

# PROPOSAL OFFER TO CITY OF EUREKA

## Confidential



April 23, 2020

City of Eureka  
100 City Hall Drive  
Eureka, Missouri 63025

RE: Proposal for the Purchase of the City of Eureka Water and Sewer Systems

Dear Mayor Flower,

Missouri American Water Company is pleased to submit our proposal for the purchase of the City of Eureka (“the City”) Water and Sewer Systems.

As demonstrated by the enclosed proposal, a transaction with Missouri American Water would create value for the City and its customers receiving water and sewer service. Service would continue to be provided by the local area employees committed to a high-quality level of service. Missouri American Water also brings other important benefits to the City of Eureka community and its customers including infrastructure investment, state and national resources, convenient customer service and new property tax revenue.

Missouri American Water has the wherewithal to successfully operate systems of this size and scope, and shares the City’s values and commitment to customers, the local community and the environment. We are excited by the opportunity to partner with the City of Eureka and have a wide range of in-house technical expertise to address the future operating issues of the City’s water and sewer systems.

Nikki Pacific, Manager of Business Development, will be our point of contact for the process of obtaining necessary approvals and integration, but feel free to contact me directly as well.

**Nikki Pacific**  
**Manager of Business Development**  
**Missouri American Water Company**  
**727 Craig Road, St. Louis, MO 63141**  
**(314) 996-2215**  
**Nikki.Pacific@amwater.com**

We look forward to working cooperatively with the City as the process continues.

Sincerely,

Deborah Dewey  
President  
Missouri American Water Company

### EXECUTIVE SUMMARY

Water is the most important resource in the world. It makes up or is a part of most everything in our daily lives. For that reason alone, you need a partner that is reliable and trustworthy to provide clean and safe water. Your community depends on it. That is where Missouri American Water comes in.

Missouri American Water is the largest water utility in Missouri with nearly 700 water and sewer professionals serving approximately 1.5 million people in approximately 200 communities across the state. Our parent company, American Water, is the largest and most geographically diverse publicly traded water and sewer utility company in the United States. The mission of American Water, through its regulated state subsidiaries like Missouri American Water, is to provide value to our customers, employees and investors while enhancing quality of life by managing the most basic resource of life – water.

Missouri American Water Company (“Missouri American Water,” or “the Company”), a wholly owned subsidiary of American Water Works Company, Inc. (“American Water”), is pleased to offer the City of Eureka (“City,” or “Eureka”) the following purchase proposal for its water and sewer system assets.

Missouri American Water ownership will offer the following benefits:

- Operational responsibility relief for the City of Eureka.
- Cash payment upon closing, not contingent on financing.
- On-going capital investment in both the distribution system and the water and sewer treatment systems.
- Long-term rate stability and economies of scale.



Proceeds from the sale could fund other important community needs. In addition to the cash offer, other financial gains the City of Eureka would receive include:

- Immediate increase in the community’s net cash position by relief of the \$7.3 million debt burden.
- Property taxes Missouri American Water would pay, which benefit the City’s schools, fire and police departments and other government entities.

A partnership with Missouri American Water provides citizens of Eureka with access to clean water and reliable sewer service. Missouri American Water has both the staffing and financial resources to effectively address the City’s water and sewer capital needs and efficiently operate and maintain the systems. Missouri American Water offers:

- Experienced operational personnel licensed in water and sewer operations locally available to support any issues or needs which may arise in Eureka.
- Improved water quality by being connected to Missouri American Water’s St. Louis County water system.
- An engineering team to oversee and administer timely and proactive infrastructure improvements.
- A team of professionals focused on operational efficiency to minimize future rate increases.
- Customer service and maintenance response teams available to respond to emergencies 24-hours a day, seven days a week.

Additionally, we are committed to helping the communities we serve be more vibrant places to live, work and play. Our community involvement draws on the unique talents of our employees as well as the resources of our business. We do this best through:

- Partnering with local governments, community organizations and schools to help educate our customers on environmental stewardship and watershed protection.
- Providing existing and new businesses the confidence to invest in a community with a dependable water and sewer system ready to meet their business needs.

Each day we live out our vision to provide Clean Water for Life. Missouri American Water would be honored to be your water and sewer services partner and we thank you for your consideration.

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### 1.) THE OFFER

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#### PURCHASE PRICE PROPOSAL

Missouri American Water is pleased to offer to partner with the City of Eureka by purchasing its water and sewer systems and becoming the water and sewer service provider to the citizens of Eureka. The option includes an offer for the purchase of the City's water and sewer systems, including the associated real estate, subject to the execution of a definitive purchase agreement (PA) and the additional conditions listed below. The proposed purchase option and associated rate structure are presented on page 5. Appendix A provides a summary term sheet with key elements of this proposed offer.

The purchase offer is subject to the following conditions:

- The purchase offer is conditioned on acceptance by the City of the purchase price and rate structure contained within the offer.
- Approval by the Missouri Public Service Commission (MoPSC) of the terms and conditions of the PA, including customer rates and purchase price/rate base.
- Execution of a definitive PA, which would contain such representations, warranties, covenants, conditions and indemnities as are usual and customary in transactions similar to others entered into by Missouri American Water in connection with other acquisitions, including with respect to: the conveyance of all right, title and interest in and to the assets free and clear of all encumbrances; the acknowledgment that Missouri American Water would not assume any liabilities in connection with the transaction other than those that may be specifically identified in the PA.
- Other than the water and sewer assets explicitly being sold as part of the system sale, the City retains all other assets associated with the water and sewer systems, including any cash, reserves and accounts receivable existing at closing of the transaction.
- The City uses the proceeds Missouri American Water pays for the water and sewer systems to repay all debt obligations associated with the water and sewer systems being sold.
- Resolution of any issues arising from the prior receipt of grant funding on terms and conditions acceptable to Missouri American Water.
- Transfer of Missouri Department of Natural Resources (DNR) permits for the water and sewer systems, or negotiation of a new DNR permit, by closing on terms and conditions acceptable to Missouri American Water and Missouri DNR.
- The offers contained herein will remain in effect until July 17<sup>th</sup>.
- Offer to retain employees subject to the same rules and conditions that apply to all other Missouri-American employees.

# PROPOSAL OFFER TO CITY OF EUREKA

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### TOTAL INVESTMENT OFFER - \$60,000,000

<b>LUMP SUMP CASH PAYMENT*:</b>	<b>\$28,000,000</b>
<b>CAPITAL COMMITMENT – 5 YEARS:</b>	<b>\$37,200,000</b>

### NET CASH PROCEEDS TO EUREKA<sup>1</sup>: **\$20,700,000**

<sup>1</sup> Net proceeds estimate assumes \$7.3M debt to be paid off at closing.

*\*This cash payment offer is not contingent on any financing.*

The lump sum cash payment is the full appraised value of the City’s water and sewer systems per the Valuation Report dated March 23, 2020 commissioned by the City. The report was prepared by Dinan Real Estate Advisors Inc, Edward J Matis & Associates, Inc, and Goodman Appraisal Consultants LLC.

The capital commitment includes, but is not limited to, investing in a main extension to connect the Eureka water distribution system to Missouri American’s St. Louis County water supply and investing to ensure that the sewer system remains compliant with all federal and state regulations as permitted by the MoDNR.

### PROPOSED RATE STRUCTURE

Missouri American Water proposes a small increase to current customers rates prior to close to support proposed system improvements and maintenance costs. The bill for an average residential customer with usage of 6,400 gallons would be \$39.60 for water and \$38.75 for sewer, which would be an increase of \$16/month over current rates. The proposed rates are subject to Missouri Public Service Commission approval and are anticipated to remain the same until 2024.

RESIDENTIAL BILL	4,400 GAL/MO (LOW USER)	6,400 GAL/MO (AVERAGE USER)	8,400 GAL/MO (HIGH USER)
CURRENT EUREKA WATER & SEWER RATES	\$52	\$62	\$72
PROPOSED EUREKA WATER & SEWER RATES	\$69	\$78	\$88
DIFFERENCE	\$17	\$16	\$16

### PROJECTED FUTURE RATE SAVINGS

According to our projected rate estimates, the average customer will save approximately \$1,000 over the next five years with Missouri American Water compared to the City making water and sewer system improvements on its own. Additionally, Eureka customers will save money on the avoided cost of in-home softeners and the repair and replacement of appliances.

Appendix B provides a projected rate comparison graph for the average residential customer in Eureka to show how rates are projected to increase with investment. All rate adjustments must be approved by the Missouri Public Service Commission. Appendix C provides a summary of how rates are set for a regulated utility.

### EMPLOYEES

Missouri American Water commits to retaining the current five employees of the City of Eureka’s water and sewer system, subject to the same rules and conditions that apply to all other Missouri-American employees.

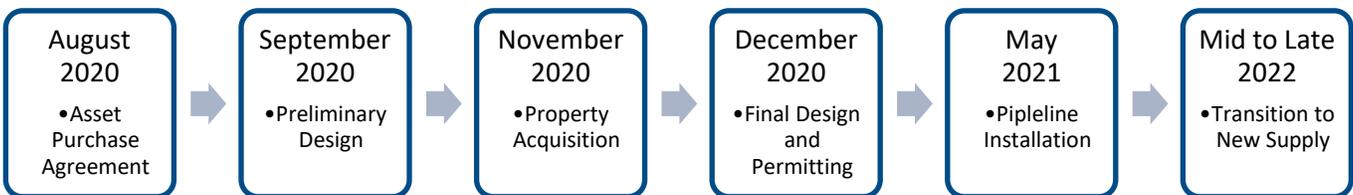
### WATER QUALITY AND SEWER WITH MISSOURI AMERICAN WATER

Residents of Eureka experience poor water quality due to prevailing source water issues and challenging treatment conditions, resulting in complaints of taste, odor, repairs and/or the frequent replacement of appliances. Many of these complaints vary throughout the city dependent on the well source. The city is investigating expensive treatment options like reverse osmosis to remediate these concerns. However, with this purchase residents would be connected to Missouri American Water’s system, allowing residents to enjoy the same high-quality water as the rest of St. Louis County that meets or exceeds all Environmental Protection Agency (EPA) and Missouri Department of Natural Resources (DNR) requirements.

The lagoon wastewater treatment facility in Eureka is facing significant compliance challenges with respect to future ammonia limits. Missouri American Water will make any necessary investments to maintain compliance and has a team of professionals who have the experience and technical expertise in to effectively manage the system. Citizens of Eureka will also benefit from our economies of scale and nationwide purchasing power, which allow us to save money on equipment and materials.

### CONNECTING TO MISSOURI AMERICAN WATER: ESTIMATED TIMEFRAME

Appendix D provides a depiction of the proposed construction route for the connecting water main. The timeline for construction of the main connecting to Missouri American Water’s St. Louis County source is below.



*\*Exact timeframe dependent on if there is a need to exercise eminent domain.*

## 2.) OVERVIEW OF MISSOURI AMERICAN WATER

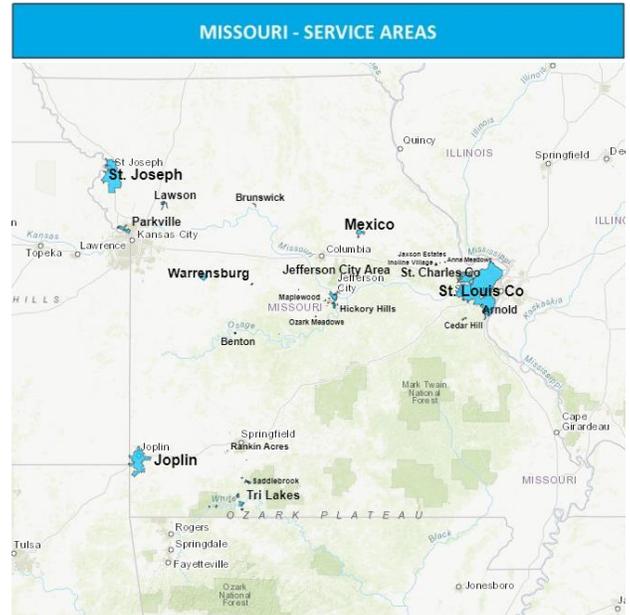
### WE CARE ABOUT WATER. IT'S WHAT WE DO.

At Missouri American Water, a team of nearly 700 employees work every day to provide high-quality water and sewer services for 1.5 million residents in nearly 200 communities.

Missouri American Water is the largest publicly traded water and sewer service provider in the state, serving 465,000 water customer connections and 12,500 sewer customer connections. About 25 percent of all Missourians receive their water service from Missouri American Water. Every day we deliver approximately 205 million gallons of water to our customers. We maintain about 6,771 miles of water mains and over almost 43,000 fire hydrants.

Missouri American Water is a wholly owned subsidiary of American Water (NYSE: AWK). American Water is the largest and most geographically diverse publicly traded U.S. water and sewer utility company. The company employs 7,100 dedicated professionals who provide regulated and market-based drinking water, sewer and other related services to an estimated 14 million people in 45 states and Ontario, Canada.

As the owner of water and sewer systems, American Water has operated and maintained such facilities for 140 years. In addition, American Water has provided contract operations to the public sector for more than 65 years, accepting responsibility for the efficient and economical operation of municipal utility infrastructure. This dual perspective gives the company a clear understanding of the various drivers affecting utility operations. This allows American Water to integrate a wealth of experience, skills, systems and financial strengths available through its various operating entities to supply reliable, effective services. All American Water operations employ the best commercial practices developed for use within the water and sewer industries.



**Missouri American Water has vast experience serving 1.5 million people across the state, with a history dating back 140 years.**

### OPERATIONS EXPERIENCE

Headquartered in Creve Coeur, Missouri American Water is the state's largest water utility, serving more than 200 communities. Missouri American Water is a recognized leader in providing communities with well-maintained and reliable water and sewer service. With a history of operations in Missouri spanning 140 years, we currently provide water and sewer-related services to approximately 1.5 million persons through 465,000 water connections and 12,500 sewer connections.



Our professionals bring a depth and breadth of knowledge to water and sewer challenges. We operate groundwater and surface water treatment plants in a variety of conditions across the state. Every eligible water treatment plant in our Missouri system is a ten-year plus member of the Partnership for Safe Water. The Partnership is a national voluntary initiative developed by the USEPA and 5 other water organizations to recognize water suppliers that consistently achieve water treatment standards that surpass USEPA regulatory requirements. Roughly one percent of water utilities in the U.S. have achieved this recognition.

In addition, our team knows sewer – from lagoons to activated sludge plants. On a statewide and national level, our experts are often involved in discussions of future regulations – enhancing our ability to anticipate and address coming regulatory requirements. The customers are served by 73 systems that range in size from two (2) customers to 7,000 customers. Missouri American Water operates a variety of treatment facilities consisting predominately of extended aeration plants, sand filter plants, and lagoons. We provide water service to over 465,000 customers statewide, utilizing both groundwater and surface water, with systems ranging in size from less than 500 customers to 350,000 customers.

Across the country, water and sewer systems face the challenges of aging infrastructure and increasing regulatory requirements. Missouri American Water works to strategically prioritize projects that deliver the greatest value to our customers and focus on innovation. Some of the innovations that we have delivered are:

- Expanding and improving Joplin's water treatment plant, including installing the first ultraviolet light water disinfection process in Missouri.
- Upgrading the water disinfection systems at St. Louis County's Meramec and South water treatment plants with an innovative process that eliminates the need for onsite storage of chlorine gas.
- Using innovative technology to address new ammonia regulatory requirements in our Jefferson City-area sewer systems.
- In Warrensburg, constructing Missouri's first water treatment plant to use ozonation as a means of improving taste.
- In Brunswick, in conjunction with KCP&L, installing solar panels to help reduce electrical costs to the plant.

### 3.) COMMITMENT TO COMMUNITY

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As Missouri American Water employees, we engage in the communities where we live, work and serve our customers. Providing financial and volunteer support to local charities and activities is part of the commitment that we make to the communities that we serve. In 2019, employees volunteered more than 1,400 hours across the state for community events ranging from river clean-ups to educational programs in local schools. The American Water Charitable Foundation matches volunteers' donations of time and money to employees' favorite charities up to 20 hours and \$1,000 per year.

#### FIREFIGHTER GRANT PROGRAM

The Firefighter Grant Program supports community fire protection and public safety. These grants help community fire departments fund personal protective gear, communications equipment, firefighting tools, water handling equipment, training materials and classroom programs. In 2019, the program provided 28 grants totaling \$35,000.



#### ENVIRONMENTAL SUPPORT

Throughout the state, Missouri American Water supports innovative, community-based environmental projects to improve, restore or protect watersheds and community surface and/or groundwater sources. Missouri American Water is proud to support dozens of Missouri non-profit organizations that are leaders in river and watershed protection.



#### WINGS OVER WATER

The partnership between the World Bird Sanctuary and Missouri American Water volunteers has brought the "Wings Over Water" watershed preservation program to thousands of Missourians. Featuring birds of prey up close and in flight, the program emphasizes the importance of watershed protection to our rivers, drinking water and wildlife.

#### RIVER CLEAN UPS

Missouri American Water volunteers support river cleanups from Kansas City to St. Louis. The donations of time and resources help groups like Missouri River Relief, the Open Space Council, Greenway Network and local stream teams achieve their environmental and educational goals.

#### MISSOURI AMERICAN WATER MR340 AND RACE TO THE DOME

These canoe/kayak races on the Missouri River involve hundreds of paddlers and support river clean-up and educational organizations.



#### 4.) RECOMMENDATIONS FROM CURRENT COMMUNITIES

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“When we began working with Missouri American Water on a plan to sell our sewer collection system, it was a top priority for our city. It represented a critical step in our work to improve our City’s financial picture and maintain reliable sewer service for our residents. I want to commend Missouri American Water for the outstanding planning and leadership that got us to our goal.”

**RONALD COUNTS**  
**MAYOR**  
**CITY OF ARNOLD**

“Selling our water and sewer assets to Missouri American Water has given our community the ability to focus our priorities on roads, parks, stormwater, and the pursuit of economic development opportunities. We weren’t experts at water and sewer, but Missouri American Water is. They have the knowledge, capital resources and expertise to ensure our citizens will have reliable water and sewer service for years to come. Most importantly, they are committed to doing the right thing for their customers and the community.”

**MATT NOLKER**  
**CITY ADMINISTRATOR**  
**CITY OF LAWSON**

“We have a great working relationship with Missouri American Water. We’ve always had outstanding service, but it goes beyond that. As the mayor of the city, I know exactly who to call if we have any issues, any questions, and I know that our city staff feels the same way.”

**CARRIE TERGIN**  
**MAYOR**  
**CITY OF JEFFERSON**

“Water is obviously a critical tool for fighting fires, and Missouri American Water does a great job maintaining and investing in their system, so water is there when we need it the most. They also go above and beyond to support local fire districts. Not only do they have an annual fire fighter grant program that provides funding for training and equipment, but they also donated some land to us to help fulfill our need for advanced rescue training. We couldn’t ask for a better community partner.”

**CARY SPIEGEL**  
**FIRE CHIEF**  
**MONARCH FIRE**  
**PROTECTION DISTRICT**

### 5.) LEADERSHIP TEAM BIOGRAPHIES

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#### MISSOURI AMERICAN WATER LEADERSHIP TEAM

One of the greatest assets at Missouri American Water is our team of highly skilled employees who work around the clock to provide quality service to our customers. Our team consists of many professionals dedicated to customer service, production, maintenance, water quality and engineering, along with many other departments working together to keep the water flowing. The team below leads Missouri American Water's efforts. With experiences bridging both the municipal and the public water and sewer utilities, they realize the concerns of the customers as well as the sensitivity of moving from a public to a private utility. Together with the leaders of Eureka, this team will provide a transition to provide the best solution.



#### **DEBBIE DEWEY, PRESIDENT**

Debbie Dewey joined Missouri American Water as President in 2019. Debbie joined American Water in 2015 as vice president of Operations in Indiana. In 2016, she was named president of Indiana and Michigan, bringing more than 30 years of leadership experience and knowledge to her position. Prior to joining Indiana American Water, Debbie served as president of the Growth Alliance for Greater Evansville, and as president of Western Kentucky Energy/Louisville Gas & Electric (LG&E).



#### **GRANT EVITTS, VICE PRESIDENT, OPERATIONS**

Grant Evitts is the Vice President, Operations for Missouri American Water where he is responsible for more than 600 employees across the state. His primary role is to promote safety for employees, develop, monitor & manage the operational expenses of the Company, and deliver high quality water and services for customers. Grant has held a variety of roles in American Water for 30 years, holding positions in both Illinois American and Missouri American. Grant has certification in instrumentation and process control and industrial electricity/electronics and holds a Class C water operator's license from the Illinois Environmental Protection Agency.



#### **TIM LUFT, VICE PRESIDENT, LEGAL & CORPORATE SECRETARY**

Tim Luft joined Missouri American Water in 2012 as Vice President Legal and Corporate Secretary. He is responsible for the legal function for Missouri American including administrative agency and regulatory work, transactional matters, and general corporate issues. He is licensed to practice law in Missouri, Illinois, and Tennessee. Mr. Luft is a member of the Association of Corporate Counsel-St. Louis Chapter and the Missouri Bar Association. He holds a JD from St. Louis University and a bachelor's in business administration from the University of Missouri-Columbia.



### **JEFF KAISER, P.E., DIRECTOR OF ENGINEERING**

Jeff Kaiser joined Missouri American Water in 2019 as the Director of Engineering. Mr. Kaiser has been a valuable member of the American Water team since 2008, when he joined the company as Director of Engineering for Illinois American Water and Iowa American Water. In 2018, he took the position of Director of State Procurement for American Water before moving to his current role. Mr. Kaiser has proved to be a successful engineering and regulated capital infrastructure program director, offering over 30 years of engineering experience. Mr. Kaiser holds a Bachelor of Science in Civil Engineering from Washington University in St. Louis and is a registered professional engineer (P.E.) in the state of Missouri.



### **BRIAN EISENLOEFFEL, SENIOR OPERATIONS MANAGER**

Brian Eisenloeffel joined Missouri American Water in 2002. He currently serves as the Senior Operations Manager. He is responsible for overseeing the daily operations in East Central Missouri including the areas of Jefferson City, St. Charles and Mexico. Brian oversees the budgeting process, business development, community involvement, operating efficiency projects, employee safety, and strategic planning for each of these districts. He holds a bachelor's degree in civil engineering from the University of Texas San Antonio.



### **TIM GANZ, OPERATIONS & ENVIRONMENTAL MANAGER**

Tim Ganz joined Missouri American Water in 2003. He currently serves as the Director of Water Quality & Environmental Compliance. His responsibilities include overseeing environmental compliance for MAWC's water and wastewater systems, directing environmental policy, serving as the point of contact with the state and federal regulatory agencies, and developing and implementing environmental stewardship programs. Tim is a Certified Hazardous Materials Manager, holds a Missouri "A" Drinking Water Treatment license, a "D" wastewater treatment license, and has degrees from the University of Missouri, Saint Louis University, and Maryville University in St. Louis, Missouri.



### **KEN FRANKLIN, MANAGER-GOVERNMENT AFFAIRS**

Ken Franklin joined Missouri American water in 2019, bringing more than two decades of knowledge and experience in government and politics to the company. He is responsible for managing key relationships with local governments, business/civic groups, and community organizations in the St. Louis region. Ken also represents the company at various political, civic, business, municipal, regulatory or industry events and meetings. Ken has earned a Master of Business Administration from Washington University in St. Louis and a Bachelor of Arts from Morehouse College in Atlanta, GA.

### 6.) WHAT HAPPENS NEXT

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According to Missouri Statue Chapter 88.770, once Eureka's board of aldermen determines the fair market value of a water and sewer system, it may begin negotiating for possible sale. The board of aldermen then provides all information regarding the sale to all qualified voters. Vehicles for communication details can include internet, radio television, newspapers, electronic mail, and or regular mail. Details of said proposal should include instructions for locating a summary of the proposal and informing the recipient that a written copy of such information may be available at the building where the board of aldermen have its monthly meetings. The City Council would need to place a question on the ballot, and a simple majority of voters would need to vote in favor to authorize the sale of the City's water and sewer (sewer) utilities.

At a regular election held on August 4, 2020, the following question would be submitted to the qualified voters of the City of Eureka, Missouri for their approval. The ballot would read:

*Sale of the Eureka Water and Sewer (sewer) Utilities*

*Shall the city of Eureka, Missouri, be authorized to sell its water and sewer (sewer) utility to Missouri American Water for the sum of \$28,000,000.00 (Twenty-Eight Million Dollars)?*

### 7.) CONCLUSION

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The City of Eureka would greatly benefit from the sale of its system to Missouri American Water. Missouri American proposes that the City would receive cash in exchange for all the assets of the City of Eureka Water and Sewer system. Thereafter Missouri American would own, operate and maintain the system – all with regulatory oversight from the Missouri Public Service Commission. With more than 100 years of experience owning and operating water and sewer systems, Missouri American brings unique industry expertise to this process.

Missouri American can proceed expeditiously to develop a transaction that will benefit the customers of the City of Eureka, the employees and the community that it serves. Based on experience, we believe all necessary regulatory authorities will promptly approve the transaction.

It is understood and intended that this Proposal constitutes a non-binding proposal and is not to be construed as commitment, representation or contract legally binding upon Missouri American or the City, and no cause of action shall arise from this Proposal or be based thereon. Unless and until definitive agreements are entered into, neither Missouri American nor the City shall be under obligation to the other, irrespective of this Proposal and irrespective of any negotiation, agreements, or undertaking between, or action taken by, the parties with respect to this Proposal and/or the Transaction.

This Proposal is being delivered to you with the understanding that it and its contents will remain confidential and will be disclosed only to those executive officers and legal and financial advisors of the City who are directly involved in analyzing the transaction and that neither this Proposal nor its contents will be disclosed publicly or directly or indirectly discussed with or disclosed to any other perspective purchaser unless such disclosure is required by applicable laws. The City and Missouri American Water will consult each other and use good-faith efforts to obtain review and approval by the other party prior to any public disclosure.

**8.) CONTACT INFORMATION**

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**NIKKI PACIFIC**

Manager of Business Development

727 Craig Road

St. Louis, MO 63141

314-996-2215

[nikki.pacific@amwater.com](mailto:nikki.pacific@amwater.com)

[www.amwater.com/moaw](http://www.amwater.com/moaw)

APPENDIX A: OFFER – KEY ELEMENTS



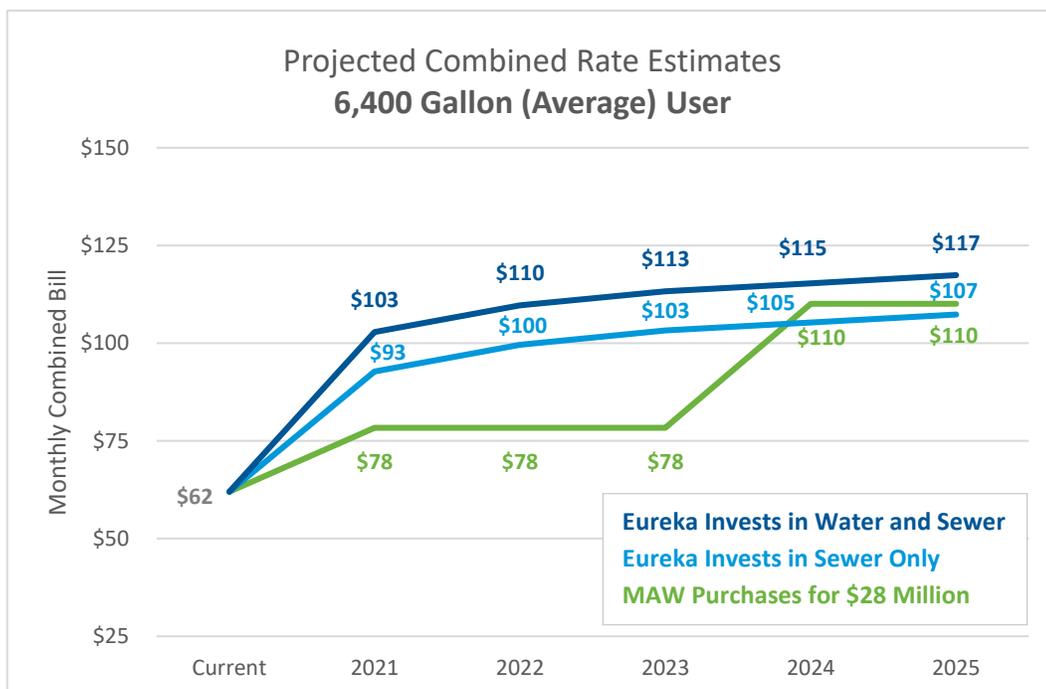
OVERVIEW OF MISSOURI AMERICAN WATER OFFER TO EUREKA

- **PURCHASE PRICE** – Missouri American Water is offering Eureka the full appraised value of its water system (\$18 million) and sewer system (\$10 million), totaling \$28 million.
- **WATER QUALITY** – Many residents do not drink Eureka’s water and have voiced their dissatisfaction with its quality to city leaders. Missouri American Water has committed to building a pipeline from its St. Louis County system to Eureka to supply the city with high-quality water. The project is estimated to be completed by the end of 2022.
- **REGULATORY COMPLIANCE** – Missouri American Water would be responsible for any maintenance and capital investments needed to achieve state and federal regulatory compliance.
- **MAINTENANCE AND LIABILITIES** – Missouri American Water would assume all future maintenance and liabilities associated with the water and sewer systems.
- **EMPLOYMENT** – Missouri American Water is offering to hire five public works employees, subject to the same rules and conditions that apply to all other Missouri American Water employees.
- **NET PROCEEDS** – Eureka would have \$20.7 million in net proceeds to reinvest in the community after its \$7.3 million in debt is retired.

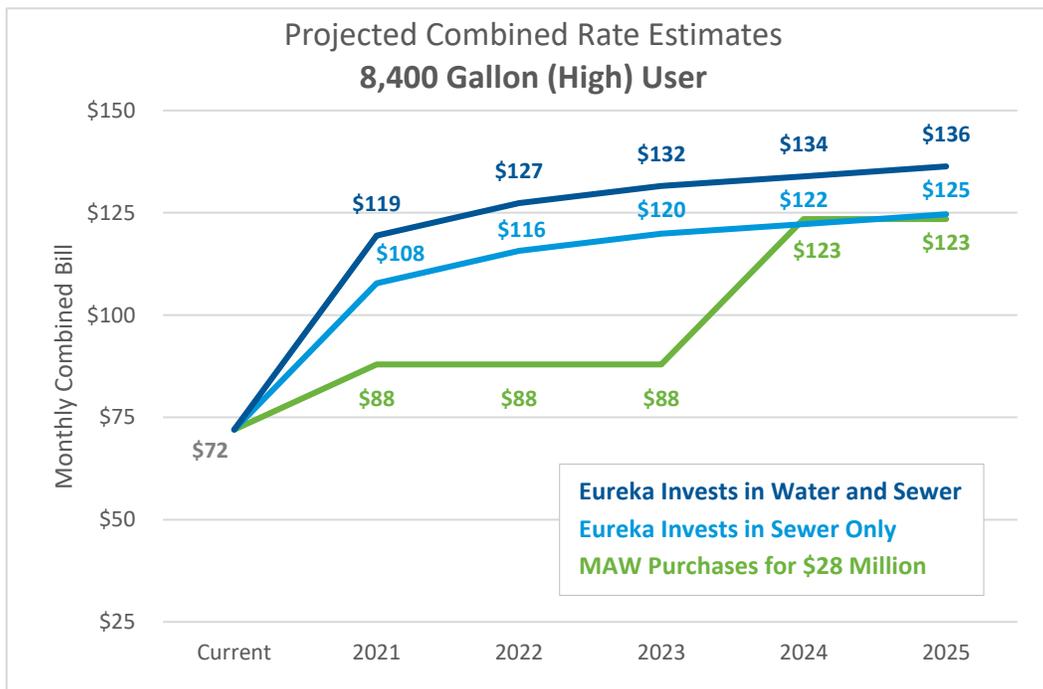
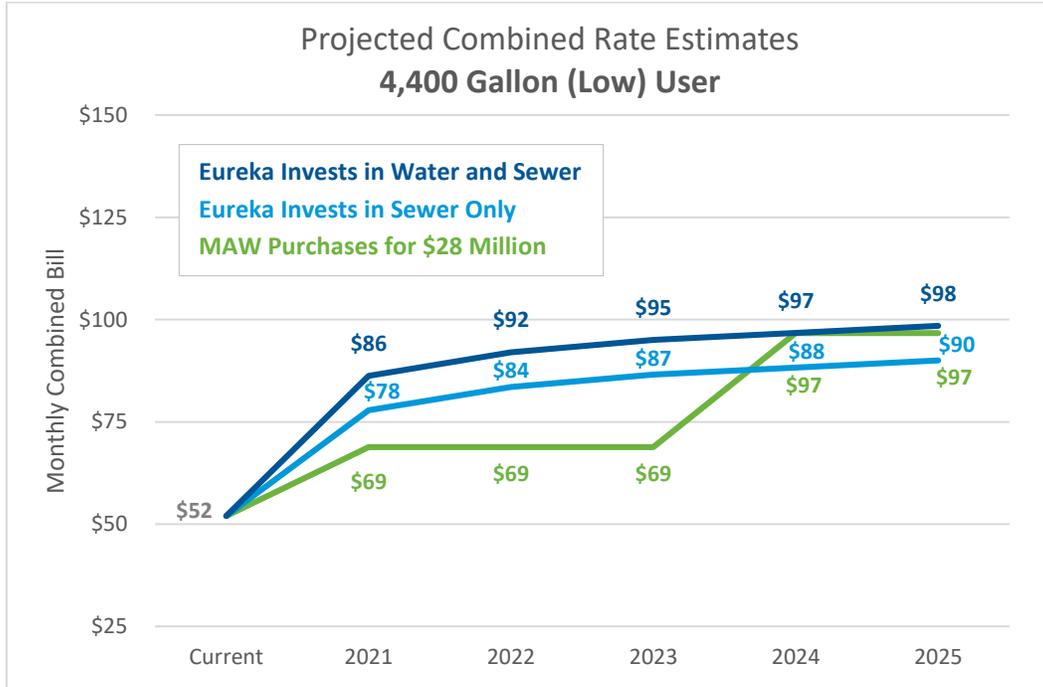
### APPENDIX B: PROJECTED RATE COMPARISON CHARTS

Proposed rate adjustments for a regulated utility must be approved by the Missouri Public Service Commission. Rate projections are for combined water and sewer service and are based on these assumptions.

Assumptions for Project Rate Estimates	Eureka Invests in Water Quality and Sewer Compliance	Eureka Invests in Sewer Compliance Only	MAW Purchases Water and Sewer Systems for \$28M
Projected rate estimates are for combined water and sewer bills.	✓	✓	✓
6,400 gallons per month is average use for a Eureka residential customer. 8,400 gallons and 4,400 gallons per month are also shown to represent higher and lower users, respectively.	✓	✓	✓
Inflation Rate is 2.5% per year	✓	✓	✓
\$7M investment over the next 5 years to support system reliability (replace aging components)	✓	✓	✓
\$150K-\$230K per year increase in water system O&M expense to achieve expected level of service	✓	✓	✓
\$490K per year increase in sewer system O&M expense to achieve expected level of service	✓	✓	✓
\$18M investment to bring sewer lagoon into compliance	✓	✓	✓
\$7M investment to connect to MAW water supply			✓
\$10M investment to install reverse osmosis water treatment	✓		



### APPENDIX B: PROJECTED RATE COMPARISON (Continued)



### APPENDIX C: THE TRUTH ABOUT HOW WATER RATES ARE SET

## THE TRUTH ABOUT HOW WATER RATES ARE SET

*How water rates are set and why they differ among public and private utilities*

#### **Private water companies never set their own rates.**

Each state has a public utility commission, which sets water rates for private water utilities in the state through a process called a rate case.

- The job of the state commission is to ensure that privately owned water utilities have rates that are both fair and warranted.

#### **There is more oversight of private water utilities than public water utilities.**

Only private water utilities must go through the rate case process.

- The rate case process requires the release of supporting documentation and open public hearings to allow customers, elected officials, and other stakeholders to participate.
- A rate case requires a private utility to prove its costs are justified and its rates are fair for a given system.

#### **Private water rates are regulated by state utility commissions based on the true cost of service and necessary investment.**

Rates are a reflection of water utility investment.

- Rate increases cover costs such as water main repair and replacement, water hydrant maintenance, and water treatment facility updates.
- Utilities that proactively invest to maintain their system will typically have higher rates than a utility that defers investment in favor of lower rates.

#### **Private water companies have a strong record of regulatory compliance.**

According to an analysis of EPA data, publicly operated water utilities are 24% more likely to violate the Safe Drinking Water Act than privately operated utilities.<sup>1</sup>

- The authors of the analysis argue that, because rate increases are politically problematic for local officials, it is difficult for public utilities to generate the revenue necessary for upgrades and routine maintenance. Thus, public utilities are more likely to miss or delay crucial investments, thereby generating more violations of federal safe drinking water standards.

#### **Direct comparisons of water rates across communities are misleading and do not tell the full story.**

Experts agree it is impossible to make comparisons of rates from one municipality to another.<sup>2</sup>

- There are dozens of factors that influence water rates, including investment needs, water source location and availability, service area density and elevation, and water treatment needs. As a result, it is extremely challenging to fairly and accurately compare the rates of different service territories.

#### **Direct comparisons of government-owned utilities to privately owned utilities are further complicated by other cost and revenue factors.**

It is unfair to make comparisons between privately run utilities and those run by municipalities.

- A government-owned utility receives revenue support through resident property taxes and other federal and state grants, while a private utility does not receive such subsidy support. This "subsidy" significantly decreases customer rates for public utilities, making them appear lower than private utility rates.

<sup>1</sup>David Koritsky, Georgetown University and Marry Teodoro, Texas A&M University, "When Governments Regulate Governments," Nov. 2014

<sup>2</sup>Geocher and Kahnback, Michigan State University, "2010 Great Lakes Water Survey," 2011; Houston, "Water Supply in California: Economics of Scale, Water Charges, Efficiency and Profitability," Mount Allison University, 2003; University of Delaware Institute for Public Administration, "Water Rates in Delaware and Surrounding States," 2014

**APPENDIX D: PROPOSED MAIN CONNECTION ROUTE**

