CITY COUNCIL
MINUTES OF SPECIAL CALLED MEETING
JANUARY 30, 1997
7:00 p.m.

The City Council of Peachtree City met in a special called session on Thursday, January 30, 1997, at 7:00 p.m. in the City Hall Council Chambers.

Mayor Lenox led those attending in the pledge of allegiance. Council members present were: Annie McMenamin, Bob Brooks, Jim Pace and Caroline Price.

Mayor Lenox explained the purpose of the meeting that night was to discuss the proposed acquisition of Georgia Utilities Corporation, the private company that owns and operates the sewerage system in Peachtree City. He said it was important for everyone to understand up front that it was the Water and Sewerage Authority that could legally acquire system, not the City Council. He explained the Water and Sewerage Authority was established back in 1987 when the State Legislature passed enabling legislation. He said the Authority was created for the sole purpose of acquiring Georgia Utilities and that City Council could only recommend that the Authority buy the system.

He said the question before Council that night was whether or not to recommend to the Water and Sewerage Authority that it purchase the system. He introduced the following members of the Water and Sewerage Authority: John Gronner - Chairman, Jim Cole, Ray Helton, Ted Taylor, and John Williams.

Lenox explained there would be a comprehensive presentation of all aspects of the proposed acquisition of Georgia Utilities. He said he would begin the presentation with some comments on "Why" the system should be acquired, a history of rates, and would conclude with an explanation of "Rate Control Versus Acquisition."

Lenox said the valuation consultant, Mr. Gerald Chancellor, of Hartman and Associates, would then give a detailed presentation on the lengthy process involved in arriving at their value of the system. Following Mr. Chancellor's presentation, he said he would take a few minutes to comment on "Condemnation of the System Versus Acquisition," followed by addressing the real issues that night: Just how much is the system going to cost? What are the major line item expenses? and, What are the key conditions of the purchase?

Concluding the presentations, Mr. Todd Barnes of A.G. Edwards & Sons, the Investment Banker, would then discuss the bond issue that would finance the purchase of the system.

Lenox said following all the presentations that night, the meeting would be open for public comments and questions. He also explained there would be a second opportunity for citizens to ask questions at next Monday night's 7:00 p.m. meeting of the Water and Sewerage Authority. He said at that meeting the Authority would actually vote on acquiring the system.

For the purpose of these minutes an outline of the presentation is provided below:

WHY ACQUIRE THE SYSTEM?

- System will be operated in the public's interest
- Service will be available to all on a fair and equitable basis
- System will be properly constructed and maintained
- System will be operated in an environmentally friendly and safe manner
- System management will be responsive and responsible to customers and the Authority
- System will be managed by an experienced professional in sewerage system operation and not by a developer
- System rates will be held to the absolute lowest level possible
- System value and purchase price will only increase over time
- System has adequate cash flow to fund acquisition costs and to service the bond issue debt

GEORGIA UTILITIES ACQUISITION HISTORY

- 1983 - GU Rate Increased to $12.00 per month
- 1986 - GU Rate Increased to $14.00 per month
- 1987 - Water and Sewerage Authority created to acquire and operate the sewerage system
- 1989 - GU Rate Increased to $17.00 per month
- 1990 - GU Rate Increased to $18.50 per month
- 1991 - GU Rate Increased to Metered Rate - $2.45/1,000 gallons
- 1992 - GU Rate Increased to $3.50/1,000 gallons first 10,000; $1.75 each additional 1,000 gallons
- 1993 - (August) Confidentiality Agreement with Equitable & PCDC
- 1994 - (December) PCDC purchased Equitable's remaining interests in PTC; talks halted for 6 months
- 1995 - (June) Indication that PCDC might want to resume talks
- 1996 - (March) Negotiation Team appointed - Mayor Lenox, John Gronner, Jim Basinger, Jim Webb
  - (March) Steering Committee appointed - Mayor Lenox, John Williams, Jim Basinger, Steve Rapson
  - (April) Consultants approved to begin system valuation
  - (May) Additional Confidentiality Agreement with PCDC
  - (August) Serious negotiations initiated

RATE CONTROL VIA LEGISLATION

- Passage of state legislation to control rates is remotely possible
- Premise that rates can be controlled is flawed

- Public Services Commission approves all rate increases that are justified
- GUC System is not "state of the art" - Required improvements may justify increase
- City/Authority can operate and make improvements at less costs than GUC:
  - I. No income or property taxes
  - II. No franchise fee
  - III. Lower interest rate
  - IV. Do not make a profit
- Authority is in a better position to hold down future rate increases

HARTMAN AND ASSOCIATES, INC. - WATER AND WASTEWATER SYSTEM VALUATION EXPERIENCE 1976 - 1996

▸ Representing Buyer	58
▸ Representing Seller	54
▸ Representing Investors	50
▸ Representing Public Entities	62
▸ Transactions Closed	70
▸ Transactions Not Closed	32
▸ Pending	10
TOTAL ACQUISITIONS:	112

HARTMAN AND ASSOCIATES, INC - PERSONNEL

- PROFESSIONAL ENGINEERS & ENGINEERS:
  Gerald C. Hartman, P.E.
  Gerald L. Chancellor, P.E.
  Andrew T. Woodcock, P.E.
  Richard J. Voorhees, P.E..
  Matthew B. Alvarez, E.I.
  Bobby W. Wyatt, E.I.
  Bradford K. Labella, E.I.
  Dwayne R. Kreidler, E.I.

- HYDRO GEOLOGISTS:
  Charles W. Drake, P.G.
  James E. Golden, P.G.
  Dale L. Claytor

Neil C. Klaproth

- SURVEYORS:
  Mark I. Luke, P.S.M.
  David C. Ragland
  Russell D. Teeters
  Shannon D. Clatchey
  Lawrence E. Jenkins, P.S.M.
  Lino T. Sanft
  Luke Bennett
  Christopher W. Hardin, E.I.

- FINANCIAL ANALYSTS:
  Marco H. Rocca, C.M.C.
  Richard C. Copeland, M.B.A.
  Mounir M. Elkaldi, M.B.A., C.P.A.
  Daryll B. Parker, M.B.A.
  Anthony P. Reddeck, E.I.

HARTMAN AND ASSOCIATES, INC. - VALUATION TRACK RECORD

- Condemnation experts in South Carolina, Florida and Mississippi
- Court binding arbitration experts
- Numerous court cases
- Over $2 billion in water and wastewater utility financing in the past seven years (bond issues).
- National AWWA or Joint AWWA/WEF valuation papers in the last three years.

WASTEWATER SYSTEM

▸ Sewer pipe (in miles):	Collection (4-42 inches)	142
	Force mains (2-12 inches)	7
▸ Manholes:		3,056
▸ Pump Stations:		26
▸ Major Real Properties Owned		349 acres

- Wastewater Treatment Plants:

Flat creek	0.9 mgd
Rockaway	2.0 mgd
Line Creek	2.0 mgd

FLAT CREEK WWTP

▸	Capacity:	0.9 Mgd
▸	Treatment:	Extended Aeration Clarification Filtration Chlorination Aerobic Sludge Digestion Sludge Dewatering
▸	Effluent Disposal	Outfall to Flat Creek

ROCKAWAY WWTP

▸	Capacity:	2.0 Mgd
▸	Treatment:	Sequential Batch Reactor Chlorination Aerobic Sludge Digestion Sludge Dewatering
▸	Effluent Disposal	Outfall to Line Creek

LINE CREEK WWTP

▸	Capacity:	2.0 Mgd
▸	Treatment:	Extended Aeration Clarification Chlorination Aerobic Sludge Digestion Sludge Dewatering
▸	Effluent Disposal	Outfall to Line Creek

PEACHTREE CITY WASTEWATER PROJECTIONS

Year		**Historical**				**Projected**	
	9/94	**9/95**	**9/96**	**9/97**	**9/98**	**9/99**	**9/00**
Population	25,072	27,299	28,772	30,520	32,268	34,016	35,764
Wastewater Flow (MGD)	2.33	2.44	2.65	2.79	2.95	3.11	3.27
Wastewater (gpd/cap)	92.9	89.4	92.1	91.5	91.5	91.5	91.5

CAPACITY EVALUATION

- Projected Year 2000 Buildout Wastewater Flow
  3.27 Mgd (Annual Average)
  4.25 Mgd (Maximum Monthly Average)
- Total Wastewater Treatment Capacity
  4.90 Mgd
- Population Served at 4.90 Mgd
  50,000 Persons
- Present Population Served
  30,000 Persons

HARTMAN AND ASSOCIATES - DUE DILIGENCE EFFORTS

- Facility Inspections
  - Review of All 26 System Lift Stations
  - Inspection of All Three Wastewater Treatment Plants
  - Survey/verification of over 110 Miles of Collection System
  - Inflow/infiltration Field Study (Monitoring)
- Engineering Analysis of WWTP's
- Inflow/infiltration Study Computer Analysis
- Review of Regulatory Compliance Data
- Interviews with On-site Personnel
- Review and System Take-off of All Available Engineering Drawings
- Alternative Analysis of System Operation and Configuration
- Environmental Audits of All WWTP Sites and Sludge Disposal Site
- Operations & Maintenance Review
- Identification of Repairs and Upgrades
- Existing Budget Analysis
- Financial Analysis of Revenues and Expenses
- Audit, Balance Sheets and Debt Analyses
- Customer Statistical Analyses
- Customer Growth Projections
- Developer Agreement Review
- Contracts Analysis

CONDITION OF FACILITIES

Collection System:	Fair to Good
Lift Stations:	Poor to Good
Flat Creek WWTP:	Poor
Rockaway WWTP:	Average to Good
Line Creek WWTP:	Average to Good

IDENTIFIED DEFICIENCIES AND DEFERRED MAINTENANCE

- **Manholes:**
  - Repair of Damaged Covers and Rims
  - Cleaning to Remove Buildup of Material
  - Inflow/infiltration Repairs
  - Removal of Asphalt over Manholes Due to DOT Resurfacing

- **Gravity System:**
  - Further Study and Repair of Inflow/infiltration
  - Replacement of System Flow Splitter Box

- **Lift Stations:**
  - No Auxiliary Power Connection
  - No Audible or Visual Alarms on Some Lift Stations
  - No Water Service
  - Repairs to Bring All Lift Stations to Operational Duty

- **Flat Creek WWTP:**
  - Auxiliary Generator Required
  - One Clarifier Drive for Two Mechanisms
  - Exposed Pvc Piping
  - Lack of Adequate Handrails
  - Inoperable Filtration Units
  - Replace Clarifier
  - Refurbish Various Metal Components

- **Rockaway WWTP:**
  - Additional SBR Basins Required
  - Additional Blower Required

- New Post Aeration Facilities Required
- Auxiliary Generator Required

- **Line Creek WWTP:**
  - Additional 40 Foot Clarifier Required
  - Additional RAS/WAS/was Pumps Required
  - Additional Chlorination Capacity Required
  - Upgrade Surface Aerators
  - New Post Aeration Facilities Required
  - Auxiliary Power Required

CAPITAL IMPROVEMENTS

- Improvements to sludge stabilization facilities at all three WWTPS regarding land application of domestic wastewater sludge.
- Dechlorination facilities at all three WWTPS to comply with anticipated effluent chlorine residual limitations.
- Copper pretreatment facilities at the Flat Creek WWTP to meet the proposed EPD effluent copper limitations as contained in the recently revised NPDES permit.
- Anticipated system planning and operational documents including O&M manuals, system master plan, rates and charges study, sewer system evaluation study (SSES) and similar work activities.
- General upgrades at all three WWTPS including the protective lining of concrete process basins, storm water control facilities and installation of handrails and walkways at Flat Creek and Rockaway.
- The Flat Creek WWTP improvements.
- Replacement of the Line Creek pretreatment equipment.

VALUE

Opinion of Value	$17,600,000
1996 Capital Additions	$ 350,000
Total	$17,950,000

Basis of Opinion:

- Professional Experience
- Study of this System
- Evaluation of the Market
- Application of Three (3) /Standard Valuation Methods
- Verification, Analysis and Comparison Activities

Opinion of Value Based On:

- Inspections, Testing and Operations
- Discussions with Regulatory Agencies
- Discussions with Operational Staff
- Review of Available Documents
- Industry Standards
- Analysis of Standard Valuation Methods

VALUATION METHODS

- Reproduction Cost
- Income Analysis
- Comparable Sales
  - All Provide Different Insights to Valuation Expert
  - Each Method Has Advantages and Disadvantages

1. REPRODUCTION COST METHOD

- The Cost of Reproducing the Entire Utility System at One Time in the Most Cost Effective Method
- Less Depreciation: Physical, Functional, External
- Less: Deficiencies, Liabilities
- Plus: Land and Easements, Fixtures, Equipment and Rolling Stock, Construction Work in Progress, Goodwill and Going Concern

Advantages of the Cost Method

- Values All Property
- Requires Disclosure of Inventory
- Actual Condition of Assets Is Considered
- Considers How Assets Are Designed and Constructed, and How They Function

Disadvantages of the Cost Method

- Does Not Address Financial Health
- Does Not Address What the Market Would Pay
- Assumes That the Buyer Will Pay 100% for All Assets, Even Though in the Real World,

Certain Assets Are Contributed

- Assumes No Discount for Unused Assets
- Speculative with Regard to Underground Facilities
- Does Address the Following Costs:
  - Capacity Needs for Existing Customers
  - Renewal and Replacement Needs
  - Known Line Relocation Requirements
  - Present Future Regulatory Requirements
- Does Not Address Operational Problems

Reproduction Cost of Assets less Depreciation

Wastewater Services	$ 1,615,343
Gravity Collection System	$20,437,100
Lift Stations	$ 919,032
Wastewater Transmission Mains	$ 613,887
Wastewater Treatment Facilities	$ 5,243,208
Total	$28,828,570

Land and Easements Amount:	$2,277,000
Fixtures, Equipment Inventory and Rolling Stock	$ 265,000

- **Wastewater Facilities Deficiency Summary:**

ITEM	ESTIMATE
Wastewater Collection Facilities/Lift Stations	$ 145,400
Estimated I/I Repair	$1,226,000
Flat Creek WWTP	$ 200,000
Rockaway WWTP	$1,594,000
Line Creek WWTP	$ 976,000
Total	$4,141,4000

Note: $350,000 of Deficiencies Are Presently or Have Been Corrected (Original Total Was $4,491,400).

Construction Work in Progress Amount	$1,508,240
Goodwill and Going Concern	$1,419,371

Reproduction Cost Approach Summary

Reproduction Cost New less Depreciation	$28,828,570
Land	2,277,000
Fixtures, Equipment, Rolling Stock	265,000
Deficiencies & Deferred Maintenance	(4,141,400)
CWIP	1,508,240
Subtotal	$ 28,737,410
5% Goodwill and Going Concern	1,419,371
Total	$ 30,156,781

2. **COMPARABLE SALES METHOD:** The Comparable Sales Method Considers the Multitude of Wastewater Utility Purchases and Sales. This Method Reflects What Others Pay for Similar Properties. The Sales Include All Factors Considered by a Knowledgeable Buyer and Seller.

Advantages of the Comparable Sales Method

- What a Willing Buyer Will Pay and What a Willing Seller Will Accept
- Considers Contributions
- Considers Cost of the Assets
- Considers the Income Stream
- Considers the Liabilities
- Considers Regulations and Risk of Change
- Considers the Cost of Money
- Considers What the Market Was Thinking at the Time

Disadvantages of the Comparable Sales Method

- Requires Comprehensive Knowledge of Wastewater Business
- No Two Utilities Are Identical, Therefore Requires Expert Judgment and Common Sense
- Requires Enormous Effort to Compile and Analyze Sales Data
- Requires an Understanding of Hundreds of Complex Wastewater Systems
- Requires an Understanding of the Wastewater Market

Screening Comparable Sales

- Sales Occurring in Southeastern US
- Must Have Wastewater Treatment
- Wastewater Treatment Capacity Between 1.0 Mgd and 12.0 Mg
- Total Wastewater ERC's Between 1,700 and 15,000
- Sales Occurring from 1990 to Present
- Purchase Price over $5,500,000
- Hartman's Experience

Summary of Analysis

- Number of Comparable Sales on Record at Hartman & Associates - in Excess of 600
- Number of Sales in Preliminary Evaluation Set - Approximately 45
- Number of Sales in Final Evaluation Set - 13
- Range of Most Comparable Sales Indicated Values - ($11,699,367 - $16,228,953)
- Range of Analysis Indicated Values - ($9,729,052 - $28,830,090)

Note: All of the above Are Adjusted to like Transactions.

Comparable Sales Indicated Value $17,069,400

3. **INCOME METHOD** - The Present Value of the Income Stream less the Present Value of Capital Needs.

Advantages of Income Method

- Values the Income Stream
- Considers the Business Risk

Disadvantages of Income Method

- Requires Assumptions about the Unknown
- Requires the Projection of Uncertain Income into the Future
- Requires the Projection of Uncertain Expenses into the Future
- Requires Assumptions about Things That Will Change
- Requires Assumptions about the Adequacy of Present Facilities

Income Approach Results	$17,900,253

Results of the Methods

▸ Reproduction Cost	$30,156,781
▸ Income	$17,900,253
▸ Comparable Sales	$17,069,400

Opinion of Value	$17,600,000
1996 Capital Additions	$ 350,000
Total	$17,950,000

ACQUISITION VERSUS CONDEMNATION

Upside

- No Gamble with a Jury Award
- Extensive Due Diligence to Know What We Are Buying - Inspection of All Records, Equipment and Facilities
- Indemnification - Protection Against Certain System Deficiencies/problems via Condition in the Sale Agreement
- Planned Transfer of Ownership as a Going Business
- Save $800,000 - $1,000,000 in Condemnation Legal and Consultant Fees

Downside

- A Jury May Award a Lower Price for the System in Condemnation Action
- Must Assume All Liability
- Must Negotiate Any Pending Lawsuits
- Risk and Expense of Dissolving Georgia Utilities Corporation

GEORGIA UTILITIES ACQUISITION COMPARISON- ANALYSIS STOCK V.S. CONDEMNATION

Type of Transaction	Condemnation Their Expert	Condemnation Out Expert	Condemnation Most Likely
Purchase Price	$32,000,000	$17,600,000	$ 23,000,000
FY 96 Capital Improvements	$ 350,000	$ 350,000	$ 350,000
Debt Assumed	-	-	-
Subtotal (Purchase Price)	**$32,350,000**	**$17,950,000**	**$ 23,350,000**
Legal & Professional	$ 1,795,000	$ 1,795,000	$ 1,795,000
Max Taxes-GUC Dissolution	-	-	-
Winding up Expenses	-	-	-
Debt Issue Costs	$ 500,000	$ 500,000	$ 500,000
Working Capital	$ 500,000	$ 500,000	$ 500,000
Lawsuit Settlement	-	-	-
Acquisition Costs	**$ 2,795,000**	**$ 2,795,000**	**$ 2,795,000**
General System Repairs	$ 145,000	$ 145,000	$ 145,000
Rockaway WWTP Upgrade	$ 1,594,000	$ 1,594,000	$ 1,594,000
Line Creek WWTP Upgrade	$ 976,000	$ 976,000	$ 976,000
Flat Creek Fix-Ups	$ 200,000	$ 200,000	$ 200,000
Cap Improve Plan - 2 Years	$ 2,165,000	$ 2,165,000	$ 2,165,000
Capital Improvement Fund	**$ 5,080,000**	**$ 5,080,000**	**$ 5,080,000**
Contingency Reserve	$ 3,000	$ 1,127,000	$ 1,127,000
Debt Service Reserve	$ 72,000	$ 48,000	$ 48,000
Financial Reserves	**$ 75,000**	**$ 1,175,000**	**$ 1,175,000**
Bond Issue Amount	**$40,300,000**	**$27,000,000**	**$ 32,400,000**

Type of Transaction	Stock Purchase First Offer	Stock Purchase By Negotiation
Purchase Price	$ 8,500,000	$ 5,700,000
FY 96 Capital Improvements	$ 350,000	$ 350,000
Debt Assumed	$10,263,000	$10,263,000
Subtotal (Purchase Price)	**$19,113,000**	**$16,313,000**
Legal & Professional	$ 1,085,000	$ 1,085,000
Max Taxes-GUC Dissolution	$ 2,700,000	$ 1,600,000
Winding Up Expenses	$ 300,000	$ 300,000
Debt Issue Costs	$ 500,000	$ 500,000
Working Capital	$ 100,000	$ 100,000
Lawsuit Settlement	$ 1,000,000	$ 500,000
Acquisition Costs	**$ 5,685,000**	**$ 4,085,000**
General System Repairs	$ 145,000	$ 145,000
Rockaway WWTP Upgrade	$ 1,594,000	$ 1,594,000
Line Creek WWTP Upgrade	$ 976,000	$ 976,000
Flat Creek Fix-Ups	$ 200,000	$ 200,000
Cap Improve Plan - 2 Years	$ 2,165,000	$ 2,165,000
Capital Improvement Fund	**$ 5,080,000**	**$ 5,080,000**
Contingency Reserve	$ 1,074,000	$ 1,474,000
Debt Service Reserve	$ 48,000	$ 48,000
Financial Reserves	**$ 1,122,000**	**$ 1,522,000**
Bond Issue Amount	**$31,000,000**	**$27,000,000**

KEY CONDITIONS OF PURCHASE

- Due Diligence
- Disclosure of All Relevant Information
- Shareholders Indemnification of Authority - $2.5 Million for 18 Months
- Settlement of Outstanding Litigation
- One Developer Agreement - Three Projects (Outside Current City Limits)
  - The Chimneys - Highway 74 South - 95 Lots
  - Westside - North of Highway 54 - 950 Lots
  - Crabapple Lane - 63 Lots

PEACHTREE CITY WATER AND SEWERAGE AUTHORITY

- Overview of the Financing
- Acquisition Funded from Proceeds of a Revenue Bond Issue
- Authority Set Rates Sufficient to Operate and Maintain System, Pay Debt Service
- Additional Security Provided by Intergovernmental Contract Between Authority and City
- Debt Capacity Analysis
- Function of Historical and Projected Net Revenues
- Debt Service Coverage and Other Credit/investor Requirements

ADJUSTED HISTORICAL OPERATING RESULTS(1)

	Years Ended December 31 (000's)			
	1992	**1993**	**1994**	**1995**
Operating Revenues	$3,000	$3,647	$4,122	$4,043
Operating Expenses(2)	1,311	1,550	1,619	1,709
Operating Income	1,689	2,097	2,503	2,334
Other Income	45	14	57	54
Net Income Available For Debt Service	$1,734	$2,111	$2,560	$2,388

Notes: (1) This Analysis Takes the Actual Results and Adjusts Them to Show What the Net Income Would Have Been Had the System Been Owned and Operated by the Authority. In So Doing, Expenses Such as Property Taxes, Franchise Fees and Management Fees Have Been Deducted from the Operating Expenses and Capital Recovery Fees Have Been Deducted from Revenues.

(2) Net of Depreciation and Amortization.

Through out the presentation citizens were allowed to ask questions and make comments. Following the presentation, Council had a brief discussion. Lenox made a motion to recommend that the Water and Sewerage Authority acquire Georgia Utilities Corp. through the issuance of revenue bonds. Price seconded the motion. Motion carried unanimously.

Lenox made a motion that Council should extended the city's full faith and credit to the bonds and in return the Council would require that the Water and Sewerage Authority obtain Council approval to 1) extend the system outside the corporate limits of the city, 2) obtain council approval of the

Capital Improvement Program/Budget for each of the initial three years of ownership, and 3) that Council review the annual operating budget each year. Pace seconded the motion. Motion carried unanimously.

Brooks made a motion to delete the ordinance requiring the four percent sewerage service gross receipts tax and recommended that the Water and Sewerage Authority pass this four percent savings on to the customers. McMenamin seconded the motion. Motion carried unanimously.

Lenox made a motion to adjourn the meeting. Pace seconded the motion. Motion carried unanimously.

Attest: Robert L. Lenox
Robert L. Lenox, Mayor

Nancy Faulkner
Nancy Faulkner, City Clerk