that regulates behavior. He said that some are 30 years in length; other much longer, but water projects would probably be around 30 years. In the US certain PPP's used to apply to things like design/build/operate and maintain where the public sector still provides the financing. He said that it all comes back to the level of risk.

- ▶ The Problem of Risk

Mr. Sawers said that even in design/bid/build or design/build the public sector still takes a lot of risk. Once they get to a P3 they are

adding deadline risks for completion, pass-through to ratepayers (possibly), maintenance risks, etc.; however, there is a price for it.

Mayor Wilson asked if there was a normal percentage markup they would see to play the game of a PPP. Mr. Sawers said that there is no standard; it depends on each of the risks and the public sector may allocate more or less of them.

Mayor Wilson said that as a municipality they are tax exempt and a PPP has to pay taxes, and cannot issue tax-exempt bond, so they have a double whammy going against them. Mr. Sawers said that as of the market about six months ago there could be a wash; it all depends on how it is structured, what the rating is, what type of wrap they have, etc.

▶ Value for Money

Mr. Sawers said that there has been a lot of demand for pension money to go into infrastructure because it is a slow return. They like this industry and rates come in around 9-10%. Mr. Tarkowski pointed out that one of the companies that may be elected will not be going into the bond market; they will probably be using equity capital so they would avoid that tax-exempt issue.

▶ PPP – Advantages & Disadvantages

▶ Taxable vs. Tax-exempt

Mayor Wilson said that he did not like the comparison as it is not “apples to apples.” Mr. Sawers said that they cannot do “apples to apples” comparison because the public sector side’s balance sheet is behind. He said that the contingent piece is when something goes wrong; it is not priced in the books how much risk they are taking on. He said that what he is showing is a risk comparison.

▶ Typical Timeline

Mr. Sawers reviewed the timeline which indicated that a typical timeline would run anywhere from 6 to 18 months. He said that there are costs involved but they can put those back on the private sector at final close

Mayor Wilson, referring to the feasibility study on the timeline, said that there are a few components—the financial feasibility (cash

flow), whether they can do the project (litigation efforts), and project management. He said that at some point in time they need to do the feasibility study or they will be regurgitating the process.

Mr. Sawers said that typically a feasibility study has three areas—financial, legal, and technical. Mr. Tarkowski said that the third component has already been done, ending with an engineer's estimate of the approximate cost of the project and the firm used by Prescott and Prescott Valley was present and they are at 99% of engineering plans. Mr. Tarkowski said that they have the financial element remaining. Mayor Wilson said that they have the legal aspect as well.

▶ Global PPP Markets

▶ History of PPP and PFI

Mr. Sawers briefly reviewed this slide. Councilwoman Suttles asked what some of the projects that were fully operational were. Mr. Sawers said that in the UK it is a very broad stretch with high speed rail, transit, roads, water, wastewater, and water provision, street lighting, technology, ticketing, military; big things that cost over \$40 million to \$60 million.

Mr. Tarkowski pointed out that the City of Prescott has a long history of public-private partnerships. In 1903, the City of Prescott entered into a P3 agreement for the delivery of water to the City from two private water companies. In 1927 the City of Prescott entered into a P3 agreement for additional water delivery. He said that this is a newer version that attracts international capital.

▶ PPP in Europe

▶ P3 in Canada

▶ Recent Activity in the U.S. P3 Market

A lot of the press and negativity has been about the fact that a lot of these projects have been “brownfield” projects where the existing assets are being transferred to the private sector and then improved versus a “greenfield” project which is building something brand new.

- ▶ U.S. PPP Market Development
- ▶ Current Infrastructure Finance Market
 - ▶ Bank Writedowns
 - ▶ Observations on Infrastructure Debt Financing
 - ▶ Availability of Infrastructure Equity
- ▶ US Water Sector Project Sector
 - ▶ US Water Sector & PPPs
 - ▶ Examples of Water O&M Projects
 - ▶ Examples of Water Projects
 - ▶ Participants in US Water Market

6. Discussion and Q&A of Councils (20 Minutes)

Mayor Wilson referred to the slide on the output of infrastructure financing and said it was alluded that with the current financial markets the credit spreads will get larger, which to him means that money will cost more. He asked Mr. Sawers' opinion on whether that would apply to both PPP and bond financing. Mr. Sawers said that it would apply to both.

Councilwoman Nye said that Mr. Sawers had referred to the Carlsbad project taking ten years. She asked if that was in the norm of percentages for a project to take so long. Mr. Sawers said that is abnormal. He said that it is much more normal for a 5-6 year timeline for a federal project. Councilwoman Nye asked what the holdup was on that project. Mr. Sawers said that part of it was politics; some of it was environmental impact.

Councilman Flannery asked who, under a P3, establishes the user rates. Mr. Sawers said that it is a bit of both; it depends on what they are doing. One method is that they bid on it, or they can be given a minimum.

Councilman Lamerson said that they are all on a fact-finding experience and he looks at water delivery today differently than before. He said that they want all of the things at the best services levels for their residents at the best price. He does not want to expose their taxpayers and compromise what they have available to

them with regard to water resources. He appreciated Mr. Sawers for his presentation, and he is in no way disappointed in what they got today.

Councilman Wise said that in the bigger scheme of things as far as financing, he has been reading some of the prognosticators' reviews of what is going to happen and one thing they point out is that they will be going into a very inflationary market and it is going to cost a lot more to do anything as far as a municipality.

He said that with the PPP, to him, it is always cheaper and better service to have certain things done by private sector; they are more competitive, and they try to run an efficient, clean operation, whether it's picking up garbage or providing water. He said that there are a lot of things to be worked out but the discussions held so far have intrigued him enough to want to learn more.

Councilman Edwards said that with the partnership they don't have to jump through as many hoops and high hurdles to overcome some of the issues that they are going to have to face. Negotiations are always tough, but with their partnership and working together their presentation to the public, he thinks it is a good idea to have it available not only for this but other projects.

Bill Kindig asked Mr. Sawers if he was familiar with the Stockton, California project referred to earlier. Mr. Sawers said that he knew of it a bit from public information, but was not a party and could not speak to it specifically.

Councilwoman Suttles asked if they would be having any other presentations or if this was the only one they would have. Mr. Tarkowski reviewed the timetable, stating that they have received the letters of interest and will be putting together a group to review those and conduct interviews. They will create a matrix that would define the scope of the Request for Proposals. That process would then give them the information to do the financial analysis where they would compare P3 with the standard. Then when they come back to the councils in February, they would have in hand the financial analysis and a choice between the standard design bid/build or a P3.

Councilwoman Suttles said that this was their first brush and it is a lot of information. She finds February to be extremely fast, and would like to be able to go through this and break it down more. She said that she did not know about Prescott Valley, but Prescott was not quite there yet.

Mr. Tarkowski said that if it is desired by the joint councils to explore this in more detail or get more information, they could accommodate that.

Mayor Wilson said that the need to concur with the timeline. He understands what a financial feasibility analysis is, but he thinks they skipped over one of the criteria he talked about. Prior to doing an RFP they would need to do a feasibility analysis, which is separate and distinct from a financial analysis. He said that the feasibility analysis has three parts discussed earlier. They have done one part, but without the other two parts he will not support it moving forward.

Councilman Luzius asked why they were brought to the meeting to hear John Sellers, but he was not present. Mr. Norwood said that was a last minute change and he believed there was a misunderstanding on what the meeting was about. Mr. Tarkowski thanked Mr. Sellers for his volunteer effort and said he has done a great deal to educate the councils and public, but he was the one who chose to not be at the meeting today. Councilman Luzius said that when someone is supposed to be there and does not show up, it affects their credibility.

Mr. Norwood said that once they go through the process of reviewing the Letters of Interest, they will have a better idea of which way they will want to proceed. He said that the presentation today was general in nature and depending on the avenue they choose, they will go a long way into looking at which specific option can get more definition.

Councilman Luzius said that he commended Mr. Sawers, especially under thinking there would be another presentation.

Mr. Tarkowski said that it would be useful, after they go through the interview process, to reconvene a work study and give the councils an update on what has been proposed by the 13 different companies. Councilman Roecker asked who would be doing the interviewing. Mr. Tarkowski said that staff was having a meeting right after the Workshop to put together a team.

Vice Mayor Schumacher said that she thinks it is a good idea to get together. She is hearing that Prescott would like more information and input, and it is a good idea to meet again after the review.

Councilwoman Baker said that they have received a lot of information, and sometimes there can be information overload. They have had a history of working with private/public partnerships and she likes the idea. If they need another meeting that is fine.

Councilwoman Suttles said that Prescott Council has not heard from Mr. Sellers and she would like them all to be working from the same level of information.

Mr. Tarkowski said that the goal is to have the interviews in the next 30 days. They can report back to the councils on the various approaches with a matrix on the options. He said that if they do have Council inclusion on the interview process, it would be great to have them make the presentation on what their experience has been.

Vice Mayor Schumacher asked staff to share with everyone the names of the companies that have submitted letters of interest.

Councilman Lamerson said that he appreciates their partnership with Prescott Valley, but there has been some consternation on areas outside of the AMA on different issues such as Prescott having some authority to import water from outside the AMA. They have certain water rights that others don't and they have an obligation to treat water differently. Some are small water providers that do not have to meet the same standards. He has concern with everyone putting water in one bucket and there are some things that need to be discussed before everyone jumps on the bandwagon.

Councilman Wise agreed that they need to move ahead and it would be a good time to do that after the committee reviews the letters. He said that he would hope that all of the information they have received would be received by Prescott as well. Councilman Edwards agreed that everyone needs to be on the same page.

Mayor Wilson said that in terms of being on the same page, he does not disagree about doing a matrix after a thorough analysis, but they also need to address the other components.

Councilwoman Nye asked Councilman Lamerson to clarify what he had previously said. Councilman Lamerson said that Prescott Valley is truly their partner, but that does not mean everyone else in the region is. His intent is to go out and get their 8,748 af of water that they have a right to import from the Big Chino.

Councilman Roecker said that Mayor Wilson was being very emphatic about the feasibility study and asked either Mr. Norwood or Mr. Tarkowski to address it. Mr. Tarkowski pointed out that the joint communities have spent over \$30 million based on a feasibility study that has already been done. It was done a number of years ago and it talked about the engineering component, the value of the project moving forward. Based on that report they have spent over \$30 million; the next component of a constantly-evolving feasibility study will end up being a financial analysis based on the results of the Requests for Proposals. Once they are able to get their arms around the financial requirements of the proposing equity

groups, then they can do a detailed financial analysis comparing that with a standard design/bid/build using municipal approaches.

Mayor Wilson said that he does not want anyone to confuse the two different analyses. The feasibility is proper after a Request for Proposals. He is talking about the feasibility analysis and that is done before the RFP. He is adamant that they will not do an RFP without it. They have done one-third of that feasibility and he wants the other two parts done.

Mr. Norwood said that they can get together with staff and the Mayor to make sure their definitions are the same. There are some methods out there different than what they have done traditionally. He said that they need to, as a group, make sure they are defining feasibility analysis; they have some legalities that have not been address and they can define those more appropriately.

Mr. Sawers said that they need a feasibility study before they will give the city/town a price. They are still in the project definition stage; they are not all the way there.

Councilman Bell said that he feels they need to come back together as there is still a lot of confusion on the part of Prescott.

All agreed that they need to come together again in the future.

7. Adjournment

There being no further business to be discussed, the Prescott City Council Joint Workshop with Prescott Valley Town Council held October 1, 2008, adjourned at 2:28 p.m.

JACK D. WILSON, Mayor

ATTEST:

ELIZABETH A. BURKE, City Clerk

