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2014 MAY 22 A 11: 43

AZ CORP COMMISSION
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Transcript Exhibit(s)

Docket #(s): WS-02987A-13-0477

Exhibit #: PUlte.1, SP1, F1-F3, STHOA1, STHOA2, STHOA4-STHOA9
A1-A6, A8, A9, S1-S3, RUCO1, RUCO2

Arizona Corporation Commission
DOCKETED

MAY 22 2014

DOCKETED BY

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To: Docket Control

Date: May 22, 2014

Re: Johnson Utilities / Sale and Transfer
WS-02987A-13-0477
May 19 through 21, 2014
Volumes I through III, Concluded

STATUS OF ORIGINAL EXHIBITS

FILED WITH DOCKET CONTROL

Applicant Exhibits (A Exhibits)

A-1 through A-6, A-8, A-9

Town of Florence (F Exhibits)

F-1 through F-3

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Pulte (Pulte Exhibits)

Pulte-1

Pratt (SP Exhibits)

SP-1

San Tan HOA (STHOA Exhibits)

STHOA-1, STHOA-2, STHOA-4 through STHOA-9

RUCO (R Exhibits)

R-1 and R-2

Staff (S Exhibits)

S-1 through S-3

EXHIBITS NOT UTILIZED
By design or oversight
(Not given to reporter)

Applicant Exhibits (A Exhibits)

A-7

EXHIBITS NOT OFFERED
(Not given to reporter)

San Tan HOA (STHOA Exhibits)

STHOA-3

Pratt (SP Exhibits)

SP-2

Copy to: Teena Jiblian, ALJ
Sasha Paternoster, ALJ
All parties present during hearing

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

BOB STUMP, Chairman
GARY PIERCE
BRENDA BURNS
BOB BURNS
SUSAN BITTER SMITH

THE MATTER OF THE APPLICATION OF JOHNSON UTILITIES, LLC, DOING BUSINESS AS JOHNSON UTILITIES COMPANY, FOR APPROVAL OF SALE AND TRANSFER OF ASSETS AND CONDITIONAL CANCELLATION OF ITS CERTIFICATE OF CONVENIENCE AND NECESSITY	Docket No. WS-02987A-13-0477

Direct Testimony
of
Daniel Bonow
on behalf of Pulte Home Corporation
May 9, 2014

EXHIBIT
Pulte 1
ADMITTED

Executive Summary

Daniel Bonow is Manager Land Development at Pulte Home Corporation ("Pulte"). Mr. Bonow describes Pulte's concerns and questions regarding the proposed sale of all of Johnson Utilities, L.L.C.'s ("JU") assets to the Town of Florence.

Pulte has been developing and building the over 3,100-acre Anthem at Merrill Ranch community within the Town of Florence and within JU's service territory since 2004. As of May 1, 2014, over 2,000 homes have been sold within this community, and it is expected to have approximately 9,000 homes when it is built out.

JU proposes to sell utility assets already constructed for use within the Anthem at Merrill Ranch community to the Town, and transfer hook-up fees already collected but not used to the Town. Mr. Bonow testifies that it is important to Pulte that the Town assume JU's existing agreements to protect existing agreements. Mr. Bonow also asks how the already-collected hook-up fee funds will be handled after the sale. Pulte is working directly with the Town to try to address Pulte's remaining questions regarding the proposed transaction.

Pulte asks that the Commission continue its consideration of the CC&N extension request in docket number WS-02987A-12-0136 to avoid further delay if the proposed sale should not move forward as quickly as anticipated.

Q. Please state your name, position, business address, and telephone number.

A. My name is Daniel Bonow. I am a Manager of Land Development at Pulte Home Corporation ("Pulte"). My business address is 16767 Perimeter Dr., Suite 100 Scottsdale, Arizona 85260.

Q. Have you ever testified at the Arizona Corporation Commission before?

A. No.

Q. Why has Pulte intervened in this proceeding?

A. Pulte has been in the process of developing and building the over 3,100-acre Anthem at Merrill Ranch community within the Town of Florence and within Johnson Utilities, LLC's ("JU's") certificated service territory since 2004, and the proposal to transfer JU's assets and agreements to the Town of Florence during this development and construction process will affect Pulte in significant ways. As of May 1, 2014, more than 2,000 homes have been sold within Anthem at Merrill Ranch, and we estimate there will be approximately 9,000 homes within the master planned community when it is built out. It is critical for the existing Anthem residents and for Pulte to ensure that water and sewer service continues uninterrupted, and that the transition occurs in a manner that presents no significant negative effects for the affected parties.

Q. How will Pulte likely be affected by the proposed sale?

A. Initially, Pulte is affected by the timing of this proceeding. As part of the ongoing development process, JU was requested to serve a parcel, referred to as Merrill Ranch Expansion #1. On April 6, 2012, JU filed an application [docket number WS-02987A-12-0136], to expand its CC&N to respond to this request. The application is still pending, and Pulte would like the Commission's consideration and approval of the application to go forward now without further delay as Pulte needs to have utility service to proceed with its plats for the property, regardless of the outcome or timing of this case. Pulte appreciates the Town's statement of intent to serve the expansion property should the sale of JU assets be approved as stated by Mr. Montoya on page 6 of his Direct Testimony.

Second, the proposed transfer of assets and loss of Commission oversight raises a number of questions regarding the future of Pulte's in-process master utility agreements and line extension agreements with JU. Pulte understands that the Town will assume JU's commitments under JU's existing line extension agreements and master utility agreements. The Town's assumption of all the existing agreements is an essential term for Pulte because, as part of the sale, JU is transferring its assets and entitlements that have enabled JU to comply with the existing agreements, raising the significant possibility that JU will be unable or unwilling to perform its contractual commitments after the closing. We look forward to seeing more details regarding the assignment and assumption as they are made available.

Other questions raised relate to the contracting parties' reference in existing utility agreements to some Commission processes that may not apply in the same manner going forward given that the Commission would no longer regulate service. For example, both JU and Pulte have already made significant investments in water and sewer infrastructure intended to serve future Anthem residents. Pulte has contributed land and facilities, and JU has constructed the Anthem wastewater treatment plant, wells, and storage for the community. JU has for a number of years collected non-refundable hook-up fees from Pulte. These hook-up fees were collected to fund certain off-site infrastructure construction, and the Commission has strict policies regarding accounting procedures and the types of infrastructure that may be funded with hook-up fees. JU proposes to transfer the remaining balance of the hook-up fee funds to the Town, but it is not clear yet from the available testimony how the Town will administer the existing hook-up fee funds.

Q. What questions do you have about the draft Asset Purchase and Lease Agreement?

A. Most of my questions can be addressed directly with Town, and we are working to do so now. For example, the purchase agreement lacks detail regarding how current construction work-in-progress will be transitioned.

As another example, the drafts attached to Mr. Montoya's testimony identify only one of the two Anthem master utility agreements in the attached list of master agreements

to be assigned to the Town. Both agreements will need to be assigned and assumed by the Town. The Town's assumption of JU's obligations in all existing agreements will address many of my remaining questions. We would like to see the form of the assignment and assumption agreement that the Town will use to assume JU's obligations under the various agreements when it is available.

Q. Do you have any issues that should be specifically considered by the Commission?

A. The Commission will consider whether the transfer of assets is in the public interest, and it is not my intent to list all public interest factors that might be identified for consideration by the other parties, such as RUCO as to consumer interests. As to Pulte specifically, we would like further clarification regarding how the Town will hold and use the hook-up fee funds already collected by JU as it would be in the public interest to ensure that such funds are used for the purposes they were collected. It is also important that all existing agreements are assumed.

Q. Does Pulte support or oppose Johnson Utilities, L.L.C.'s application in this case?

A. In general, Pulte does not oppose the proposals to transfer JU's assets to the Town of Florence and extinguish its CC&N on reasonable terms that are sufficiently protective of the interests of affected customers and parties with existing agreements. A number of the terms proposed by the Town in its testimony should provide some protection, such as keeping rates the same for at least 18 months after the sale. Pulte is working quickly to address Pulte's remaining questions, and review information shared by other parties, and so I'll reserve the right to ask additional questions and take additional positions as this process moves forward.

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BEFORE THE ARIZONA CORPORATION COMMISSION

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2014 MAY -8 P 1:48

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Arizona Corporation Commission
DOCKETED
MAY 08 2014
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SUSAN BITTER SMITH
COMMISSIONER

IN THE MATTER OF THE APPLICATION OF JOHNSON UTILITIES, LLC, DOING BUSINESS AS JOHNSON UTILITIES COMPANY, FOR APPROVAL OF SALE AND TRANSFER OF ASSETS AND CONDITIONAL CANCELLATION OF ITS CERTIFICATE OF CONVENIENCE AND NECESSITY.

Docket No. WS-02987A-13-0477

ORIGINAL

TESTIMONY OF STEVE PRATT

Q. Name, address, and purpose for testimony.

A. My name is Steve Pratt. My wife and I own a home on MaCaw Ct. in Johnson Ranch. Johnson Utilities provides our house water and wastewater services. Along with three other customers (Todd Hubbard, Alden Weight, and Karen Christian), we intervened in this proceeding to speak to our concerns with the potential transfer of assets to the Town of Florence (TOF). Incidentally, we prefer the term "customer" to "ratepayer" as "ratepayer" sounds too much like a person whose only value is to pay whatever rate is demanded while customers receive "customer service" in return. At the request of Johnson Utilities we have consolidated comments so as not to unnecessarily add redundancy to the proceeding.

Q. What are your concerns?

A. If the asset transfer takes place, we want assurance that safe, adequate, and reliable service will be provided at rates that will forever be "just and reasonable". Neither

EXHIBIT
SP-1
ADMITTED

myself nor the other customer-interveners are attorneys and any reference we make to rules, regulations, or statutes are not intended to reflect conclusions of law or legal or professional opinions. Our analysis and comments are simply "the common sense way we see it" as customers. I will give our perspective on what we, as customers, consider to be the attributes of "just and reasonable" rates, how the Arizona Corporation Commission might view its role in this docket, and offer a potential path forward.

Q. Are you concerned that "just and reasonable" rates might not result if the TOF acquires the assets of JU under the terms of the draft Purchase Agreement?

A. Yes. Our analysis indicates that the total revenue necessary to provide adequate service post-sale will be significantly higher than the revenue necessary to provide adequate service if the assets are not sold. In addition, in a presentation to the TOF Council on March 26, one of the major benefits to the town mentioned by the firm which helps Florence set rate policy was "Annual financial contribution from acquired utility to General Fund, thus limiting need for additional taxes."

The firm's representative also presented a Revenue and Cost of Service projection chart, a copy of which is reproduced on Attachment I to this testimony. That chart indicates an expectation that the TOF, once out from under ACC oversight, could choose to take advantage of an opportunity to annually and exponentially increase revenue above Cost of Service for the foreseeable future. If I read the chart correctly, this might generate $10 Million in revenue above Cost of Service in 2025 and $30 Million in 2033. These were labeled "conservative" estimates because, according to the consultant, there is room to increase revenue even faster.

Q. What is the problem with generating revenue above Cost of Service?

A. To us, San Tan Valley customers, rates generating revenue above Cost of Service are not "just and reasonable" as we believe the ACC requires just and reasonable rates to produce revenue that is no higher than Cost of Service. It appears that TOF intends on using utility revenue exceeding Cost of Service to subsidize city services.

Customers within TOF might pay the same rates as San Tan Valley customers, but would receive an offsetting benefit from lower taxes relative to the services they receive. Customers outside the TOF would simply pay the increased bill and not receive either the associated tax relief or city-provided services they would be paying for.

A major concern of ours, therefore, is the lack of independent, well-funded, professional oversight. Who decides what "just and reasonable" rates are? Will the ACC "just and reasonable" standards apply? What recourse do we have if rates are not just and reasonable? Will this require a court challenge? Where will the resources come from to contest a "just and reasonable" finding by TOF? It appears to us that the TOF, or at least its rate consultant, believes the TOF can race down the revenue road with the throttle wide open, at ever increasing speeds, with no traffic cops in sight. "Whatever the market will bear" might be TOF's "just and reasonable" standard, which does not seem either fair or appealing to us.

Q. Do you have assurance that, after the sale, service will be safe, adequate, and reliable?

A. No. It is unclear whether correctly calculated just and reasonable rates will produce enough revenue to adequately maintain the system under the terms of the draft Purchase Agreement included in Mr. Hodges' testimony. It seems to us this question must be asked, analyzed, and answered by the ACC. Perhaps this is an area of inquiry that the ACC and its Staff can take up as part of its mandate in this particular asset transfer request, and perhaps generically the ACC should adopt a policy to do so whenever it is tasked with assessing whether or not an asset transfer that involves regulatory regime change is in the public interest.

Q. What do you mean by "regulatory regime change"?

A. In preparation for this case I reviewed the draft Purchase Agreement, as well as decisions and some (but not near all for Heaven's sake) documents in Docket WS-02987A-08-0180, Johnson Utilities' (JU's) last rate case. I also reviewed some applicable

statutes and ACC regulations. The ACC applied various standards of review to ultimately arrive at JU's existing rates.

Based on my review, it appears that the ACC employs an exquisitely complex regulatory process to ensure that fair, just and reasonable outcomes are offered to balance the interests of customers and state-sanctioned-monopoly service providers. An army, or at least a large platoon, of attorneys, consultants, accountants, engineers and a professional regulatory staff participate to achieve the desired public interest balance. On March 8, 2013 Johnson Utilities submitted a document indicating it did not expect the need to change rates until at least July 1, 2019. I suspect, therefore, that the utility believes current rates produce revenue that is at least sufficient to provide safe, reliable, and adequate service until at least 2019.

On the other hand, we are unsure what standards or formulas will be used to establish revenue under the TOF regulatory regime, or whether TOF will attempt to increase rates prior to July 1, 2019. Apparently, this is an unknown, if internal secret, at the TOF. Certainly the process will be not anywhere near as intricate as that used by the ACC. The difference between these two processes is what I mean by "Regulatory Regime Change". <u>An increase in rates or revenue necessary to provide safe, adequate, and reliable service due solely to a change in asset ownership does not seem reasonable or fair to us.</u>

Q. What factors are you concerned with in different rate-setting approaches?

A. Primarily factors related to investment, although some questions linger about how affiliated interest transactions will be scrutinized under the proposed management agreement. In the Docket above, Decision 73992, page 2, paragraph 6, the Commission notes that JU did not dispute a fair value rate base determination of $14,855,940. My understanding of fair value rate base is that this is the amount of investment that the owner-investors have in JU and the amount they are entitled to earn a fair, just and reasonable return on. I believe the company was allowed to earn a rate of return of 8% on its $15 Million investment. As far as I can tell, the formula for determining the just and reasonable amount of money the company can collect from customers is something like:

[Operating Expenses + Required Line Extension Refunds + [8%*$14,855,940]]

Doing the arithmetic:

[Operating Expenses + Required Line Extension Refunds + $1,188,475]

In the formula, I use "Required Line Extension Refunds" in place of "Depreciation" that appears in some of the documents because it appears that the vast majority of JU's depreciable plant was originally paid for pursuant to Line Extension Agreements that are subject to refund. Understanding how those agreements are treated in the revenue determination of the two regulatory regimes is one of the key items we, consumer-interveners, are scratching our heads over. I believe the balance owing was over $106 Million at year-end 2012 (2012 Balance Sheet – Advances in Aid of Construction).

Q. Might the Town of Florence use a different formula?

A. They have not indicated how they would determine how much revenue they want to raise, just that revenue is expected to exceed Cost of Service by increasing amounts each year. However, in 2012 the Town of Florence conducted a rate study which I reviewed and, to best of my knowledge and belief, set rates based on cash flow needs, rather than a rate of return on investment, similar to this formula:

[Operating Expenses + Debt Service]

Q. Why would it be a problem if this were the formula Florence uses to set rates?

A. The TOF might, on a cash basis, attempt to charge us, customers, for operating expenses, PLUS debt service on the $121 Million loan used to purchase the assets, PLUS add enough cash to make Line Extension Agreement payments since the TOF has agreed under the Purchase Agreement to take over those payments. Debt service on the $121 Million loan in the Purchase Agreement seems to be in the neighborhood of $11 Million per year, so the new revenue required from rates for the TOF would be approximately:

[Operating Expenses + Line Extension Refunds + $11,000,000]

$11 Million is significantly more than $1,188,475 so we, as consumers, see a big problem down the TOF revenue road: Increased rates or required revenue solely as a result of the transfer of assets to TOF and regulatory regime change does not seem fair to us. This seems inevitable if TOF seeks to include the full purchase price in rates.

Q. Why does this seem unfair to you?

A. Since we – the consumers – would be asked to pay off the $121 Million loan used to purchase the assets PLUS pay off the line extension agreements used to originally purchase the same assets, it seems to us that customers are being asked to pay twice for the same assets. In fact, consumers and homeowners, i.e. us, the customer-interveners and our neighbors, have, in the past, directly or indirectly, also dutifully paid our "hook-up" fees to connect to the system. As I understand it, these are reflected in the 2012 JU Annual Report as $87 Million as "Contributions in Aid of Construction". It looks to us, as consumers, like we paid for assets that we will now be asked to pay for **again** which we do not consider to be fair.

Q. What is the depreciated original cost of the fixed assets of Johnson Utilities in the 2012 Annual Report submitted to the ACC?

A. The total net fixed assets is $189,103,285.

Q And what do you believe total payments might be that customers are asked to make for these $189,103,285 in assets under the draft Purchase Agreement, excluding interest on the $121 Million loan?

A. If I understand the accounting correctly, that would be:

Loan Amount	$121,000,000
Future Line Extension Agreement Refunds (Advances in Aid)	106,191,515
Unamortized Hook-up fees (Contributions in Aid)	69,981,225
Total	**$276,172,740**

I do not know how the accounting would work, but if this same transaction were to take place between JU and another private entity on the open market, I believe the ACC might require an acquisition adjustment to the books of approximately $100 Million.

Q. To your knowledge, has the ACC addressed inclusion of acquisition adjustments in rates?

A. Yes. In my research I discovered that in Decision No. 63584, April 24, 2001 the ACC stated:

> "Arizona-American is cautioned that the Commission will require Arizona-American to demonstrate that clear, quantifiable and substantial net benefits to ratepayers have resulted from the acquisition of Citizens' systems that would not have been realized had the transaction not occurred before the Commission will consider recovery of any acquisition adjustment in a future rate proceeding."

Q. Are you concerned with the financing terms included in the draft Purchase Agreement?

A. Yes. Under the draft Purchase Agreement, the TOF will purchase the assets for $121 Million and compensate the owner with 30 year tax-free revenue bonds that carry interest-only payments of 6.625% for the first 5 years and 8% thereafter. TOF planning documents and news reports indicate it can sell revenue bonds for 4.5%. Over the life of the bonds, we, the customers, might be asked to pay more than $100,000,000 over what we would consider "just and reasonable" finance charges. <u>We don't think this is fair.</u>

Q. How would you approach establishment of just and reasonable rates if the sale is consummated?

A. As a customer, it seems that a just and reasonable net investment on which debt service can be included in the rates needs to be consistent with Title 12 of Arizona Revised Statutes, specifically 12-1122 which requires the value of assets acquired to be determined by ascertaining the most probable price that the property would bring if

exposed to the open market. The lawyers can argue about that – it is simply my plain reading.

Since it is my understanding that the ACC regulatory regime allows JU to generate cash flow of 8% from approximately $15,000,000 in investment, this seems to me to be a reasonable place to begin to estimate what the assets might fetch on the open market by an investor seeking a similar market-based rate of return. But I am no expert here and I am not trying to value the assets. Given the intricacies of ACC processes, I suspect highly specialized people would need to be employed to determine value. It is unclear whether or not TOF had a business valuation done that would comply with Title 12. Nevertheless, the gulf between $15 Million and $121 Million, and our belief that we are paying more than once for the same assets, gives us pause and greatly concerns us.

Q. Should the ACC concern itself with whether or not the purchase price is fair?

A. I have no opinion on whether or not the ACC should concern itself with the purchase price, but I believe the ACC should be greatly concerned with any situation in which revenue produced by "just and reasonable" rates and revenue required to provide safe, reliable, and adequate service are mutually exclusive. That could be the case here and that could endanger the public.

Q. Explain.

A. If just and reasonable revenue includes debt service on just $15 Million @ 4.5% and the financial structure of the utility enterprise requires revenue sufficient to service $121 Million @ 8%, it is highly likely that the enterprise will not have sufficient funds to provide adequate service. As customers, we find this a bad situation. In this case, the TOF has publicly indicated that it does not intend to use general tax revenue to assist in paying off the bonds for revenue shortages, so it is unclear how service needs would continue to be met. The result would mean that our stated goal as customers would not be met. To repeat: **We want assurance that safe, adequate, and reliable service will be provided at rates that will forever be "just and reasonable."**

Q. How might the ACC determine just and reasonable revenue, not for the purpose of actual rate-making, but for the purposes of running the public interest test?

A. I would recommend a principle stating that revenue required to operate the utility should not be increased simply as a result of the transfer of assets to a new owner with a different regulatory regime. In this case, potential irreparable harm is possible – either the ability to provide safe, adequate, and reliable service might be jeopardized or a requirement to illegally increase revenue levels above just and reasonable levels to provide adequate service is required. This is simply because of the change in regulatory regime. If a private owner were acquiring JU assets we likely would not be having this conversation because the regulatory regime would not change. Why should we, the customers, be penalized financially because of a decision we had no authority over?

Q. How should we proceed?

A. One way to proceed is for the parties to view the assets from the standpoint of what I will refer to as the Original Position.

Q. Describe the Original Position?

A. JU has been operational since 1997. Since that time it has had one rate case – beginning in 2008 - and anticipates it may have another in 2019. It is regulated by the ACC with all of its fancy rules, regulations, methods, and decisions. It is a known quantity and investments have been made by the utility using both its own capital (about $15,000,000) and customer financed capital (about $200 Million). Customers built houses, took out mortgages, paid hook-up fees and paid rates in amounts sufficient to pay Line Extension refunds relying on the protections and assurance of the ACC in making sure they would be treated fairly and only paying once for the original cost of assets used to provide service. There was a Regulatory Compact that balanced the interests of the customer and monopoly service provider.

Now the Town of Florence wishes to take over the assets of the company and provide water and wastewater service. From the standpoint of the Original Position, ask yourself

what a just and reasonable investment would look like had the TOF been the owner of the assets all along. Had this been the case, the customers would have perhaps paid utility revenue bonds to build plant, made Contributions in Aid of Construction to build the plant, or had developers provide line extensions which would be paid back through customer service charges. Or some combination of all three.

However, in neither case above, under a constant regulatory regime, would customers be asked to pay twice for the same assets – in other words they would never be asked to take out revenue bonds to pay for all of the assets of the system PLUS make contributions to pay for the same assets PLUS reimburse developers for Line Extension costs of the same assets. A just and reasonable revenue requirement should include debt service no higher than that which would exist had the TOF owned the facilities all along. To argue otherwise is to argue that asset transfers among entities can be utilized to artificially inflate the original cost of facilities when first dedicated to public service which is the ONLY cost customers should be responsible for. <u>As customers, we do not believe this is fair. Regime change should not harm customers.</u>

Q. Please summarize your testimony.

A. As customers, we are participating in this proceeding out of concern for our community. We are not compensated for these efforts other than the desire to provide thoughtful, useful input to the ACC as it seeks to fulfill its constitutional and statutory mandates on behalf of the people of the State of Arizona; in particular, we hope you will consider the position we find ourselves in and help us seek out fair outcomes.

We are customer-interveners. We don't know much about Arizona regulatory practices or the internal workings of Johnson Utilities or the Town of Florence or the Arizona Corporation Commission. If we have not interpreted the regulatory, economic, accounting, or engineering landscape correctly, we simply ask that others who work on these matters professionally let us know the error of our ways and address our concerns.

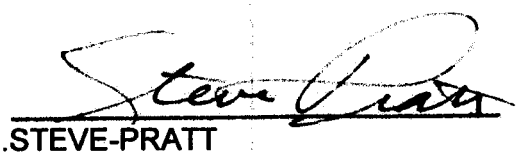
It seems to us that some obligatory, independent oversight of the transaction and resulting revenue requirement determinations must be possible under the current statutory scheme. The Commission's regulations under R14-2-402(D) and R14-2-602(D) must serve some purpose other than as a box check-off exercise. In fact, it appears the boxes in these regulations have yet to be checked off and no waiver has, to our knowledge, been granted by the ACC. The regulation requiring disclosure of the impact on customers should include, as discussed above, a discussion of the impact of regulatory rate setting regime changes.

It is our understanding that state law exempts municipalities such as Florence from ACC oversight while at the same time imposes on municipalities a rigorous "just and reasonable" standard, the same standard used by the ACC. While we are not lawyers and have not researched the legislative history, we believe the intent of state law is to be more than a paper tiger. It must have some meaningful and substantive effect unless one were to believe, which we cannot, that the Arizona State Legislature intended the people of San Tan Valley should become road kill on a municipality's highway to fiscal prosperity.

Q. Does this complete your testimony?

A. Yes, it does. Thank you for allowing the consumer-interveners to participate.

RESPECTFULLY SUBMITTED this 8th day of May, 2014



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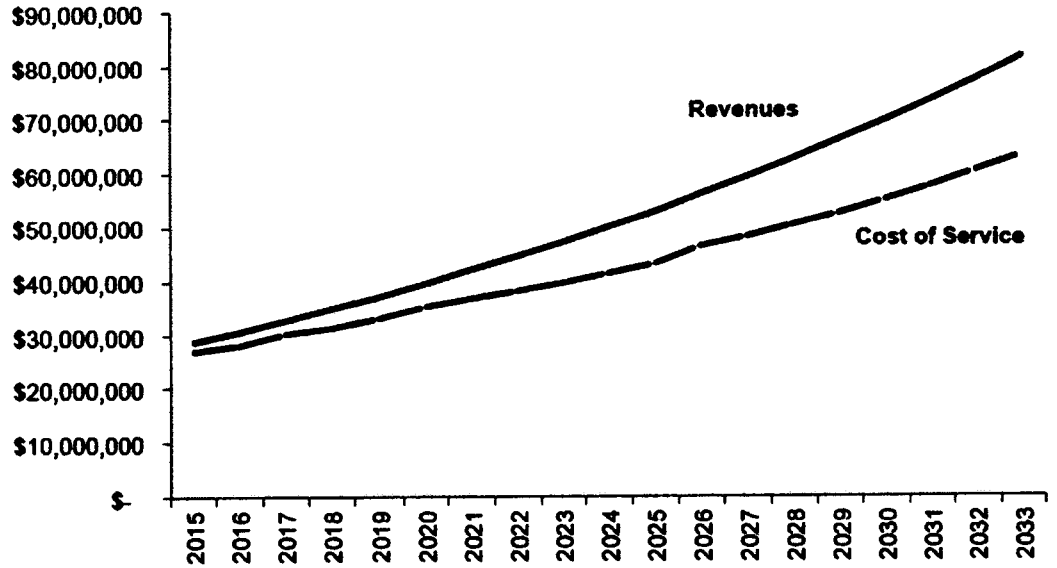
Attachment I

Year 1-20 Financial Forecast
3.0% Annual Rate Adjustments

Revenues are forecast to be sufficient to fund all acquisition and operating costs



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By Karen L Christian

EXHIBIT
F-1
ADMITTED

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS
BOB STUMP - Chairman
GARY PIERCE
BRENDA BURNS
BOB BURNS
SUSAN BITTER SMITH

IN THE MATTER OF THE APPLICATION OF JOHNSON UTILITIES, LLC DBA JOHNSON UTILITIES COMPANY FOR APPROVAL OF SALE AND TRANSFER OF ASSETS AND CONDITIONAL CANCELLATION OF ITS CERTIFICATE OF CONVENIENCE AND NECESSITY.	)	Docket No.: **WS-02987A-13-0477**

DIRECT TESTIMONY OF CHARLES A. MONTOYA
APRIL 9, 2014

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1. INTRODUCTION.

Q. PLEASE STATE YOUR NAME, OCCUPATION AND BUSINESS ADDRESS.

A. My name is Charles A. Montoya. I am employed as the Town Manager for the Town of Florence, Arizona. My business address is 775 N. Main Street, P.O. Box 2670, Florence, Arizona 85132.

Q. HAVE YOU PREVIOUSLY TESTIFIED IN ANY OTHER PROCEEDINGS BEFORE THE ARIZONA CORPORATION COMMISSION?

A. No.

2. PURPOSE OF TESTIMONY.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. On December 31, 2013, Johnson Utilities, L.L.C. ("Johnson") filed an Application for Approval of the Sale and Transfer of Assets and Conditional Cancellation of Certificate of Convenience and Necessity (the "Johnson Application"). The Johnson Application was filed as a result of ongoing negotiations between the Town of Florence (the "Town") and Johnson for the acquisition of the assets of Johnson, and Johnson's entity, Southwest Environmental Utilities ("Southwest") by the Town. In my testimony I will describe the Town, its current utility operations, the proposed transaction between the Town and Johnson, and the reasons why the acquisition of the assets of Johnson by the Town is in the public interest.

3. DESCRIPTION OF THE TOWN OF FLORENCE.

Q. PLEASE DESCRIBE THE TOWN OF FLORENCE, ARIZONA.

A. The Town of Florence is an Arizona municipal corporation which was founded in 1866. As of the 2010 census the Town had a population of 25,536 people, although the current population is now estimated to be in excess of 27,000 people. The area within the Town's municipal limits is approximately 62 square miles. Two maps illustrating the Town's municipal boundaries and the Town's planning area are attached as Attachment 1and 2.

The Town is a municipal water and wastewater treatment provider which delivers potable water and effluent, as well as wastewater treatment services, to the public. The Town also supplies potable water and wastewater treatment services to the facilities of Pinal County, the State of Arizona, the United States, and several private prison facilities within the Town. Accordingly, the Town holds a Designation of Assured Water Supply ("DAWS") from the Arizona Dept. of Water Resources ("ADWR") which is currently rated at approximately 13,500 acre feet, or enough legally and physically available water for approximately 100,000 people. The Town also

holds two Aquifer Protection Permits ("APP's) for its water reclamation plants from the Arizona Dept. of Environmental Quality ("ADEQ"). The Town is a member of the Central Arizona Groundwater Replenishment District ("CAGRD"), the Central Arizona Water Conservation District ("CAWCD") and has an agreement with the United States Bureau of Reclamation which provides the Town with an allotment of water from the Central Arizona Project ("CAP") for 2,048 acre feet of CAP water per year. The Town is also a Designated Management Agency pursuant to Section 208 of the Clean Water Act.

Q. DOES THE TOWN OF FLORENCE CURRENTLY PROVIDE WATER AND WASTERWATER SERVICE OUTSIDE ITS MUNICIPAL LIMITS?

A. Yes, the Town does provide water and wastewater treatment service outside its municipal limits at this time.

Q. WILL THE TOWN OF FLORENCE PROVIDE WATER AND WASTERWATER SERVICE OUTSIDE ITS MUNICIPAL LIMITS IF THE SALE OF ITS ASSETS IS APPROVED?

A. Yes. If the sale of Johnson's assets is approved by the Commission and by the voters of the Town, the Town will continue to provide water and wastewater service outside of its municipal limits to the current and future customers of the applicant's system.

4. <u>THE ASSET PURCHASE</u>.

Q. PLEASE DESCRIBE THE PROPOSED ASSET PURCHASE TRANSACTION BEWEEN THE TOWN OF FLORENCE AND JOHNSON UTLITIES.

A.

Because the Town is already a water and wastewater service provider, the acquisition of the assets of Johnson Utilities would provide a means to ensure that it would be the service provider to all of the 62 square miles which is currently within the Town's boundaries, as well as any areas which may be annexed into the Town in the future. In fact, a substantial annexation of the Magic Ranch community, an area currently served by Johnson, is pending. Therefore, with the authorization of the Florence Town Council, the Town has been working diligently towards finalizing the terms and conditions of an asset purchase and lease agreement where the Town would acquire the assets and operations of Johnson, including the right and the obligation to provide water and wastewater utility services to all of the current and future customers residing within Johnson's CC&N.

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Q. WHEN DO YOU BELIEVE THE ASSET PURCHASE AGREEMENT WILL BE COMPLETED?

A. Barring any unanticipated difficulties, the final draft of the Agreement should be ready for presentation to the Florence Town Council in the immediate future . Once approved, the Florence Town Council would authorize the Mayor to sign the Agreement on behalf of the Town. However, before the transaction can proceed to actual completion, Johnson will have to receive the authorization of the Corporation Commission and the Town will have to receive the authorization of its voters at an election to be held on May 20, 2014. While I am not a lawyer, it is my understanding that if either of those approvals do not occur, the Agreement would be null and void.

Q. HOW DID THE TOWN AUTHORIZE AND SCHEDULE THE ELECTION?

A. In February of this year, the Town Council approved Resolution No. 1421-14, thereby authorizing an election to be held May 20, 2014 on the question of the acquisition of the assets of Johnson Utilities, L.L.C. The election was scheduled according to the consolidated election law, A.R.S. §16-204.

Q. IF THE REQUIRED VOTER AND COMMISSION APPROVALS ARE OBTAINED, WHEN WOULD THE TRANSACTION CLOSE?

A. The Town's goal is to close escrow on the transaction before the end of the fiscal year, which is June 30, 2014.

Q. HAVE YOU RECEIVED ANY REACTION FROM RESIDENTS OF THE TOWN REGARDING THE PROPOSED TRANSACTION?

A. At the special meeting held March 26, 2014, the public reaction was all positive.

Q. CAN YOU DESCRIBE THE MAJOR TERMS FO THE ASSET PURCHASE AND LEASE AGREEMENT?

A. Attached to my testimony as Attachment 3 is the latest draft of the Asset Purchase and Lease Agreement. On March 26, 2014 the Town Council gave me authorization to continue the negotiations with Johnson. The attached document, while not approved by the Council, is the current document between the Town and Johnson. The document will go before the Council in the near future.

The purchase price to be paid by the Town is $121,000,000 in the form of revenue bonds. In return, the Town would receive all the assets of Johnson Utilities which are available for use or necessary for the operation of the utility business, other than those assets described in Section 1.02 of the Agreement and in Schedule A .

The Town will agree to assume Johnson's obligations under the existing Line Extension Agreements.

The Town is to receive $2,500,000 in cash in Johnson's off-site facilities hookup fee account and any balance it its CAGRD adjuster fee account, as reduced by any shortfall from the October 2013 CAGRD bill advanced by Johnson.

The Town will assume all existing customer accounts and will receive all customer deposits held on account by Johnson Utilities at close of escrow.

Q. HOW WILL FLORENCE OWN THE ASSETS OF JOHNSON UTILITIES, L.L.C.?

A. The Town will make the acquisition and will own the purchased assets in the name of the Town of Florence, Arizona, an Arizona municipal corporation, as will be reflected in the final draft of the Agreement.

Q. DOES THE TOWN INTEND TO SERVE ALL CURRENT AND FUTURE CUSTOMERS OF THE UTILITY SYSTEM, REGARDLESS OF WHETHER SUCH CUSTOMERS ARE INSIDE OR OUTSIDE OF THE TOWN'S MUNICIPAL BOUNDARIES?

A. Yes. The Town will serve all current and future customers of Johnson Utilities, whether within or without the Town's boundaries.

Q. WILL THE TOWN SERVE ALL FUTURE CUSTOMERS IN THE AREAS COVERED BY JOHNSON'S APPLICATIONS TO EXPAND ITS CC&N?

A. Yes.

Q. DOES THE TOWN HAVE ANY PRIOR EXPERIENCE IN THE OPERATION OF A WATER AND WASTEWATER UTILITY SYSTEM?

A. Yes. The Town built its second wastewater treatment facility in 1953 as a joint project with the Arizona Dept. of Corrections. The Town has water facilities which pre-date World War II. As stated in Section 3 above, the Town has a significant amount of experience in the operation of water and wastewater systems, including knowledge of the regulatory requirements of ADEQ and ADWR and particularly, the special requirements of providing water service in an Active Management Area.

Q. WILL THE EXISTING CUSTOMERS OF JOHNSON UTILITIES OR THE TOWN EXPERIENCE ANY DISRUPTION IN THEIR SERVICE DURING OR AFTER THE ASSET TRANSFER?

A. No. The Town is working diligently with Johnson to ensure that both the transaction and the transfer of assets takes place is a seamless manner. To that end, the Town will enter into an agreement with Johnson to ensure that

the transfer of assets will occur without causing any problems to the customers. It is the Town's goal to make sure that both the existing and future customers of the Town's utility system, wherever located, receive the high level of service that the Town is known for.

Q. WHAT WILL HAPPEN TO THE CURRENT EMPLOYEES OF JOHNSON UTILITIES?

A. During the transition period, Johnson's current employees will remain the employees of Johnson Utilities. However, some, if not all of the Johnson employees will become employees of the Town of Florence unless they choose not accept employment with the Town.

5. <u>FUTURE RATES</u>.

Q. HOW DO THE TOWN'S CURRENT WATER AND WASTEWATER RATES COMPARE WITH THOSE OF JOHNSON UTILITIES?

A. The rates of the two systems are very comparable. For example, a water and wastewater customer using 7,500 gallons of water with a ¾" meter per month would have a rate of $73.51 in the Johnson system and $71.77 in the Town system.

Q. WHAT IS LIKELY TO HAPPEN TO THE RATES FOR THE CURRENT JOHNSON UTILITY CUSTOMERS AFTER THE TOWN'S ACQUISITION OF THE JOHNSON SYSTEM?

A. Based upon the Town's economic analysis of Johnson Utilities the Town does not intend to make any changes to the rates charged to Johnson's current customers, as well those customers acquired after the acquisition, for at least 18 months. Also, since the Town is required to conduct a rate study prior to increasing utility rates pursuant to A.R.S. § 9-511.01, there is normally a significant time lag between the Town's authorization of a rate study and the imposition of new rates.

Q. ARE THERE ANY SAFEGAURDS OR CONTROLS WHICH WOULD PROTECT UTILITY CUSTOMERS OUTSIDE OF THE TOWN'S BOUNDARIES FROM UNREASONABLE RATE INCREASES OR THE DISCONTINUANCE OF SERVICE?

A. Yes. Although the Town's utility rates are not governed by the Corporation Commission, the Town is required to abide by state law when imposing utility rates on customers residing in other municipalities.

A.R.S. § 9-516(C) forbids a municipality which has acquired the facilities of a public service corporation rendering service outside its boundaries from discontinuing service while it owns or controls the utility. *See*, <u>Yuma Valley Land Co., LLC v. City of Yuma</u>, 227 Ariz. 228 (2011).

A.R.S. § 9-511(A)(1) requires that a municipality providing water to another municipality shall charge water rates which are the same or less than the rates it charges its own residents for water.

A.R.S. § 9-511.01 requires that a municipality engaging in water and wastewater service shall not increase its rates without preparing a report supporting the rate increase, after which it must publicly adopt a notice of intent to increase rates and then hold a public hearing.

Notwithstanding these important statutory safeguards, it is the Town's belief that the public interest will be best served if the Town does not increase the rates of the Johnson Utility customers for at least 18 months. This will allow adequate time for a rate study.

6. CUSTOMER SERVICE.

Q. WHAT IS THE TOWN'S POLICY REGARDING CUSTOMER SERVICE?

A. The Town consistently endeavors to provide the highest level of customer service possible to its utility customers. We annually send out a survey to residents to find out how the Town is doing.

7. CUSTOMER DEPOSITS.

Q. WHAT WILL BECOME OF JOHNSON UTILITIES CUSTOMER DEPOSITS AFTER THE ASSET PURCHASE AND TRANSFER?

A. Pursuant to the Asset Purchase and Lease Agreement, customer deposits are considered part of the "Purchased Assets" under Section §1.01(i) of the Agreement. Once the customer deposits are transferred to the Town, they will be refunded pursuant to Town Code section § 50.121.

8. LINE EXTENSION AGREEMENTS.

Q. WHAT WILL BECOME OF JOHNSON UTILITIES' LINE EXTENSION AGREEMENTS AFTER THE ASSET PURCHASE AND TRANSFER?

A. It is the Town's understanding that Johnson Utilities currently is a party to approximately 274 Water Main Extension Agreements and approximately 260 Sewer Line Extension Agreements, which agreements will be assigned to the Town as indicated in Exhibit L, "Listing of Contracts", to the Asset Purchase and Lease Agreement. By accepting the assignment of the various Line Extension Agreements, developers may be assured that the provision of future utility service will take place as anticipated. Further, any refunds of the advances paid by developers to Johnson will continue to be paid when the system is operated under the Town's auspices, i.e., refunds will be paid on August 31st of each year on any eligible revenue received by the Town during the preceding July 1 – June 30 period.

9. PUBLIC INTEREST.

Q. WHAT ARE THE BENEFITS OF THE ACQUISITION OF THE ASSETS OF JOHNSON UTILITIES BY THE TOWN OF FLORENCE?

A. The Town believes that the public will be well-served by Town ownership of the assets and operation of what is now Johnson Utilities. The Town desires to provide solid, dependable service and consistent rates which represent the minimum charges necessary to sustain the operation of the system – while at the same time providing sufficient revenue to maintain the financial health of the enterprise. Future consolidation of the water and wastewater system of Johnson with that of the Town will ensure continued growth of the infrastructure required for service, so as to develop, in an orderly fashion, the treatment capacity and water resources needed to service a growing population.

The Town has a long history of environmental responsibility, commitment to service and a responsive attitude toward its customers, and looks forward to bringing those values to the customers, both present and future, of Johnson Utilities.

Q. WHAT ACTION DOES THE TOWN OF FLORENCE REQUEST THE CORPORATION COMMISSION TO TAKE WITH REGARD TO THE APPLICATION OF JOHNSON UTILITIES?

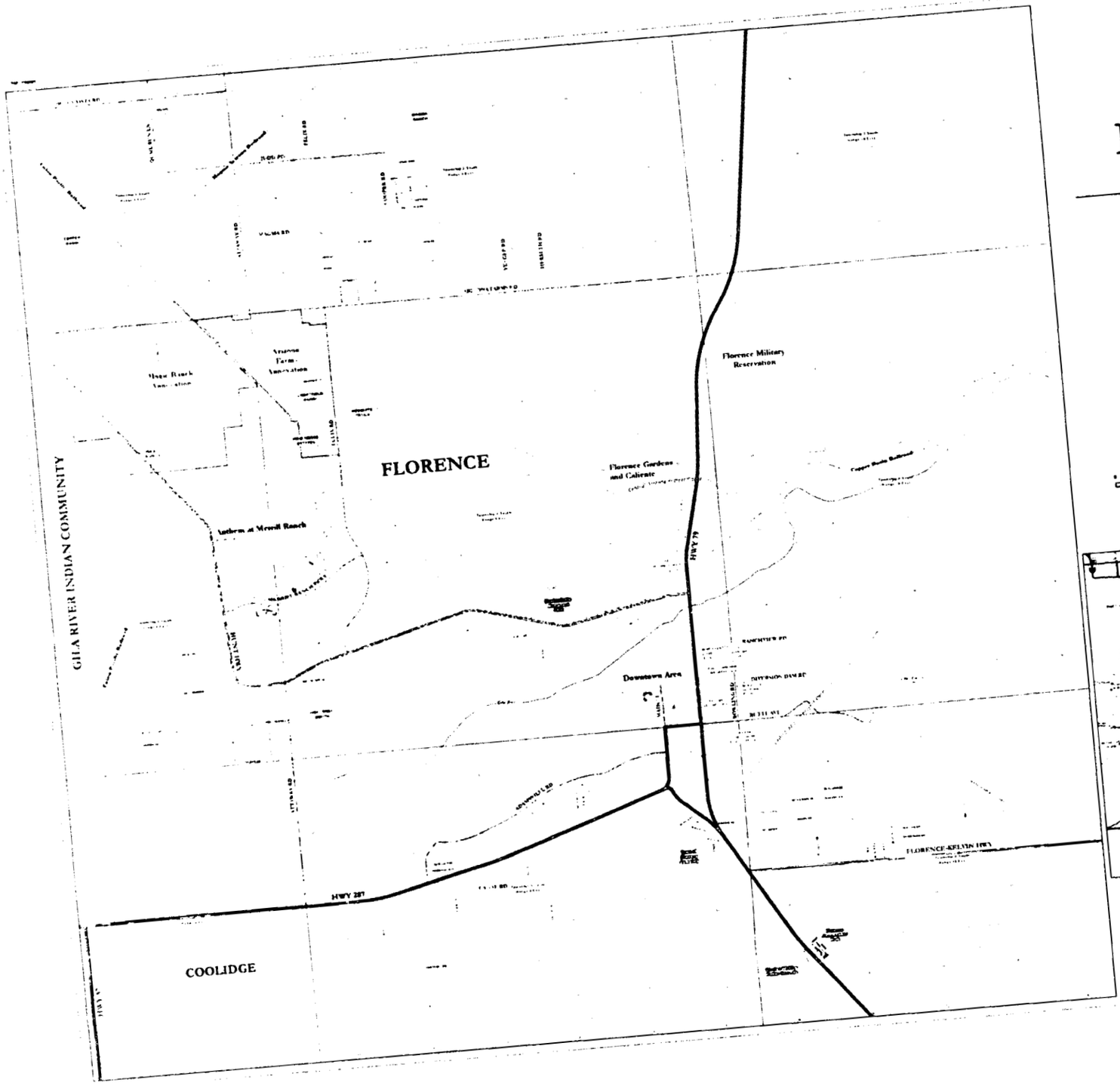
A. The Town of Florence asks that the Commission issue its order approving the sale and transfer of the assets of Johnson Utilities to the Town of Florence in accordance with the terms of the Asset Purchase and Lease Agreement and approving the cancellation and extinguishment of the CC&N of Johnson Utilities upon the closing of the transaction discussed herein. It is respectfully asked that the Commission issue its order within a timeframe which allows for the Town to complete its acquisition prior to the end of the Town's fiscal year on June 30, 2014.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

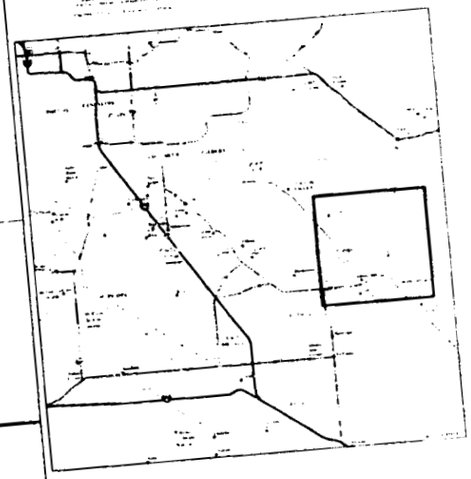
A. Yes.

ATTACHMENT 1

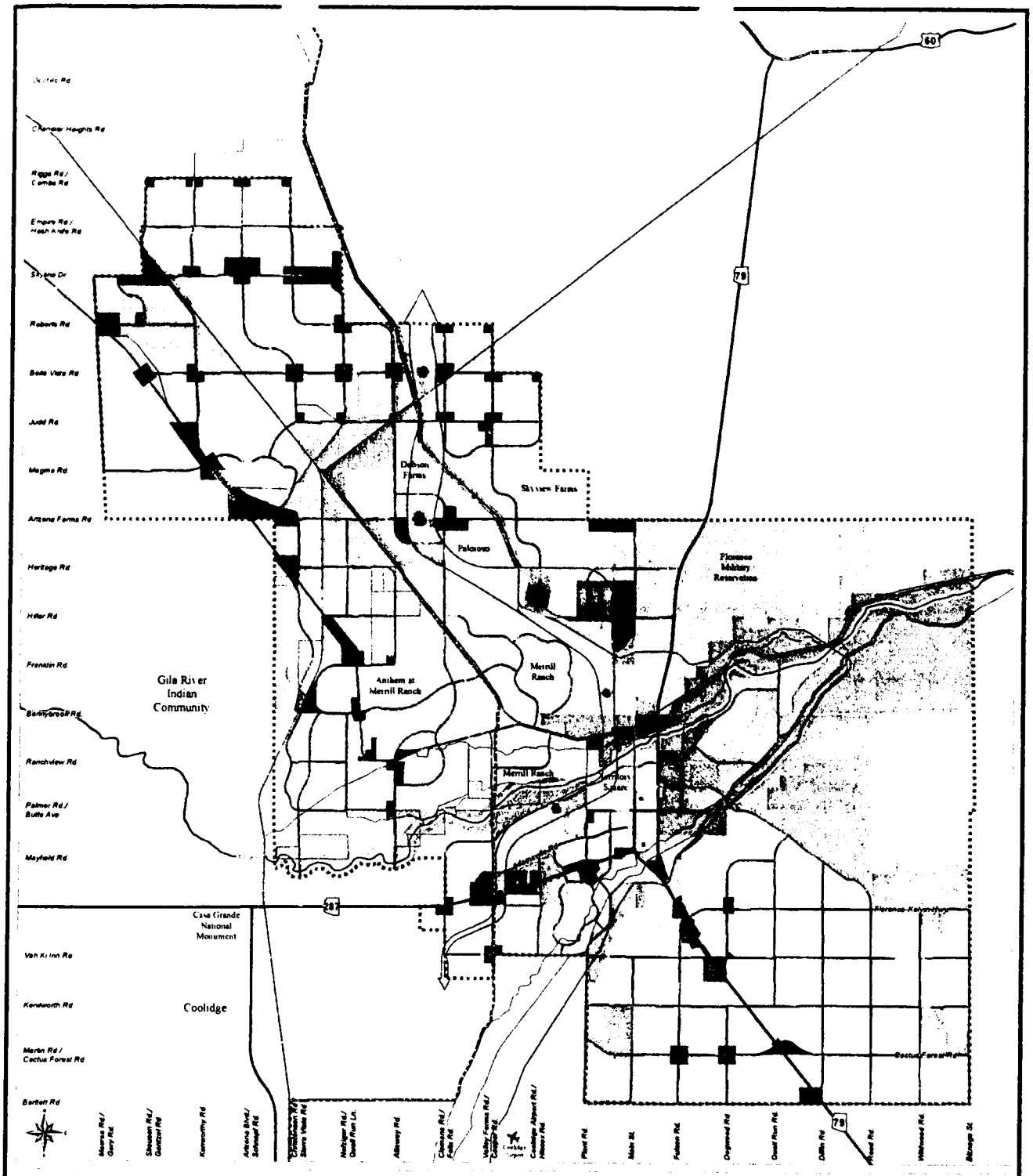
Town of Florence



- County Highway
- State Highway
- Major Road
- Minor Road
- Railroads
- Canals
- Section Lines
- Gila River
- Town Boundary
- Pending Annexations
- Unincorporated Pinal County



ATTACHMENT 2



Town of Florence 2020 General Plan

Future Land Use Map

Legend

- Canals
- CAP Canal
- Railroads
- Roads
- Highways
- Potential Utility/ Multi-Use Corridor
- Aggregate Resources Overlay
- Planning Area
- North-South ADOT Freeway Conceptual Corridor
- North-South ADOT Freeway Conceptual Interchanges

Residential

- Rural Ranchette Residential (RRR)
- Low Density Residential (LDR)
- Medium Density Residential 1 (MDR1)
- Medium Density Residential 2 (MDR2)
- High Density Residential 1 (HDR1)
- High Density Residential 2 (HDR2)

Commercial/Office/Industrial

- Neighborhood Commercial (NC)
- Community Commercial (CC)
- Professional Office (PO)
- Employment/Light Industrial (E/LI)
- Heavy Industrial (HI)

Mixed-Use

- Master Planned Community (MPC)
- Downtown Mixed Use (DMU)
- Highway Mixed Use (HMU)
- Prison/Employment/Light Industrial (P/E/LI)

Community/Public

- Public/Governmental (P/G)
- Prison (P)
- Military Reservation (MR)
- Parks and Recreation (P/R)
- Open Space (OS)

Land Ownership

- Bureau of Land Management
- Bureau of Reclamation
- Casa Grande National Monument
- Indian Community
- State Trust Land

EXHIBIT
F-2
ADMITTED

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS
BOB STUMP - Chairman
GARY PIERCE
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SUSAN BITTER SMITH

IN THE MATTER OF THE APPLICATION OF JOHNSON UTILITIES, LLC DBA JOHNSON UTILITIES COMPANY FOR APPROVAL OF SALE AND TRANSFER OF ASSETS AND CONDITIONAL CANCELLATION OF ITS CERTIFICATE OF CONVENIENCE AND NECESSITY.	)	Docket No.: **WS-02987A-13-0477**

REBUTTAL TESTIMONY OF CHARLES A. MONTOYA

MAY 13, 2014

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1. INTRODUCTION.....3
2. PURPOSE OF TESTIMONY.....3
3. REBUTTAL TO ACC STAFF TESTIMONY.....3
4. REBUTTAL TO PULTE TESTIMONY.....4
5. REBUTTAL TO RUCO TESTIMONY.....4-5

1. **INTRODUCTION.**

Q. PLEASE STATE YOUR NAME, OCCUPATION AND BUSINESS ADDRESS.

A. My name is Charles A. Montoya. I am employed as the Town Manager for the Town of Florence, Arizona. My business address is 775 N. Main Street, P.O. Box 2670, Florence, Arizona 85132.

Q. ARE YOU THE SAME CHARLES A. MONTOYA WHO FILED DIRECT TESTIMONY IN THIS CASE?

A. Yes.

2. **PURPOSE OF TESTIMONY.**

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my rebuttal testimony is to respond, on behalf of the Town of Florence, to the direct testimony of ACC staff witness Robert G. Gray, RUCO witness Robert B. Mease, and Pulte Home Corporation witness Daniel Bonow.

Q. HAVE YOU REVIEWED THE DIRECT TESTIMONY OF ROBERT G. GRAY, ROBERT B. MEASE AND DANIEL BONOW?

A. Yes.

Q. ON PAGE 3 OF THE STAFF REPORT OF MR. GRAY (Attachment RGG-1) MR. GRAY COMMENTS:

"A January 31, 2014 ADEQ Status Report indicated that Florence's North WWTP was not in compliance with permits, wastewater regulation and/or Order /Judgment for the review period of October 1, 2102 to September 30, 2013.

Can you comment on this allegation?

A. Yes. On July 20, 2012 the Town received a Notice of Violation (NOV) from ADEQ (Case ID #132074) that the unit process tanks were in poor condition. On February 10, 2014, the Town received an Opportunity to Correct Deficiencies (Case ID # 147248) for the same issue as the NOV. Town staff has been in contact with ADEQ throughout this time period. The cost to make the repairs to the settling chamber and the aeration basins is approximately $150,000.00. Funding has been identified to repair the settling chamber and work will begin in the summer of 2014 when flows are

at minimum levels. Work has already been initiated for repair of the aeration basin with an expected completion date in mid-summer of 2014.

Q. ON PAGE 3 OF THE STAFF REPORT OF MR. GRAY (Attachment RGG-1) MR. GRAY COMMENTS:

"The January 31, 2014 ADEQ Status Report also found that Florence's South WWTP was not in violation at a level at which ADEQ will take action or issue a Notice of Opportunity to Correct or Notice of Violation and/or is in compliance with the Order/Judgment and/or is in compliance with an Order/Judgment for the review period of October 1, 2012 to September 30, 2013.

Can you comment on this allegation?

A. Yes. With respect to the comment that the Town's South WWTP "...was not in violation at a level at which ADEQ will take action..." my understanding is that this means that the facility is not fully in or out of compliance. The South WWTP is under a Consent Order with ADEQ (WS 30-13) and all required submittals and time lines pursuant to the Consent Order have been met or are being met.

Q. ON PAGE 8 OF THE DIRECT TESTIMONY OF DANIEL BONOW, MR. BONOW STATES:

"As to Pulte specifically, we would like further clarification regarding how the Town will hold and use the hook-up fee funds already collected by JU as it would be in the public interest to ensure that such funds are used for the purposes they were collected. It is also important that all existing agreements are assumed."

Can you comment on Mr. Bonow's request for clarification?

A. Yes. Any hookup fees paid by Pulte Home Corporation which are provided to the Town by Johnson Utilities pursuant to the Asset Purchase Agreement will be expended by the Town for the purposes for which they were collected. The Town intends to credit Pulte for the hookup fee payments already made to Johnson Utilities in lieu of any Town water and wastewater development impact fees which would otherwise be due. Pursuant to the terms of the Asset Purchase Agreement, the Town will accept the assignment of the Master Utility Agreements and Line Extension Agreements pertaining to Pulte Home Corporation, and will perform according to the terms of those agreements.

Q. ON PAGE 7 OF THE DIRECT TESTIMONY OF ROBERT B. MEASE, MR. MEASE STATES:

"...a Citizens Advisory Board could be appointed that would provide the non-resident customers a voice to promote and address the concerns of the non-resident ratepayer."

Can you comment on Mr. Mease's recommendation?

A. Yes. The Town is aware that RUCO, ACC staff and other intervenors believe that the formation of a Citizens Advisory Board would help address some of the concerns which have been identified regarding the Town's operation of a utility system serving nonresidents. However, I cannot, at this time, represent that the Town will commit itself to the formation of such a board, because that is a fundamental decision relating to the operation of the utility system which can only be made by the Florence Town Council. It is my opinion that the circumstances in which such boards have been formed by other municipalities are different than those which exist in this case.

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A. Yes.

0000152362

ORIGINAL

EXHIBIT
F-3
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BEFORE THE ARIZONA CORPORATION COMMISSION

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Arizona Corporation Commission
DOCKETED
APR 09 2014
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The Town of Florence, an Arizona municipal corporation, files herewith the Direct Testimony of Charles A. Montoya in the above-captioned docket.

RESPECTFULLY SUBMITTED this 9th day of April, 2014.

James E. Mannato
Florence Town Attorney

RECEIVED
2014 APR -9 P 2: 51
AZ CORP COMMISSION
DOCKET CONTROL

Original and thirteen (13) copies filed this 9th day of April, 2014, with:

Arizona Corporation Commission
Docket Control
1200 W. Washington Street
Phoenix, AZ 85007

A copy of the foregoing document was mailed this
9th day of April, 2014 to:

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By: Stephanie Lamas

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS
BOB STUMP - Chairman
GARY PIERCE
BRENDA BURNS
BOB BURNS
SUSAN BITTER SMITH

IN THE MATTER OF THE APPLICATION OF JOHNSON UTILITIES, LLC DBA JOHNSON UTILITIES COMPANY FOR APPROVAL OF SALE AND TRANSFER OF ASSETS AND CONDITIONAL CANCELLATION OF ITS CERTIFICATE OF CONVENIENCE AND NECESSITY.	)	Docket No.: **WS-02987A-13-0477**

DIRECT TESTIMONY OF CHARLES A. MONTOYA

APRIL 9, 2014

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1. INTRODUCTION.

Q. PLEASE STATE YOUR NAME, OCCUPATION AND BUSINESS ADDRESS.

A. My name is Charles A. Montoya. I am employed as the Town Manager for the Town of Florence, Arizona. My business address is 775 N. Main Street, P.O. Box 2670, Florence, Arizona 85132.

Q. HAVE YOU PREVIOUSLY TESTIFIED IN ANY OTHER PROCEEDINGS BEFORE THE ARIZONA CORPORATION COMMISSION?

A. No.

2. PURPOSE OF TESTIMONY.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. On December 31, 2013, Johnson Utilities, L.L.C. ("Johnson") filed an Application for Approval of the Sale and Transfer of Assets and Conditional Cancellation of Certificate of Convenience and Necessity (the "Johnson Application"). The Johnson Application was filed as a result of ongoing negotiations between the Town of Florence (the "Town") and Johnson for the acquisition of the assets of Johnson, and Johnson's entity, Southwest Environmental Utilities ("Southwest") by the Town. In my testimony I will describe the Town, its current utility operations, the proposed transaction between the Town and Johnson, and the reasons why the acquisition of the assets of Johnson by the Town is in the public interest.

3. DESCRIPTION OF THE TOWN OF FLORENCE.

Q. PLEASE DESCRIBE THE TOWN OF FLORENCE, ARIZONA.

A. The Town of Florence is an Arizona municipal corporation which was founded in 1866. As of the 2010 census the Town had a population of 25,536 people, although the current population is now estimated to be in excess of 27,000 people. The area within the Town's municipal limits is approximately 62 square miles. Two maps illustrating the Town's municipal boundaries and the Town's planning area are attached as Attachment 1and 2.

The Town is a municipal water and wastewater treatment provider which delivers potable water and effluent, as well as wastewater treatment services, to the public. The Town also supplies potable water and wastewater treatment services to the facilities of Pinal County, the State of Arizona, the United States, and several private prison facilities within the Town. Accordingly, the Town holds a Designation of Assured Water Supply ("DAWS") from the Arizona Dept. of Water Resources ("ADWR") which is currently rated at approximately 13,500 acre feet, or enough legally and physically available water for approximately 100,000 people. The Town also

holds two Aquifer Protection Permits ("APP's) for its water reclamation plants from the Arizona Dept. of Environmental Quality ("ADEQ"). The Town is a member of the Central Arizona Groundwater Replenishment District ("CAGRD"), the Central Arizona Water Conservation District ("CAWCD") and has an agreement with the United States Bureau of Reclamation which provides the Town with an allotment of water from the Central Arizona Project ("CAP") for 2,048 acre feet of CAP water per year. The Town is also a Designated Management Agency pursuant to Section 208 of the Clean Water Act.

Q. DOES THE TOWN OF FLORENCE CURRENTLY PROVIDE WATER AND WASTERWATER SERVICE OUTSIDE ITS MUNICIPAL LIMITS?

A. Yes, the Town does provide water and wastewater treatment service outside its municipal limits at this time.

Q. WILL THE TOWN OF FLORENCE PROVIDE WATER AND WASTERWATER SERVICE OUTSIDE ITS MUNICIPAL LIMITS IF THE SALE OF ITS ASSETS IS APPROVED?

A. Yes. If the sale of Johnson's assets is approved by the Commission and by the voters of the Town, the Town will continue to provide water and wastewater service outside of its municipal limits to the current and future customers of the applicant's system.

4. <u>THE ASSET PURCHASE</u>.

Q. PLEASE DESCRIBE THE PROPOSED ASSET PURCHASE TRANSACTION BEWEEN THE TOWN OF FLORENCE AND JOHNSON UTLITIES.

A.

Because the Town is already a water and wastewater service provider, the acquisition of the assets of Johnson Utilities would provide a means to ensure that it would be the service provider to all of the 62 square miles which is currently within the Town's boundaries, as well as any areas which may be annexed into the Town in the future. In fact, a substantial annexation of the Magic Ranch community, an area currently served by Johnson, is pending. Therefore, with the authorization of the Florence Town Council, the Town has been working diligently towards finalizing the terms and conditions of an asset purchase and lease agreement where the Town would acquire the assets and operations of Johnson, including the right and the obligation to provide water and wastewater utility services to all of the current and future customers residing within Johnson's CC&N.

///

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Q. WHEN DO YOU BELIEVE THE ASSET PURCHASE AGREEMENT WILL BE COMPLETED?

A. Barring any unanticipated difficulties, the final draft of the Agreement should be ready for presentation to the Florence Town Council in the immediate future . Once approved, the Florence Town Council would authorize the Mayor to sign the Agreement on behalf of the Town. However, before the transaction can proceed to actual completion, Johnson will have to receive the authorization of the Corporation Commission and the Town will have to receive the authorization of its voters at an election to be held on May 20, 2014. While I am not a lawyer, it is my understanding that if either of those approvals do not occur, the Agreement would be null and void.

Q. HOW DID THE TOWN AUTHORIZE AND SCHEDULE THE ELECTION?

A. In February of this year, the Town Council approved Resolution No. 1421-14, thereby authorizing an election to be held May 20, 2014 on the question of the acquisition of the assets of Johnson Utilities, L.L.C. The election was scheduled according to the consolidated election law, A.R.S. §16-204.

Q. IF THE REQUIRED VOTER AND COMMISSION APPROVALS ARE OBTAINED, WHEN WOULD THE TRANSACTION CLOSE?

A. The Town's goal is to close escrow on the transaction before the end of the fiscal year, which is June 30, 2014.

Q. HAVE YOU RECEIVED ANY REACTION FROM RESIDENTS OF THE TOWN REGARDING THE PROPOSED TRANSACTION?

A. At the special meeting held March 26, 2014, the public reaction was all positive.

Q. CAN YOU DESCRIBE THE MAJOR TERMS FO THE ASSET PURCHASE AND LEASE AGREEMENT?

A. Attached to my testimony as Attachment 3 is the latest draft of the Asset Purchase and Lease Agreement. On March 26, 2014 the Town Council gave me authorization to continue the negotiations with Johnson. The attached document, while not approved by the Council, is the current document between the Town and Johnson. The document will go before the Council in the near future.

The purchase price to be paid by the Town is $121,000,000 in the form of revenue bonds. In return, the Town would receive all the assets of Johnson Utilities which are available for use or necessary for the operation of the utility business, other than those assets described in Section 1.02 of the Agreement and in Schedule A .

The Town will agree to assume Johnson's obligations under the existing Line Extension Agreements.

The Town is to receive $2,500,000 in cash in Johnson's off-site facilities hookup fee account and any balance it its CAGRD adjuster fee account, as reduced by any shortfall from the October 2013 CAGRD bill advanced by Johnson.

The Town will assume all existing customer accounts and will receive all customer deposits held on account by Johnson Utilities at close of escrow.

Q. HOW WILL FLORENCE OWN THE ASSETS OF JOHNSON UTILITIES, L.L.C.?

A. The Town will make the acquisition and will own the purchased assets in the name of the Town of Florence, Arizona, an Arizona municipal corporation, as will be reflected in the final draft of the Agreement.

Q. DOES THE TOWN INTEND TO SERVE ALL CURRENT AND FUTURE CUSTOMERS OF THE UTILITY SYSTEM, REGARDLESS OF WHETHER SUCH CUSTOMERS ARE INSIDE OR OUTSIDE OF THE TOWN'S MUNICIPAL BOUNDARIES?

A. Yes. The Town will serve all current and future customers of Johnson Utilities, whether within or without the Town's boundaries.

Q. WILL THE TOWN SERVE ALL FUTURE CUSTOMERS IN THE AREAS COVERED BY JOHNSON'S APPLICATIONS TO EXPAND ITS CC&N?

A. Yes.

Q. DOES THE TOWN HAVE ANY PRIOR EXPERIENCE IN THE OPERATION OF A WATER AND WASTEWATER UTILITY SYSTEM?

A. Yes. The Town built its second wastewater treatment facility in 1953 as a joint project with the Arizona Dept. of Corrections. The Town has water facilities which pre-date World War II. As stated in Section 3 above, the Town has a significant amount of experience in the operation of water and wastewater systems, including knowledge of the regulatory requirements of ADEQ and ADWR and particularly, the special requirements of providing water service in an Active Management Area.

Q. WILL THE EXISTING CUSTOMERS OF JOHNSON UTILITIES OR THE TOWN EXPERIENCE ANY DISRUPTION IN THEIR SERVICE DURING OR AFTER THE ASSET TRANSFER?

A. No. The Town is working diligently with Johnson to ensure that both the transaction and the transfer of assets takes place is a seamless manner. To that end, the Town will enter into an agreement with Johnson to ensure that

the transfer of assets will occur without causing any problems to the customers. It is the Town's goal to make sure that both the existing and future customers of the Town's utility system, wherever located, receive the high level of service that the Town is known for.

Q. WHAT WILL HAPPEN TO THE CURRENT EMPLOYEES OF JOHNSON UTILITIES?

A. During the transition period, Johnson's current employees will remain the employees of Johnson Utilities. However, some, if not all of the Johnson employees will become employees of the Town of Florence unless they choose not accept employment with the Town.

5. <u>FUTURE RATES</u>.

Q. HOW DO THE TOWN'S CURRENT WATER AND WASTEWATER RATES COMPARE WITH THOSE OF JOHNSON UTILITIES?

A. The rates of the two systems are very comparable. For example, a water and wastewater customer using 7,500 gallons of water with a ¾" meter per month would have a rate of $73.51 in the Johnson system and $71.77 in the Town system.

Q. WHAT IS LIKELY TO HAPPEN TO THE RATES FOR THE CURRENT JOHNSON UTILITY CUSTOMERS AFTER THE TOWN'S ACQUISITION OF THE JOHNSON SYSTEM?

A. Based upon the Town's economic analysis of Johnson Utilities the Town does not intend to make any changes to the rates charged to Johnson's current customers, as well those customers acquired after the acquisition, for at least 18 months. Also, since the Town is required to conduct a rate study prior to increasing utility rates pursuant to A.R.S. § 9-511.01, there is normally a significant time lag between the Town's authorization of a rate study and the imposition of new rates.

Q. ARE THERE ANY SAFEGAURDS OR CONTROLS WHICH WOULD PROTECT UTILITY CUSTOMERS OUTSIDE OF THE TOWN'S BOUNDARIES FROM UNREASONABLE RATE INCREASES OR THE DISCONTINUANCE OF SERVICE?

A. Yes. Although the Town's utility rates are not governed by the Corporation Commission, the Town is required to abide by state law when imposing utility rates on customers residing in other municipalities.

A.R.S. § 9-516(C) forbids a municipality which has acquired the facilities of a public service corporation rendering service outside its boundaries from discontinuing service while it owns or controls the utility. *See*, <u>Yuma Valley Land Co., LLC v. City of Yuma</u>, 227 Ariz. 228 (2011).

A.R.S. § 9-511(A)(1) requires that a municipality providing water to another municipality shall charge water rates which are the same or less than the rates it charges its own residents for water.

A.R.S. § 9-511.01 requires that a municipality engaging in water and wastewater service shall not increase its rates without preparing a report supporting the rate increase, after which it must publicly adopt a notice of intent to increase rates and then hold a public hearing.

Notwithstanding these important statutory safeguards, it is the Town's belief that the public interest will be best served if the Town does not increase the rates of the Johnson Utility customers for at least 18 months. This will allow adequate time for a rate study.

6. <u>CUSTOMER SERVICE</u>.

Q. WHAT IS THE TOWN'S POLICY REGARDING CUSTOMER SERVICE?

A. The Town consistently endeavors to provide the highest level of customer service possible to its utility customers. We annually send out a survey to residents to find out how the Town is doing.

7. <u>CUSTOMER DEPOSITS</u>.

Q. WHAT WILL BECOME OF JOHNSON UTILITIES CUSTOMER DEPOSITS AFTER THE ASSET PURCHASE AND TRANSFER?

A. Pursuant to the Asset Purchase and Lease Agreement, customer deposits are considered part of the "Purchased Assets" under Section §1.01(i) of the Agreement. Once the customer deposits are transferred to the Town, they will be refunded pursuant to Town Code section § 50.121.

8. <u>LINE EXTENSION AGREEMENTS</u>.

Q. WHAT WILL BECOME OF JOHNSON UTILITIES' LINE EXTENSION AGREEMENTS AFTER THE ASSET PURCHASE AND TRANSFER?

A. It is the Town's understanding that Johnson Utilities currently is a party to approximately 274 Water Main Extension Agreements and approximately 260 Sewer Line Extension Agreements, which agreements will be assigned to the Town as indicated in Exhibit L, "Listing of Contracts", to the Asset Purchase and Lease Agreement. By accepting the assignment of the various Line Extension Agreements, developers may be assured that the provision of future utility service will take place as anticipated. Further, any refunds of the advances paid by developers to Johnson will continue to be paid when the system is operated under the Town's auspices, i.e., refunds will be paid on August 31st of each year on any eligible revenue received by the Town during the preceding July 1 – June 30 period.

9. PUBLIC INTEREST.

Q. WHAT ARE THE BENEFITS OF THE ACQUISITION OF THE ASSETS OF JOHNSON UTILITIES BY THE TOWN OF FLORENCE?

A. The Town believes that the public will be well-served by Town ownership of the assets and operation of what is now Johnson Utilities. The Town desires to provide solid, dependable service and consistent rates which represent the minimum charges necessary to sustain the operation of the system – while at the same time providing sufficient revenue to maintain the financial health of the enterprise. Future consolidation of the water and wastewater system of Johnson with that of the Town will ensure continued growth of the infrastructure required for service, so as to develop, in an orderly fashion, the treatment capacity and water resources needed to service a growing population.

The Town has a long history of environmental responsibility, commitment to service and a responsive attitude toward its customers, and looks forward to bringing those values to the customers, both present and future, of Johnson Utilities.

Q. WHAT ACTION DOES THE TOWN OF FLORENCE REQUEST THE CORPORATION COMMISSION TO TAKE WITH REGARD TO THE APPLICATION OF JOHNSON UTILITIES?

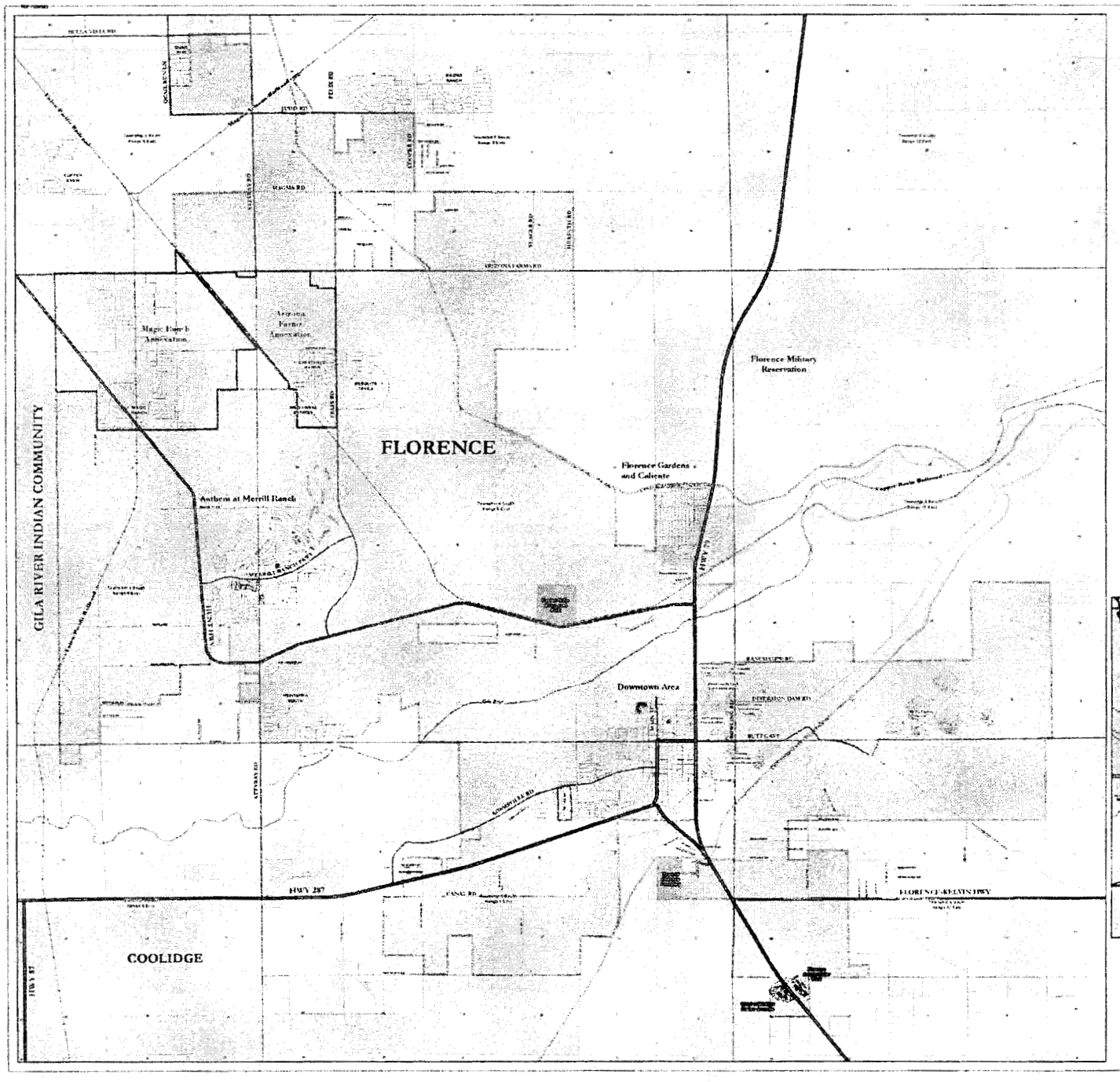
A. The Town of Florence asks that the Commission issue its order approving the sale and transfer of the assets of Johnson Utilities to the Town of Florence in accordance with the terms of the Asset Purchase and Lease Agreement and approving the cancellation and extinguishment of the CC&N of Johnson Utilities upon the closing of the transaction discussed herein. It is respectfully asked that the Commission issue its order within a timeframe which allows for the Town to complete its acquisition prior to the end of the Town's fiscal year on June 30, 2014.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

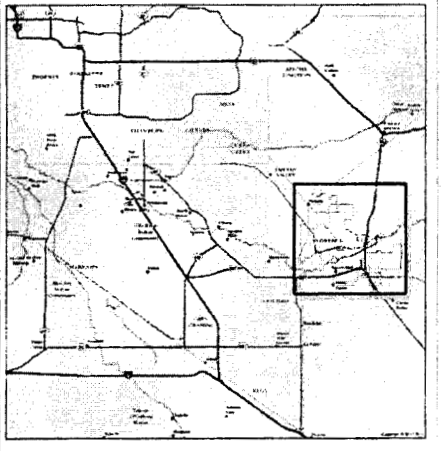
A. Yes.

ATTACHMENT 1

Town of Florence

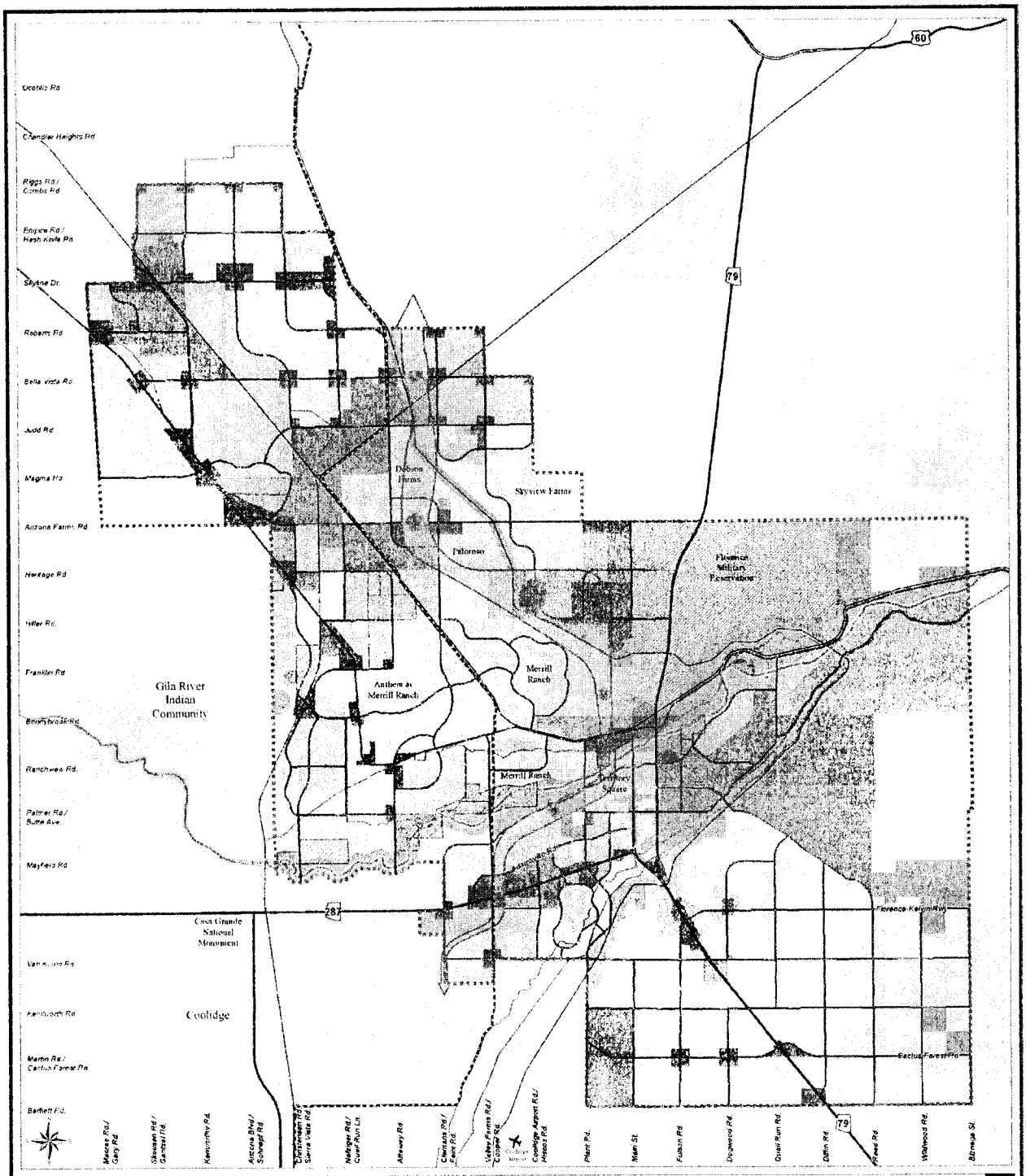


County Highway
State Highway
Major Road
Minor Road
Railroads
Canals
Section Lines
Gila River
Town Boundary
Pending Annexations
Unincorporated Pinal County



TOWN OF FLORENCE

ATTACHMENT 2



Town of Florence 2020 General Plan

Future Land Use Map

Legend

- Canals
- CAP Canal
- Railroads
- Roads
- Highways
- Potential Utility/ Multi-Use Corridor
- Aggregate Resources Overlay
- Planning Area
- North-South ADOT Freeway Conceptual Corridor
- North-South ADOT Freeway Conceptual Interchanges

Residential

- Rural Ranchette Residential (RRR) (0.1a - 1.0 DU/AC)
- Low Density Residential (LDR) (1.0 - 4.0 DU/AC)
- Medium Density Residential 1 (MDR1) (4.0 - 7.0 DU/AC)
- Medium Density Residential 2 (MDR2) (6.0 - 12.0 DU/AC)
- High Density Residential 1 (HDR1) (12.0 - 18.0 DU/AC)
- High Density Residential 2 (HDR2) (18.0 - 24.0 DU/AC)

Commercial/Office/Industrial

- Neighborhood Commercial (NC)
- Community Commercial (CC)
- Professional Office (PO)
- Employment/Light Industrial (E/LI)
- Heavy Industrial (HI)

Mixed-Use

- Master Planned Community (MPC)
- Downtown Mixed Use (DMU)
- Highway Mixed Use (HMU)
- Prison/Employment/Light Industrial (P/E/LI)

Community/Public

- Public/Governmental (P/G)
- Prison (P)
- Military Reservation (MR)
- Parks and Recreation (P/R)
- Open Space (OS)

Land Ownership

- Bureau of Land Management
- Bureau of Reclamation
- Casa Grande National Monument
- Indian Community
- State Trust Land

[illegible]

* Amended March 12, 2012 to reflect an updated North-South ADOT Freeway Conceptual Corridor.

ATTACHMENT 3

DRAFT

ASSET PURCHASE AND LEASE AGREEMENT

BETWEEN

FLORENCE MUNICIPAL PROPERTY CORPORATION

AND

JOHNSON UTILITIES, L.L.C., AND SOUTHWEST ENVIRONMENTAL UTILITIES, L.L.C.

February , 2014

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ASSET PURCHASE AND LEASE AGREEMENT

This Asset Purchase and Lease Agreement (this "*Agreement*") is entered into as of February __, 2014, by and between Florence Municipal Property Corporation, an Arizona nonprofit corporation (the "*Buyer*") formed on behalf of the Town of Florence, Arizona, an Arizona incorporated municipal entity (the "*Town*") and Johnson Utilities, L.L.C., an Arizona limited liability company (the "*Seller*").

RECITALS

A. Seller operates as a public utility as defined in Article 15, Section 2 of the Arizona Constitution (the "*Business*") providing domestic water and sewer service in the boundaries of the Town and adjacent areas in Pinal County, Arizona (the "*County*"). Seller operates the Business pursuant to a Certificate of Public Convenience and Necessity ("*CC&N*") issued by the Arizona Corporation Commission ("*ACC*") which authorizes Seller to provide water and wastewater treatment utility services within a defined geographic area (the "Certificated Area") as depicted on the diagram attached hereto as Exhibit ___ and as legally described in Exhibit ___, it being understood by and between the parties that if requested by either party or the ACC, either the depiction or the legal description of the Certificated Area as finally attached hereto may be amended to conform to such requests.

B. Seller desires to sell, transfer and assign to Buyer, and Buyer desires to purchase from Seller, substantially all of the assets and properties used in the Business, to assume certain rights and obligations of Seller solely relating to the Business, and to use such assets and properties and operate the Business in its own name and for its own account on the terms and conditions set forth in this Agreement.

AGREEMENT

NOW, THEREFORE, in consideration of the foregoing, and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereby agree as follows:

ARTICLE I

PURCHASE, SALE AND LEASE OF ASSETS

Section 1.01. Purchased Assets. Seller will sell, convey, transfer, assign and deliver to Buyer, free and clear of all liens, mortgages, pledges, encumbrances and charges of every kind (except for Permitted Encumbrances, as hereinafter defined), on the terms and subject to the conditions set forth in this Agreement, all of Seller's right, title and interest in and to the properties, business and assets of Seller of every kind and description, real, personal and mixed, tangible and intangible, wherever located (except those assets which are excluded from this sale by Section 1.02) as they shall exist on the Closing Date (as hereinafter defined) which are useful, available for use or necessary for Seller's operation of the Business (collectively, the "*Purchased*

Assets"). Without limiting the generality of the foregoing, the Purchased Assets shall include the following:

(a) all real property and interests in real property of Seller and all improvements thereon, including without limitation all fee interests, leaseholds, utility easements, licenses and all the tenements, hereditaments and appurtenances, if any, pertaining to the Real Estate, and including all sewer, mineral, water and irrigation rights, if any, running with or otherwise appurtenant or pertaining to the Real Property, all of Seller's interest, if any, in any road or rights-of-way adjoining the Real Property to the center line thereof, together with any buildings, wells, well sites, pumps, lift stations, water storage structures, water treatment facilities, water mains, water lines, distribution facilities and sewer lines located in or on the Real Estate, all as identified or described in Exhibit ____ hereto (collectively, the "*Real Estate*");

(b) all machinery, equipment, tools, supplies, inventory, leasehold improvements, construction in progress, furniture and fixtures, motor vehicles and other tangible personal property owned or purchased by Seller as identified in Exhibit ___ hereto, (collectively, the "Personal Property");

(c) the wells, storage tanks, booster pumps, water mains, service lines, sewer lines, lift stations, water meters, manholes, valves and fire hydrants, wherever located comprising the water and wastewater infrastructure used by the Business (the "Infrastructure") in connection with it provision of water and wastewater treatment utility services to customers residing or otherwise located in Seller's Certificated Area, (the "Customers"), whether owned or leased, all as identified or described in Exhibit ___ hereto. The Infrastructure shall include, but not be limited to, communication antennas and associated equipment, electronic or otherwise, connected with, affixed to or utilized by the Business, including any equipment related to the SCADA system used in the operation of the Business.

(d) all of the rights and benefits accruing to Seller in each of the contracts and agreements that relate to the Personal Property and the Infrastructure (as defined herein), each of which is identified or described in Exhibit ___ hereto, including, without limitation, all customer service agreements, supply contracts, purchase orders and purchase commitments made by Seller in the ordinary course of the Business and all other choses in action, causes of action and other rights of every kind of Seller which are related to the Business (collectively, the " Assigned Contracts"). The Assigned Contracts shall include, but are not limited to, Seller's existing Central Arizona Project ("CAP") contract and any pending applications to CAP, the Central Arizona Water Conservation District or the United States Bureau of Reclamation for new or additional allotments of CAP water, which the parties will, both before and after closing, reasonably cooperate with one another in effecting the assignment thereof from Seller to Buyer.

(e) Seller's interest in the mainline extension agreements ("LXA's) identified or described in Exhibit ___ hereto, including any additional LXA's entered into by Seller prior to the close of escrow, to the extent they are transferable to Buyer. Seller shall

reasonably cooperate with Buyer in obtaining consents of the respective counter-parties to all of said LXA's with regard to the respective assignments contemplated hereby.

(f) Seller's interest in the Master Utility Agreements ("MUA's) identified or described in Exhibit ___ hereto, including any additional MUA's entered into by Seller prior to the close of escrow, to the extent they are transferable to buyer. Seller shall reasonably cooperate with buyer in obtaining consents of the respective counter-parties to all of said MUA's with regard to the respective assignments contemplated hereby.

(g) all books, files, operating data and records (including both paper and electronic data and records) of Seller relating to the Business or the Customers, including without limitation, all customer lists, billing, financial, accounting, credit, regulatory and rate adjustment records, correspondence, budgets and other similar documents and records, and including any books, records, files or data pertaining to the Business which Seller is required to maintain in accordance with any law, rule or regulation of any Governmental Agency, to the extent reasonably determined by Buyer to be in facilitation of, or useful in connection with, the transfer of the Business, the Customer Accounts and future Customer billing (collectively, the "Records"); except that, the Records shall not include proprietary information of Seller unless provided pursuant to any confidentiality agreement between Seller and Buyer, or personal information relating to Seller's natural person principals.

(h) to the extent Seller has any interest in any software licenses, software or data, including radio licenses or communications franchises or licenses, such licenses or franchises, as the case may be, shall be transferred to Seller under such instruments as are customarily utilized for the transfer of such rights, in a form which is commercially reasonable and acceptable to Seller and Buyer.

(i) $2,500,000 cash in the Offsite Facilities Hookup Fee Account, any balance in the Central Arizona Groundwater Replenishment District Account (as reduced by the shortfall from the October 2013 bill advanced by the Seller), and any Customer and

(j) all accounts receivable, excluding accounts receivable for water deliveries made by Seller prior to the close of escrow as reflected in Seller's books and records as of close of escrow, related to Seller's Customers (collectively, "Customer Accounts") reflected on Seller's books and records as of close of escrow.

(k) all licenses, permits, franchises, consents, rights or authorizations issued by, and all registrations and filings with, any Governmental agency, together with any and all other similar intangible property and rights relating to the Business (collectively, the "*Proprietary Rights*");

Section 1.02. Excluded Assets. Notwithstanding anything to the contrary in Section 1.01, the Purchased Assets shall exclude the following assets of Seller:

(a) notes receivable and insurance proceeds receivable existing as of the Closing Date, unless such insurance proceeds receivable relate to damage to the Real Estate or the Personal Property;

(b) all cash and cash equivalents and investments, whether short-term or long-term, of Seller, including without limitation bank accounts, certificates of deposit, treasury bills and securities, except for the items described in Section 1.01(e) above;

(c) any stock, partnership interest, limited liability company interest or other equity ownership interest in any subsidiary or affiliate;

(d) the minute books and records of Seller; and

(e) the assets set forth in Exhibit A.

Section 1.03. Leased Assets. Notwithstanding anything to the contrary in Sections 1.01 or 1.02, the Rancho Sendero Anthem Wastewater 1.1MW plant (the "Anthem Plant") and the Section 11 Solar Plant (the "Section 11 Plant") shall be leased by the Seller to the Buyer for a period of one year with respect to the Anthem Plant and three years with respect to the Section 11 Plant after the Closing Date, at annual lease rate of $1.00 for each asset. At the end of the respective lease terms, the Anthem Plant and the Section 11 Plant shall be transferred to the Buyer as Purchased Assets hereunder in consideration of the purchase price of $1.00.

ARTICLE II

PURCHASE PRICE; ASSUMPTION OF LIABILITIES

Section 2.01. Payment of Purchase Price. As full consideration for the Purchased Assets, Buyer agrees, subject to the terms, conditions and limitations set forth in this Agreement, to deliver to Seller (or its assigns) one or more series of water and sewer revenue bonds (the "*Bonds*") in the aggregate principal amount of $121,000,000 (the "*Purchase Price*"), issued by The Industrial Development Authority of the City of Phoenix, Arizona (the "*Issuer*") pursuant to a Trust Indenture dated as of February 1, 2014 (the "*Indenture*") between the Issuer and Zions First National Bank, as corporate trustee (the "*Trustee*") and a Loan Agreement dated as of February 1, 2014 (the "Loan Agreement") between the Issuer and the Buyer. The Bonds shall be dated as of the date of delivery, mature on February 1, 2044, bear interest at the rate of 6.625% per year for the first five (5) years, and 8.00% per annum thereafter, be payable on August 1, 2014, and semi-annually thereafter on each February 1 and August 1, and having such other terms and provisions as set forth in Exhibit B.

Section 2.02. Assumed Liabilities. On the Closing Date, Buyer will assume and agree to pay, discharge or otherwise perform when lawfully due only those liabilities, contracts, commitments, purchases and other obligations of Seller that are expressly set forth in Exhibit C, if any (the "*Assumed Liabilities*").

Section 2.03. Excluded Liabilities. Anything to the contrary in Section 2.02 notwithstanding, the Assumed Liabilities shall exclude any liabilities not expressly set forth in Exhibit C, if any, as well as the following liabilities, contracts, commitments and other obligations of Seller (the "*Excluded Liabilities*"):

(a) Seller's obligations and any liabilities arising under this Agreement;

(b) any obligation of Seller for federal, state, local or foreign income tax liability (including interest and penalties) arising from the operations of Seller through and including the Closing Date or arising out of the sale by Seller of the Purchased Assets pursuant to this Agreement, including without limitation any amounts shown on the Financial Statements (as defined herein) as "Deferred Income Taxes" or the like;

(c) any property taxes assessed on the Purchased Assets prior to the Closing;

(d) any obligation of the Seller related to any notes payable to members or related parties

(e) customer refunds on closed accounts

(f) any liabilities associated with any violations of ADEQ rules or regulations that occurred prior to Closing

(g) any obligation of Seller for expenses incurred in connection with the sale of the Purchased Assets pursuant hereto, including without limitation the fees and expenses of Seller's legal counsel;

(h) any obligation or liability of Seller related to an alleged breach of contract occurring prior to or on the Closing Date; and

(i) any liability, contract, commitment or other obligation of Seller, known or unknown, fixed or contingent, the existence of which constitutes or will constitute a breach of any representation or warranty of Seller contained in or made pursuant to Article 4 of this Agreement.

Section 2.04. Allocation of the Purchase Price among the Purchased Assets and Pro Rations.

(a) The Purchase Price shall be allocated among each item or class of the Purchased Assets as specifically set forth in or determined pursuant to Exhibit D. Buyer and Seller agree that they will prepare and file their federal and any state or local income tax returns based on such allocation of the Purchase Price. Buyer and Seller agree that they will prepare and file any notices or other filings required pursuant to Section 1060 of the Internal Revenue Code of 1986, as amended, and that any such notices or filings will be prepared based on such allocation of the Purchase Price.

(b) The parties hereto agree on the following pro rations:

(i) Sales Taxes. To the extent Buyer keeps all customer accounts receivable cash collected, it shall be responsible to reimburse Seller for the unpaid sales taxes associated with such receivables.
(ii) Income Taxes. Buyer shall pay Seller an amount equal to 30% of the customer accounts receivable within 120 days of Closing to reimburse

Seller for the associated income tax liability that Seller is required to pay on the receivables balance.
(iii) Property Taxes. Property taxes shall be prorated at Closing based on the pro ration calculation provided by the Seller.
(iv) GRD Taxes. Buyer will charge and collect the rate established by Utility Tariff to pay the GRD tax bill for August 2014. The balance that exists in the account at Closing shall be transferred to the Buyer, less any amount to be reimbursed to the Seller from the October 2013 invoice.
(v) Line Extension Refunds. There shall be a pro ration for refunds due on the line extension agreements for a partial year.

Section 2.05. Loan Agreement. In connection with the issuance of the Bonds by the Issuer, the Buyer will enter into the Loan Agreement with the Issuer, pursuant to which revenues generated by the Business will be used, on a non-recourse basis, to pay debt service on the Bonds.

Section 2.06. Management Agreement. Simultaneous with the execution and delivery of this Agreement, Seller, or its affiliate, will enter into a Management Agreement with Buyer, under which Seller, or its affiliate will operate the Business for a period of five (5) years (the "*Management Agreement*"). Concurrently, with the delivery of the Management Agreement, Buyer and Seller shall deliver such legal opinions, certified instruments and other documents relating to the legality and enforceability of the obligations to be performed under the Management Agreement as the other party may reasonably request. Buyer agrees and acknowledges that the Management Agreement and the obligations of Buyer thereunder are a material inducement for Seller entering into this Agreement and consummating the transactions contemplated herein.

Section 2.07. Procedure Upon Execution of Agreement. In order for this Agreement to become effective, the parties will take the following steps in the order listed below; *provided, however*, that upon their completion all such steps shall be deemed to have occurred simultaneously:

(a) The Town Council of the Town shall have adopted a resolution approving the creation of the Buyer and authorizing this Agreement and the execution and delivery of the Management Agreement and the Loan Agreement.

(b) The Management Agreement and the Loan Agreement shall be fully executed, delivered and in full effect.

ARTICLE III

CLOSING

Section 3.01. Time and Place of the Closing. The closing of the sale of the Purchased Assets shall take place on the date on which the conditions precedent described in this Article 3 are satisfied or waived, provided that the parties shall use their best efforts to cause the closing to occur on or before February 31, 2014, or such other date and time as the parties may mutually

agree in writing (the "*Closing Date*"). Throughout this Agreement, such event is referred to as the "*Closing*." The Closing shall take place at 10:00 a.m., Arizona time, on the Closing Date, at the offices of Kutak Rock LLP, in Scottsdale, Arizona ("*Bond Counsel*").

Section 3.02. Conditions to Obligation of Buyer. The obligations of Buyer to consummate the transactions contemplated hereby shall be subject to the fulfillment (or waiver by Buyer, in its reasonable discretion) on or prior to the Closing Date of the following additional conditions, which Seller agrees to use commercially reasonable efforts in good faith to fulfill or cause to be fulfilled:

(a) The representations and warranties of Seller contained in this Agreement shall have been true and correct as of the date of this Agreement, and they shall be true and correct as of the Closing Date with the same force and effect as though made as of such date. Seller shall have performed and complied with all of its obligations required by this Agreement to be performed or complied with at or prior to the Closing Date. Seller shall have delivered to Buyer a certificate, dated as of the Closing Date and signed by the Manager of Seller, certifying that such representations and warranties are true and correct and that all such obligations have been thus performed and complied with.

(b) All necessary consents or approvals of third parties to the transactions contemplated hereby shall have been obtained and shown by written evidence reasonably satisfactory to Buyer, including without limitation, all required approvals from the ACC. All such required consents or approvals are set forth in Exhibit E.

(c) Seller shall have canceled its CC&N.

(d) There shall not be pending or threatened any action or proceeding by or before any court or other governmental body seeking to restrain, prohibit or invalidate the sale of the Purchased Assets to Buyer or any other transaction contemplated hereby, or that would have a material adverse impact on the right of Buyer to own, operate in their entirety or control the Purchased Assets.

(e) There shall not have been any change in the Business or Purchased Assets since November 1, 2013, other than changes occurring in the ordinary course of business which in the aggregate have not had a material adverse effect on the Purchased Assets or the financial condition, business prospects or operating results of the Business.

(f) Buyer shall have received an opinion of counsel to Seller, dated as of the Closing Date, in form and substance as set forth in Exhibit H attached hereto.

(g) Buyer acknowledges and agrees that there are no conditions to its obligations under this Agreement that are not expressly set forth herein.

Section 3.03. Conditions to Obligation of Seller. The obligations of Seller to consummate the transactions contemplated hereby shall be subject to the fulfillment (or waiver by Seller, in its reasonable discretion) on or prior to the Closing Date of the following additional conditions, which Buyer agrees to use commercially reasonable efforts in good faith to fulfill or cause to be fulfilled:

(a) The representations and warranties of Buyer contained in this Agreement shall have been true and correct as of the date of this Agreement, and they shall be true and correct as of the Closing Date with the same force and effect as though made as of such date. Buyer shall have performed and complied with all of its obligations required by this Agreement to be performed or complied with at or prior to the Closing Date. Buyer shall have delivered to Seller a certificate, dated as of the Closing Date, certifying that such representations and warranties are true and correct and that all such obligations have been thus performed and complied with.

(b) All necessary consents or approvals of third parties to the transactions contemplated hereby shall have been obtained and shown by written evidence reasonably satisfactory to Seller, including without limitation, all required approvals from the ACC. All such required consents or approvals are set forth in Exhibit F.

(c) The Management Agreement and the Loan Agreement shall be in full force and affect.

(d) There shall not be pending or threatened any action or proceeding by or before any court or other governmental body seeking to restrain, prohibit or invalidate the sale by Seller of the Purchased Assets to Buyer or any other transaction contemplated hereby, or that would have a material adverse impact on the right of Seller to sell the Purchased Assets or accept delivery of the Bonds in consideration.

(e) Seller shall have received an opinion of counsel to Buyer, dated as of the Closing Date, in form and substance as set forth in Exhibit G attached hereto.

(f) At the time of the Closing, the Buyer shall have adopted such resolutions as, in the opinion of counsel to Seller, shall be necessary in connection with the transactions contemplated hereby (collectively, the "Authorizing Resolution"), and such Authorizing Resolution will be in full force and effect and will not have been amended, modified or supplemented, except as may have been agreed to in writing by Seller.

(g) At or prior to the Closing, unless otherwise agreed to by Seller in writing, Seller will have received each of the following documents with respect to the Bonds (the "Bond *Deliverables*"):

(i) the approving opinion, dated the date of the Closing and addressed to Seller, of legal counsel to the Buyer, in form and content satisfactory to Seller and its counsel, to the effect that this Agreement and the Management Agreement have been duly authorized, executed and delivered by Buyer and are the legal, valid and binding obligation of the respective parties, enforceable in accordance with their terms, subject to customary exceptions for bankruptcy and judicial discretion;

(ii) the approving opinion, dated the date of the Closing and addressed to Seller, of Bond Counsel, in form and content satisfactory to Seller and its counsel, to the effect that (i) interest on the Bonds is excludable from gross income for purposes of federal and state income tax; (ii) the offer and sale of the Bonds to the Seller is exempt from registration under the Securities Act of 1933, as amended,

and will not result in the Indenture being required to be qualified pursuant to the Trust Indenture Act of 1939, as amended; and (iii) the Indenture and any other document executed by the Issuer with respect to the Bonds (the "Bond Documents") have been duly authorized, executed and delivered by the Issuer and are the legal, valid and binding obligation of the Issuer, enforceable in accordance with their terms, subject to customary exceptions for bankruptcy and judicial discretion;

(iii) a certificate or certificates, dated the date of the Closing and signed on behalf of Buyer to the effect that to the best of their knowledge, information and belief (i) the representations, warranties and covenants contained herein are true and correct in all material respects on and as of the Closing Date with the same effect as if made on the date of the Closing; (ii) no litigation of any nature is now pending seeking to restrain or enjoin the Buyer's ownership or operation of the Business or the collection of revenues or the pledging of net revenues to pay the principal and interest on the Bonds; or contesting the corporate existence or boundaries of Buyer or the title of the present officers to their respective offices; (iii) no authority or proceedings related to the matters described herein have been repealed, revoked or rescinded and no petition or petitions to revoke or alter the authorization to purchase the Business or to repeal or modify the Authorizing Resolution in any manner has been filed with or received by any of the undersigned; and (iv) Buyer has complied with all the agreements and satisfied all the conditions on its part to be performed or satisfied at or prior to the Closing;

(iv) a certificate or certificates, dated the date of the Closing and signed on behalf of Issuer to the effect that to the best of their knowledge, information and belief (i) no litigation of any nature is now pending seeking to restrain or enjoin the issuance of the Bonds, questioning the proceedings and authority by which the Bonds are to be issued, or affecting the validity of the Bonds; and (ii) no authority or proceedings for the issuance of the Bonds have been repealed, revoked or rescinded, and no petition or petitions to revoke or alter the authorization to issue the Bonds has been filed with or received by the Issuer; and

(v) a certified copy of the Indenture, the Management Agreement, and the Loan Agreement;

(vi) a tax (nonarbitrage) certificate of the Issuer, in form and substance satisfactory to Bond Counsel;

(vii) the filing copy of the Information Return Form 8038-G (IRS) for the Bonds; and

(viii) such additional legal opinions, certificates, instruments and other documents as Seller or their counsel may reasonably request to evidence the truth and accuracy, as of the date hereof and as of the date of the Closing, of the representations, warranties and covenants of Buyer contained herein and the due

performance or satisfaction by Buyer at or prior to the Closing of all agreements then to be performed and all conditions then to be satisfied by Buyer.

Section 3.04. Procedure at the Closing. At the Closing, the parties will take the following steps in the order listed below; *provided, however*, that upon their completion all such steps shall be deemed to have occurred simultaneously:

(a) Seller shall deliver to Buyer such bills of sale, endorsements, assignments and other instruments, in such form as in each case is reasonably satisfactory to Buyer and Seller, as shall be sufficient to vest in Buyer good and marketable title to the Purchased Assets, free and clear of all liens, mortgages, pledges, encumbrances, and charges of every kind except those which Buyer has expressly agreed in Section 2.02 hereof to assume.

(b) Buyer shall deliver to Seller instruments, in such form as in each case is reasonably satisfactory to Buyer and Seller, as shall be sufficient to effect Buyer's assumption of the Assumed Liabilities, if any, and the Contracts, together with the written consent of any third parties whose consent is required to Buyer's assumption of the Assumed Liabilities and the Contracts.

(c) Seller shall deliver to Buyer the Bond Deliverables, in such form as in each case is reasonably satisfactory to Buyer and Seller.

ARTICLE IV

REPRESENTATIONS AND WARRANTIES OF SELLER

In order to induce Buyer to enter into this Agreement and to consummate the transactions contemplated hereunder, as of the date hereof and as of the Closing Date, Seller makes the following representations and warranties:

Section 4.01. Organization. Seller is a limited liability company duly organized, validly existing, and in good standing under the laws of Arizona with full corporate power and authority to carry on its business and to own, purchase and operate its properties as and in the places where such business is conducted and such properties are owned, purchased, or operated. Seller is duly qualified or licensed to do business and is in good standing in Arizona, which is the only jurisdiction in which Seller's operations or the character of the properties owned, purchased, or operated by it makes such qualification or licensing necessary. Seller has delivered to Buyer complete and correct copies of Seller's articles of organization and operating agreement, in each case as amended and in effect on the date hereof. Seller is not in violation of any of the provisions of its articles or organization and operating agreement or any other organizational documents.

Section 4.02. Authorization. Seller has duly executed and delivered this Agreement and this Agreement and any agreements executed by Seller in connection herewith constitute (or will constitute on their execution and delivery) the legal, valid, and binding obligations of Seller enforceable against Seller in accordance with their terms, subject to bankruptcy, insolvency, reorganization, fraudulent transfer and conveyance, receivership, moratorium, and similar laws

affecting creditors' rights generally, and to the availability of equitable remedies (whether asserted at law or in equity).

Section 4.03. No Conflicts, etc. The execution, delivery, and performance by Seller of this Agreement and the consummation of the transactions contemplated hereby do not and will not conflict with or result in a violation of or a default under (with or without the giving of notice or the lapse of time or both) (i) any applicable law to Seller, or any of the properties or assets of Seller, (ii) the organizational documents of Seller, or (iii) any Contract of which either Seller has knowledge to which either Seller is a party or by which either Seller or any of their properties or assets, may be bound or affected. Seller reasonably believes, except as expressly provided herein, that no governmental approval or other consent is required to be obtained or made by Seller in connection with the execution and delivery of this Agreement or the consummation of the transactions contemplated hereby.

Section 4.04. Real Estate.

(a) Exhibit I accurately and completely sets forth all real property owned by Seller, and with respect to every parcel of the Real Estate: (i) the owner; (ii) the location, including address, thereof; (iii) the legal description and approximate size thereof; and (iv) a brief description (including function) of the principal improvements and buildings thereon. To the knowledge of Seller, there are no unrecorded or oral leases, arrangements, agreements, understandings, options, contracts, or rights of first refusal, other than that which Seller has contractually promised to Buyer in writing, affecting or relating to any of the Real Estate. Permanent, legal access is available to each parcel of Real Estate from a dedicated right-of-way, easement or license of record.

(b) Seller has good and marketable title to each parcel of the Real Estate, each of which shall be conveyed to Buyer by Special Warranty Deed.

(c) As to any leased property or leasehold interests of Seller, each lease or leasehold is legal, valid, binding, enforceable and in full force and effect. Neither Seller or any other party is in default, violation, or breach in any material respect under any lease, and no event has occurred and is continuing that constitutes or, with notice of lapse of time or both, would constitute a default, violation, or breach in any respect under any lease. The Seller enjoys peaceful and undisturbed possession under its leases. None of the leased property is subject to any sublease, assignment, or license, except as disclosed in Exhibit ___.

(d) The buildings and other improvements located on the Real Estate are each in good operating condition and are sufficient and adequate for the operation of the Business as it is presently conducted.

(e) Seller has not received notice of: (i) any condemnation proceeding with respect to any portion of the Real Estate, and to its knowledge no such proceeding is contemplated by any governmental authority; or (ii) any special assessment which may affect the Real Estate, and to Seller's knowledge no such special assessment is contemplated by any governmental authority.

(f) To the knowledge of Seller, there are no historical or archeological materials or artifacts of any kind, or any Native American or Indian ruins, aboriginal or otherwise of any kind, located on any piece, parcel or part of the Real Estate.

Section 4.05. Personal Property. Exhibit J contains a complete and accurate listing of the Personal Property. Seller has good and marketable title to all of the Personal Property, and the Personal Property is in good operating condition.

Section 4.06. Proprietary Rights. The Proprietary Rights include all proprietary rights, the failure to possess which would have a material adverse effect on the Business. Exhibit K contains a complete list of all of the Proprietary Rights. Except as set forth on Exhibit K, there have been no claims made against Seller for the assertion of the invalidity, abuse, misuse, or enforceability of any of the Proprietary Rights, and there are not grounds for the same; and Seller has not received a notice of conflict with the asserted rights of others within three (3) years prior to the date of this Agreement.

Section 4.07. Contracts. To Seller's knowledge:

(a) Exhibit L contains a complete and accurate description of all agreements, contracts, commitments, and other instruments and arrangements of the types described below by which either Seller or any of its assets, businesses, or operations receive benefits or to which either Seller is a party or by which either Seller is bound, other than insignificant contracts entered into in the ordinary course of business consistent with past practice, including:

(i) purchases, licenses, permits, franchises, insurance policies, warranties, guarantees, governmental approvals, and other contracts concerning or relating to Seller's Real Estate or purchased Real Estate,

(ii) contracts for capital expenditures in excess of $500,000 each;

(iii) performance bonds, completion bonds, bid bonds, suretyship agreements and similar instruments;

(iv) joint venture, partnership, and similar contracts involving a sharing of profits and/or expenses;

(v) agreements providing for the leasing of Seller's Personal Property;

(vi) Line extension agreements;

(vii) agreements or instruments under which Seller has acquired or holds its water rights;

(viii) licenses, licensing arrangements and other contracts providing in whole or in part for the use of, or limiting the use of, any intellectual property;

(ix) loan agreements, indentures, letters of credit, mortgages, security agreements, pledge agreements, deeds of trust, bonds, notes, guarantees, sureties, indemnities and other agreements and instruments relating to the borrowing of money or obtaining of or extension of credit; and

(x) Master utility agreements and all other agreements that provide for the payment of hook-up fees.

(b) Except as disclosed on Exhibit P, to the knowledge of Seller the Contracts are in full force and effect and enforceable against each party thereto, subject to subject to bankruptcy, insolvency, reorganization, fraudulent transfer and conveyance, receivership, moratorium, and similar laws affecting creditors' rights generally, and to the availability of equitable remedies (whether asserted at law or in equity).

(c) Except as disclosed on Exhibit N, there does not exist under any Contract of which either Seller has knowledge any event of default or event or condition that, after notice or lapse of time or both, would constitute a violation, breach, or event of default thereunder on the part of either Seller or any other party. Except as set forth on Exhibit Q, no consent of any third party is required under any Contract of which Seller has knowledge as a result of or in connection with, and the enforceability of any Contract of which either Seller has knowledge will not be affected in any manner by, the execution, delivery and performance of this Agreement or the consummation of the transactions contemplated hereby.

Section 4.08. Taxes. Except as set forth on Exhibit O:

(a) Seller has filed all tax returns required to be filed by them for all periods ending before the Closing Date and have paid all tax liability shown due thereon. All such tax returns were correct and complete in all material respects. All taxes owed by the Seller (whether or not shown on any tax return) with respect to tax returns the due date of which preceded the date hereof have been paid.

(b) To Seller's knowledge: there are no outstanding requests, agreements, consents or waivers to extend the statutory period of limitations applicable to the assessment or collection of any taxes or deficiencies against Seller and there are no pending audits, disputes, or other proceedings that have been served upon Seller concerning Seller's liability for any taxes, and to Seller's knowledge, no such audits, disputes, or other proceedings have been threatened.

(c) To Seller's knowledge, no power of attorney relating to the taxes or tax returns of Seller has been executed or filed with any person including any taxing authority.

(d) Seller has withheld and paid all taxes required to have been withheld and paid in connection with any amounts paid or owing to any employee, independent contractor, creditor, stockholder or other person.

Section 4.09. Litigation. Except as set forth on Exhibit R: (i) there is no action, claim, demand, lawsuit, proceeding, arbitration, grievance, citation, summons, subpoena, inquiry, or

investigation of any nature, civil, criminal, regulatory, or otherwise, in law or in equity, which has been served upon Seller of which Seller has knowledge or, to the knowledge of Seller overtly threatened against Seller which materially affects Seller, the Purchased Assets or Seller's business, or relating to the transactions contemplated by this Agreement, and to the knowledge of Seller there is no valid basis for the same, (ii) to Seller's knowledge, Seller is not a party to, subject to or bound by, any decree, order, injunction, settlement agreement or arbitration decision or award (or agreement entered into in any administrative, judicial or arbitration proceeding with any governmental authority) with respect to or affecting the properties, assets, personnel or business activities of Seller, and (iii) to Seller's knowledge, no citation, fee, or penalty has been levied or asserted against Seller under any environmental law or any other governmental authority.

Section 4.10. Financial Statements. Seller has delivered to Buyer financial statements of Seller as, at and for the periods ended on October 31, 2013 and December 31, 2012 (collectively, the "Financial Statements"), including in each case a balance sheet, a statement of income and retained earnings, and a statement of cash flows. The Financial Statements are complete and correct in all material respects, accurately reflect the assets, liabilities, and results of operations and financial condition of Seller as of their respective dates, and have been prepared in accordance with GAAP. Seller does not owe any obligation and is not subject to any liability to any of Seller's affiliates other than obligations and liabilities.

Section 4.11. Insurance. Exhibit S contains a complete and correct list and summary description of all insurance policies maintained by or for the benefit of Seller. Seller has delivered to Buyer complete and correct copies of all such policies together with all riders and amendments thereto. Such policies are in full force and effect, and all premiums due thereon have been paid. Seller has complied in all material respects with the terms and provisions of such policies. Except as set forth on Exhibit S, such policies shall not continue after the Closing Date for the benefit of Seller, other than in terms of providing continued, post-Closing coverage to Seller in respect of actions, events or circumstances arising or occurring during policy coverage periods up to and including the Closing Date, whether or not claims arising from such actions, events or circumstances are made before, on or after the Closing Date. Exhibit S sets out all claims made by Seller under any policy of insurance during the past two years and, in the opinion of Seller reasonably formed and held, there is no basis on which a claim should or could be made under any such policy and contains a complete and correct list and summary description of all insurance policies maintained by or for the benefit of Seller.

Section 4.12. Environmental Matters.

(a) Seller has complied and is in compliance in all material respects with all applicable environmental laws, whether federal, state or local, pertaining to the Real Estate, any leased real property or the ownership or operation of the Business, and Seller has not received any written communication alleging that Seller is not in compliance with any applicable environmental law, other than as disclosed in Exhibit ____ hereto. To Seller's knowledge, there is no claim pending or threatened against Seller relating to any alleged or actual violation of an environmental law, and none of the Real Estate is currently listed on the National Priorities List or the Comprehensive Environmental Response, Compensation and Liability Information System, both promulgated under the Comprehensive

Environmental Response, Compensation and Liability Act of 1980, as amended (CERCLA) or any comparable state list.

(b) To the knowledge of Seller, neither the Seller nor any other person acting under its direction and control or on behalf of Seller, nor any affiliated entity of Seller, has caused or taken any action or is aware of any action that could reasonably result in, and the Seller is not subject to, any material liability or obligation relating to (i) the environmental conditions on, under, or about any of the Real Estate at the present time or in the past, including the air, soil and ground water conditions of such Real Estate, or (ii) the past or present use, management, handling, transport, treatment, generation, storage, disposal or release of any hazardous substance.

(c) Seller has made available to Buyer all (and not withheld from Buyer any) information, including all studies, analyses, and test results, in the possession, custody, or control of or otherwise known to Seller relating to (i) the environmental conditions on, under, or about any of the Real Estate, (ii) environmental conditions relating to the operation of the Business at the present time or in the past, (iii) any hazardous substances used, managed, handled, transported, treated, generated, stored, disposed of, or released by Seller or any other person on, under, about, or from any of the Real Estate or otherwise in connection with the use or operation of any of the Real Estate or the Business. There are no underground storage tanks located on any of the Real Estate.

Section 4.13. No Changes. Since December 31, 2012, there has not been: (a) any change in the Business or the Purchased Assets, other than changes occurring in the ordinary course of business which in the aggregate have not had a material adverse effect on the Business or the Purchased Assets; or (b) to knowledge of Seller, any threatened or prospective event or condition of any character whatsoever which could materially and adversely affect the Business or the Purchased Assets.

ARTICLE V

REPRESENTATIONS AND WARRANTIES OF BUYER

In order to induce Seller to enter into this Agreement and to consummate the transactions contemplated hereunder, as of the date hereof and as of the Closing Date Buyer makes the following representations and warranties:

Section 5.01. Organization. Buyer is a nonprofit municipal property corporation formed under the laws of the State of Arizona on behalf of the Town of Florence, Arizona, with full power and authority to enter into this Agreement and perform the obligations of Buyer hereunder.

Section 5.02. Authorization. The execution, delivery and performance of this Agreement and the consummation of the transactions contemplated hereby have been duly authorized by all necessary action of Buyer. Buyer has made all required filings with, and has obtained all approvals, consents and orders of, any governmental authority, board, agency or commission having jurisdiction which would constitute a condition precedent to the performance

by Buyer of its obligations hereunder. As of the Closing Date, Buyer will have, full legal right, power and authority (i) to enter into this Agreement, (ii) to adopt the Authorizing Resolution, (iii) to cause the Bonds to be delivered to Seller, (iv) to carry out and consummate the transactions contemplated by this Agreement, the Management Agreement, the Loan Agreement, and the Bond Documents to which it is a party; and (vi) to set utility rates as it deems necessary and appropriate to meet its obligations with respect to the Bonds.

Section 5.03. Enforceability. This Agreement has been duly executed and delivered by Buyer and is a valid and binding obligation of Buyer, enforceable in accordance with its terms, except as may be limited by (a) any applicable bankruptcy, reorganization, moratorium or similar laws, now or hereafter in effect, affecting the enforceability of creditors' rights generally or (b) general principles of equity.

Section 5.04. No Conflicts. Neither the execution and delivery of this Agreement nor the consummation of the transactions contemplated hereby will: (i) conflict with or violate any municipal code or ordinances, or of any decree or order of any court or administrative or other governmental body which is either applicable to, binding upon or enforceable against Buyer; or (ii) result in any breach of or default under any mortgage, contract, agreement, indenture, trust or other instrument which is either binding upon or enforceable against Buyer.

Section 5.05. As-Is Where-Is Condition. BUYER ACKNOWLEDGES THAT SELLER HAS NOT MADE ANY REPRESENTATIONS OR WARRANTIES OR COVENANTS THAT ARE NOT EXPRESSLY SET FORTH IN THIS DOCUMENT. EXCEPT FOR THOSE REPRESENTATIONS, WARRANTIES, AND COVENANTS EXPRESSLY SET FORTH HEREIN: (A) BUYER IS ACQUIRING THE PURCHASED ASSETS AND UNDERTAKING THE ASSUMED LIABILITIES IN THEIR "AS-IS WHERE-IS" CONDITION AND THAT IT IS RELYING UPON ITS OWN INVESTIGATION AND ANALYSIS AND SHALL NOT BE ENTITLED TO ANY REDUCTION TO OR SET-OFF OF THE PURCHASE PRICE FOR ANY REASON. IT IS UNDERSTOOD AND AGREED THAT SELLER IS NOT MAKING AND SPECIFICALLY DISCLAIMS ANY WARRANTIES OR REPRESENTATIONS OF ANY KIND OR CHARACTER, EXPRESS OR IMPLIED, WITH RESPECT TO SELLERS OR ANY TANGIBLE OR INTANGIBLE ASSETS OF SELLER, INCLUDING, BUT NOT LIMITED TO, WARRANTIES OR REPRESENTATIONS AS TO OR ANY OTHER MATTER OR THING RELATING TO OR AFFECTING THE VALUE, CONDITION, MERCHANTABILITY, MARKETABILITY, PROFITABILITY, SUITABILITY OR FITNESS FOR A PARTICULAR USE OR PURPOSE OF PURCHASED ASSETS; (B) BUYER HAS NOT RELIED UPON AND WILL NOT RELY UPON, EITHER DIRECTLY OR INDIRECTLY, ANY REPRESENTATION OR WARRANTY OF SELLER OR ANY AGENT OR EMPLOYEE OF SELLER; (C) BUYER REPRESENTS THAT IT IS A KNOWLEDGEABLE BUYER AND THAT IT IS RELYING SOLELY ON ITS OWN EXPERTISE AND THAT OF ITS CONSULTANTS IN PURCHASING THE PURCHASED ASSETS; AND (D) BUYER WILL CONDUCT SUCH INSPECTIONS AND INVESTIGATIONS REGARDING THE PURCHASED ASSETS AS BUYER DEEMS NECESSARY. NOTWITHSTANDING THE ABOVE, BUYER'S RELIANCE HEREIN IS BASED UPON SELLER'S WARRANTY THAT IT HAS PROVIDED ALL DOCUMENTATION AND INFORMATION KNOWN TO SELLER TO ALLOW BUYER TO MAKE AN INDEPENDENT DETERMINATION OF THE ASSETS BEING ACQUIRED.

SELLER HAS NOT WITHHELD ANY INFORMATION WHICH WOULD PREVENT THE BUYER FROM MAKING AN INFORMED DECISION AS TO THE PURCHASE OF THE ASSETS.

ARTICLE VI

ADDITIONAL COVENANTS

Section 6.01. Conduct of Business. From the date hereof to the Closing Date (and thereafter with respect to any covenant or agreement extending beyond the Closing Date), except as expressly permitted or required by this Agreement or as otherwise consented to by Buyer in writing, Seller will (as applicable):

(a) carry on the Business in, and only in, the ordinary course, in substantially the same manner as heretofore conducted, and use reasonable efforts to preserve intact its present business organization, maintain its properties in good operating condition and repair, keep available the services of its present officers and substantially all of its employees, and preserve its relationship with substantially all of its customers and others having business dealings with it, with the goal and intent that its goodwill and ongoing business shall be in all material respects unimpaired on and following the Closing Date;

(b) pay all accounts payable and other obligations of Seller when they become due and payable in the ordinary course of business consistent with prior practice;

(c) perform in all material respects all of its obligations under all Contracts and other agreements and instruments and comply in all material respects with all applicable laws applicable to it;

(d) not enter into or assume any material agreement, contract, or instrument, or enter into or permit any material amendment, supplement, waiver, or other modification with respect to any Contract;

(e) not make or change any election, change an annual accounting period, adopt or change any accounting method, file any amended tax return, enter into any closing agreement, settle any tax claim or assessment relating to Seller, surrender any right to claim a refund of taxes, consent to any extension or waiver of the limitation period applicable to any tax claim or assessment relating to Seller or take any other similar action relating to the filing of any tax return or the payment of any tax, if such election, adoption, change, amendment, agreement, settlement, surrender, consent or other action would have the effect of increasing the tax liability of Seller for any period ending after the Closing Date or decreasing any tax attribute of Seller existing on the Closing Date; provided that Buyer will make the appropriate accounting changes after the purchase to coincide with the Buyer's required governmental disclosures;

(f) not sell or transfer to any person or otherwise dispose of any material property or asset of Seller, other than dispositions of property or assets made in the ordinary course of business consistent with prior practice;

(g) not cause or permit any lien to be placed on any property or asset of Seller where such lien did not exist on the date hereof; and

(h) not take any action or knowingly omit to take any action, which action or omission would result in a breach of any of the representations and warranties set forth in Article 4.

Section 6.02. No Solicitation. Prior to the Closing Date or the earlier termination of this Agreement, neither Seller nor any affiliate of Seller, shall solicit any inquiries or proposals with respect to, (i) the sale by Seller of all or substantially all of its properties and assets, or (ii) any merger transaction or other transaction involving the acquisition of control of Seller by any person other than Buyer.

Section 6.03. Further Actions.

(a) Seller and Buyer agree to use reasonable efforts to take all actions and to do all things necessary, proper or advisable to consummate the transactions contemplated hereby by the Closing Date.

(b) Seller and Buyer will, as promptly as practicable, file or supply, or cause to be filed or supplied with all relevant governmental authorities and other Persons, all applications, notifications and information required to be filed or supplied by it pursuant to applicable law in connection with this Agreement and the consummation of the transactions contemplated hereby.

(c) Seller and Buyer, as promptly as practicable, will use reasonable efforts to obtain, or cause to be obtained, all consents (including all governmental approvals and any consents required under any contract) necessary to be obtained by it under applicable law or pursuant to any contract or permit in connection with the transactions contemplated thereby.

(d) Seller will cause its affiliates to, coordinate and cooperate with Buyer in exchanging such information and supplying such assistance as may be reasonably requested by Buyer in connection with the filings and other actions contemplated by this Agreement.

(e) Following the Closing Date, Seller and Buyer shall, from time to time and at their own expense, execute and deliver such additional instruments, documents, conveyances, or assurances and take such other actions as shall be necessary, or otherwise reasonably requested by the other party, to render effective the consummation of the transactions contemplated hereby.

ARTICLE VII

TERMINATION

Section 7.01. Termination. This Agreement may be terminated at any time prior to the Closing Date:

(a) By Seller or Buyer by written notice to the other parties if the transactions contemplated hereby shall not have been consummated pursuant hereto by 5:00 p.m., Phoenix, Arizona time on July 1, 2014;

(b) By Buyer by written notice to Seller if (a) the representations and warranties of Seller shall not have been true and correct in all material respects as of the date when made or (b) any of the conditions set forth in Section 3.02 shall not have been, or if it becomes apparent to Buyer in its reasonable discretion that any of such conditions will not be, fulfilled by 5:00 p.m. Phoenix, Arizona time on July 1, 2014, unless such failure shall be due to the failure of Buyer to perform or comply with any of the covenants, agreements or conditions hereof to be performed or complied with by it prior to the Closing Date;

(c) By Seller by written notice to Buyer if (a) the representations and warranties of Buyer shall not have been true and correct in all material respects as of the date when made, or (b) any of the conditions set forth in Section 3.03 shall not have been, or if it becomes apparent to Seller in its reasonable discretion that any such condition will not be, fulfilled by 5:00 p.m. Phoenix, Arizona time on March 31, 2014, unless such failure shall be due to the failure of Seller to perform or comply with any of the covenants, agreements or conditions hereof to be performed or complied with by it prior to the Closing Date; or

(d) By Seller by written notice to Buyer if:

(i) the marketability of the Bonds or the market price thereof, in the reasonable opinion of Seller, has been materially adversely affected by (1) an amendment to the Constitution of the United States or the Constitution of the State or (2) any introduced or enacted federal or State legislation or (3) any decision of any federal or State court or (4) any ruling or regulation (final, temporary or proposed) of the Treasury Department of the United States, the Internal Revenue Service or other federal or State authority or (5) any bill favorably reported out of committee in either house of the Congress of the United States, in any case affecting the tax status of Buyer, its property or income, its securities (including the Bonds) or the interest thereon, or any tax exemption granted or authorized by the Internal Revenue Code of 1986, as amended, or the statutes of the State of Arizona (the "*State*"); or

(ii) a stop order, ruling, regulation, proposed regulation or statement by or on behalf of the Securities and Exchange Commission shall be issued or made having the effect or creating the probability that the issuance, offering or sale of obligations of the general character of the Bonds shall be or shall become a violation of any provisions of the Securities Act of 1933, the Securities and Exchange Act of 1934, or the Trust Indenture Act of 1939; or

(iii) in the Congress of the United States legislation shall be enacted or a bill shall be favorably reported out of committee to either house, or a decision by a court of the United States shall be rendered, or a ruling, regulation, proposed regulation or statement by or on behalf of the Securities and Exchange Commission or other governmental agency having jurisdiction of the subject matter shall be made, to the effect that securities of Buyer or of any similar public body are not exempt from the registration, qualification or other requirements of the Securities Act of 1933, the Securities and Exchange Act of 1934 or the Trust Indenture Act of 1939; provided, however, that the effective date of the events described in (a), (b) and (c) of this Subparagraph 7.01(f) shall be prior to the Closing Date; or

(iv) the United States shall have become engaged in hostilities which have resulted in a declaration of war or a national emergency or there shall have occurred any other outbreak of hostilities or a national or international calamity or crisis, or an escalation thereof, the effect of such outbreak calamity or crisis on the financial markets of the United States being such as, in the opinion of Seller, would affect materially and adversely the ability of Seller to market the Bonds or to enforce contracts for the sale of the Bonds; or

(v) there shall have occurred a general suspension of trading on the New York Stock Exchange or the declaration of a general banking moratorium by the United States, or by the States of Arizona or New York; or

(vi) there shall exist any event which, in the sole judgment of Seller, would materially adversely affect the market for the Bonds.

Section 7.02. Effect of Termination.

(a) In the event of the termination of this Agreement pursuant the provisions in Section 7.01 (i) this Agreement shall become void and have no effect, without any liability to any person in respect hereof or of the transactions contemplated hereby on the part of any party hereto, or any of its officials, directors, officers, employees, agents, consultants, representatives or advisers, except for any liability resulting from such party's material breach of this Agreement and for failing to comply with Section 7.02(b).

(b) Upon such an event, (a) Buyer shall deliver to Seller all materials delivered to or acquired from Seller ("Seller's Materials") and (b) Buyer will maintain the confidentiality of, and not disclose to any third person (other than its attorney and other consultants to the extent reasonably required for the negotiation and processing of the transaction contemplated by this Agreement) any information obtained by Buyer from or

through Seller's Materials except to the extent such information is generally available to the public or required to be disclosed pursuant to legal process or applicable law.

ARTICLE VIII

INDEMNIFICATION

Section 8.01. Indemnification By Seller. To the extent permitted by applicable law, but subject to the limitations set forth in Sections 8.04 and 8.05, Seller covenants and agrees to defend, indemnify and hold harmless Buyer, and its officials and employees, (collectively, the "*Buyer Indemnitees*") from and against, and to pay or reimburse Buyer Indemnitees for, any and all claims, amounts paid in settlement of claims, liabilities, obligations, losses, fines, costs, royalties, proceedings, deficiencies or damages (whether absolute, accrued, conditional, or otherwise and whether or not resulting from third patty claims), including without limitation any out-of-pocket expenses and reasonable attorneys' and accountants' fees incurred in the investigation or defense of any of the same or in asserting any of their respective rights hereunder but excluding any consequential damages (collectively, "*Losses*"), resulting from or arising out of:

(a) any material inaccuracy of any representation or warranty by Seller contained in Article 4; or

(b) any failure of Seller to perform any material covenant or agreement hereunder or to fulfill any other obligation in respect hereof; or

(c) all obligations of the Sellers, including but not limited to regulatory obligations and obligations for Taxes, for periods through and including the Closing Date.

Section 8.02. Indemnification by Buyer. To the extent permitted by Applicable Law, but subject to the limitations set forth in Sections 8.04 and 8.05, Buyer covenants and agrees to defend, indemnify and hold harmless Seller, and its members, officers, employees (collectively, the "*Seller Indemnitees*")from and against, and to pay or reimburse Seller Indemnitees for, any and all Losses resulting from or arising out of:

(a) any material inaccuracy in any representation or warranty by Buyer made or contained Article 5;

(b) any failure of Buyer to perform any material covenant or agreement hereunder or to fulfill any other obligation in respect hereof; or

(c) all obligations of the businesses being acquired, including but not limited to regulatory obligations and obligations for Taxes, for all periods on and after the Closing Date (including any obligations concerning the need for any regulatory approvals or consents to effectuate any of the actions contemplated in this Agreement, regardless of when such obligation accrues).

Section 8.03. Indemnification Procedures. In the case of any claim by a Buyer Indemnitee or a Seller Indemnitee (any of which, an "*Indemnified Party*") for indemnification

under this Article 8, notice shall be given by the Indemnified Party to the party required to provide indemnification (the "*Indemnifying Party*") promptly after such Indemnified Party has actual knowledge of any claim as to which indemnity may be sought. The notice shall specify the factual basis of the claim in reasonable detail to the extent known by the Indemnified Party:

(a) *Third Party Claims.* With regard to third party claims, the Indemnified Party shall permit the Indemnifying Party (at the expense of such Indemnifying Party) to assume the defense of any third party claim or any litigation resulting therefrom; provided that (i) the counsel for the Indemnifying Party who shall conduct the defense of such claim or litigation shall be reasonably satisfactory to the Indemnified Party, (ii) the Indemnified Party may participate in such defense at such Indemnified Party's expense, and (iii) the failure by any Indemnified Party to give notice as provided herein shall not relieve the Indemnifying Party of its indemnification obligation under this Agreement except to the extent that such omission results in a failure of actual notice to the Indemnifying Party and such Indemnifying Party is materially prejudiced as a result of such failure to give notice. Except with the prior written consent of the Indemnified Party, no Indemnifying Party, in the defense of any such claim or litigation, shall consent to entry of any judgment or enter into any settlement that provides for injunctive or other non-monetary relief affecting the Indemnified Party or that does not include as an unconditional term thereof the giving by each claimant or plaintiff to such Indemnified Party of a release from all liability with respect to such claim or litigation. In the event that the Indemnified Party shall in good faith determine that the conduct of the defense of any claim subject to indemnification hereunder or any proposed settlement of any such claim by the Indemnifying Party might be expected to affect adversely the Indemnified Party's tax liability or the ability of the Indemnified Party to conduct its business, or that the Indemnified Party may have available to it one or more defenses or counterclaims that are inconsistent with one or more of those that may be available to the Indemnifying Party in respect of such claim or any litigation relating thereto, the Indemnified Party shall have the right at all times to take over and assume control over the defense, settlement, negotiations or litigation relating to any such claim at the sole cost of the Indemnifying Party, provided that if the Indemnified Party does so take over and assume control, the Indemnified Party shall not settle such claim or litigation without the written consent of the Indemnifying Party, such consent not to be unreasonably withheld. In the event that the Indemnifying Party does not accept the defense of any matter as above provided, the Indemnified Party shall have the full right to defend against any such claim or demand and shall be entitled to settle or agree to pay in full such claim or demand. In any event, the Indemnifying Party and the Indemnified Party shall cooperate in the defense of any claim or litigation subject to this Section 8.03, including tax audits and claims, and the records of each shall be available to the other with respect to such defense.

(b) *Claims for Losses other than Third Party Claims.* With regard to a claim for indemnification for Losses other than a third party claim, the Indemnifying Party shall within thirty (30) days after receiving notice of the claim, give notice to the Indemnified Party of the acceptance or rejection of the claim by the Indemnifying Party. A notice of rejection of a claim will create of Dispute under Article 8.

Section 8.04. Time Limitations. If the Closing occurs, Seller will have liability with respect to Section 8.01 only if on or before the date which is twelve (12) months after the Closing Date, Buyer notifies the Seller from which it is seeking indemnification in writing of the claim, specifying the factual basis of the claim in reasonable detail to the extent then known by Buyer. If the Closing occurs, Buyer will have liability with respect to Section 8.02 only if on or before the date which is twelve (12) months after the Closing Date, Seller notifies Buyer in writing of the claim, specifying the factual basis of the claim in reasonable detail to the extent then known by Seller. Notwithstanding the foregoing, if before 5:00 p.m. (Arizona time) on the date which is twelve (12) months after the Closing Date, any party against which an indemnification claim has been made hereunder has been properly notified in writing of such claim and such claim has not been finally resolved or disposed of as of such date, then such claim shall continue to survive and shall remain a basis for indemnity hereunder until such claim is finally resolved or disposed of in accordance with the terms of this Agreement.

Section 8.05. Limitations on Amount. No claim shall be asserted against Seller under this Article 8 which, individually, is less than $50,000; and no claims shall be asserted against Seller under this Article 8 which, in the aggregate, exceed the sum of $1,000,000. If a particular claim or claims are covered by insurance carried by Seller, such claims may be pursued against Seller for amounts in excess of the limits set forth in the preceding sentence, but Buyer's recourse shall be limited to the proceeds of the applicable insurance coverage. No claim shall be asserted against Buyer under this Article 8 which, individually, is less than $50,000; and no claims shall be asserted against Buyer under Section 8.02 which, in the aggregate, exceed the sum of $1,000,000. If a particular claim or claims are covered by insurance carried by Buyer, such claims may be pursued against Buyer for amounts in excess of the limits set forth in the preceding sentence, but Sellers' recourse shall be limited to the proceeds of the applicable insurance coverage.

Section 8.06. Exclusive Remedy. The right to indemnification provided in this Article 8 is intended to be the sole and exclusive remedy of Buyer or Seller following the Closing. Until the Closing, the parties shall have any other remedies provided herein or available at law or in equity.

Section 8.07. Limitation of Liability. The liability of each party under this Agreement, for any reason whatsoever, whether in contract, tort or statute (including without limitation, negligence), or otherwise, shall be limited to the other party's actual damages. In no event shall either party have any liability to the other party or to third parties for any indirect, incidental, special, consequential or punitive damages, even if such party has been advised of the possibility thereof. The allocations of liability in this Agreement represent the agreed and bargained-for understanding of the parties with respect to allocation of risks inherent in their relationship.

ARTICLE IX

DISPUTE RESOLUTION

Section 9.01. Disputes. In the event of any claim, dispute or other matter in controversy, whether based on contract, tort, statute or other legal theory (including but not limited to any claim of fraud or misrepresentation), arising out of or related to the Agreement or the breach thereof, either party hereto may pursue in court any remedy available to it at law or in equity.

ARTICLE X

MISCELLANEOUS

Section 10.01. Survival. Each of the representations and warranties made by Seller in Article 4 of this Agreement shall survive for a period of two (2) years after the Closing Date, notwithstanding any investigation at any time made by or on behalf of Buyer, and thereafter all such representations and warranties shall be extinguished. No claim for the recovery of Loss (as defined in Section 8.01) may be asserted by Buyer against Seller, or its successors in interest after such representations and warranties shall be thus extinguished; *provided, however*, that claims first asserted in writing within the applicable period shall not thereafter be barred and claims related to an assertion of infringement of intellectual property may be asserted at any time so long as they otherwise are not statutorily or equitably time barred.

Section 10.02. Knowledge. As used throughout this Agreement, the term "knowledge" means the actual awareness of a particular fact or circumstance and the awareness of a fact or circumstance that a prudent individual could reasonably be expected to discover or otherwise become aware of in the course of conducting a reasonable investigation and due inquiry concerning the fact or circumstance.

Section 10.03. Brokers' Commission. Seller will be solely responsible for and will indemnify and hold Buyer harmless from, the payment of any commission, fee or claim of any person, firm or corporation employed or retained or claiming to be employed or retained by Seller to bring about, or to represent Seller in, the transactions contemplated hereby.

Section 10.04. General Provisions regarding Representation and Warranties. The following provisions shall apply to all representations and warranties of any of the parties to this Agreement:

(a) *No Other Representation of Warranties.* Each party to this Agreement hereby expressly acknowledges and agrees that it has not relied on, and no other party has made, any representation or warranty, expressed or implied (all implied warranties being hereby expressly disclaimed), except for those representations and warranties that are expressly set forth in the Agreement,

(b) *Specific Overrules General.* To the extent that any matter is addressed by a specific representation or warranty, any more general representation shall be deemed not to apply to such a matter.

(c) *One Disclosure Suffices.* Anything that is duly disclosed to Buyer pursuant to this Agreement, including on any Exhibit hereto, shall be deemed to have been disclosed on all applicable schedules to this Agreement.

Section 10.05. Binding Effect. This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors, assigns, heirs and legal representatives.

Section 10.06. Entire Agreement. This Agreement (including the exhibits attached hereto) contains the entire agreement of the parties hereto with respect to the purchase of the Purchased Assets and the other transactions contemplated herein, and supersede all prior written and oral understandings and agreements of the parties with respect to the subject matter hereof. Any reference herein to this Agreement shall be deemed to include the exhibits attached hereto.

Section 10.07. Headings. The descriptive headings in this Agreement are inserted for convenience only and do not constitute a part of this Agreement.

Section 10.08. Execution in Counterpart. This Agreement may be executed in any number of counterparts, each of which shall be deemed an original.

Section 10.09. Notices. Any notice, request, information or other document to be given hereunder to any of the parties by any other party shall be in writing and delivered personally or sent by certified mail, overnight courier, facsimile or electronic mail as follows:

If to Buyer, addressed to:

Florence Municipal Property Corporation
c/o Town Manager
775 N. Main Street
P.O. Box 2670
Florence, Arizona
Attn:
Email:

with a copy to:

775 N. Main Street
P.O. Box 2670
Florence, Arizona
Email:

If to Seller, addressed to:

Johnson Utilities, L.L.C.
5230 E. Shea Boulevard, Suite 200
Scottsdale, Arizona 85254
Attention: George H. Johnson
Fax: (480) 483-7908
Email: gjohnson@azvision.net

with a copy to:

Gary A. Drummond, Esq
Sallquist & Drummond, P.C.
1430 E. Missouri Avenue, Suite B-125

Phoenix, Arizona 85014
Email: gary@sd-law.com

Any party may change the address to which notices hereunder are to be sent to it by giving written notice of such change of address in the manner herein provided for giving notice. Any notice delivered personally shall be deemed to have been given on the date it is so delivered, and any notice delivered by registered or certified mail shall be deemed to have been given on the date it is received.

Section 10.10. Amendment. This Agreement may be amended only with the written approval of all of the parties hereto.

Section 10.11. Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Arizona applicable to contracts made and to be performed therein.

Section 10.12. Notice of A.R.S. Section 38-511 - Cancellation. Notice is hereby given of the provisions of Arizona Revised Statutes Section 38-511, as amended. By this reference, the provisions of said statute are incorporated herein to the extent of their applicability to contracts of the nature of this Agreement under the law of the State.

Section 10.13. Time is of the Essence. Time is hereby declared to be of the essence for the purposes of the performance of all conditions and obligations under this Agreement.

Section 10.14. Threat of Condemnation. The parties hereto expressly acknowledge that the sale of the Business from Seller to Buyer under the terms described herein has been negotiated under the threat of condemnation action.

* * *

SIGNATURES FOLLOW

IN WITNESS WHEREOF, the parties hereto have caused this Asset Purchase and Lease Agreement to be duly executed as of the date first above written.

BUYER:

FLORENCE MUNICIPAL PROPERTY CORPORATION

By: _____
Name: _____
Title: _____

SELLER:

JOHNSON UTILITIES, L.L.C.

By: _____
Name: _____
Title: _____

EXHIBIT A

EXCLUDED ASSETS

- RENEWABLE ENERGY CREDITS ASSOCIATED WITH THE SOLAR FACILITY LOCATED AT THE ANTHEM WASTEWATER TREATMENT PLANT
- RENEWABLE ENERGY CREDITS ASSOCIATED WITH THE SOLAR FACILITY LOCATED AT THE SECTION 11 WASTEWATER TREATMENT PLANT
- RENEWABLE ENERGY CREDIT ASSOCIATED WITH THE SOLAR FACILITY LOCATED AT THE RANCHO SENDERO WATER PLANT
- JOHNSON RANCH WELL #2
- RESIDENCE LOCATED AT 7320 EAST SONOMA WAY, FLORENCE, AZ 85132
- 250 ACRE-FEET OF RECHARGE CREDITS WITH THE ARIZONA DEPARTMENT OF WATER RESOURCES

EXHIBIT B

TERMS OF WATER AND SEWER REVENUE BONDS

Issuer:	The Industrial Development Authority of the City of Phoenix
Borrower:	Florence Municipal Property Corporation, an Arizona non-profit corporation formed for the benefit of the Town of Florence, Arizona
Par Amount:	$121,000,000
Bond Closing:	On or about March 1, 2014
Maturity:	30 years, with sinking fund principal redemptions beginning in Y6
Tax Status:	Interest on the Bonds will be excluded from gross income for purposes of federal and state income taxation and will not be subject to the alternative minimum tax
Town of Florence:	No recourse to Town of Florence. Net revenues from the Purchased Assets will be paid to the Town. Once the Bonds are fully paid, the Purchased Assets will be gifted to the Town free of charge
Bond Counsel	Kutak Rock LLP in Scottsdale, Arizona
Project Seller/Bond Purchaser	Johnson Utilities, L.L.C. will sell the Purchased Assets to the Borrower in exchange for the Bonds
Bond Terms:	The Bonds will bear interest at the rate of 6.625% (interest only) for the first 5 years and at the rate of 8.00% per annum for years 6-30, mature in 2044, and will not be subject to optional redemption All major financing documents, including the offering document and the bond form will contain substantially the following disclaimer: THE BONDS AND THE INTEREST THEREON ARE SPECIAL LIMITED OBLIGATIONS OF THE ISSUER PAYABLE EXCLUSIVELY FROM REVENUES AND RECEIPTS UNDER THE LOAN AGREEMENT. THE BONDS DO NOT CONSTITUTE A DEBT OR A LOAN OF CREDIT OR A PLEDGE OF THE FULL FAITH AND CREDIT OR TAXING POWER OF THE ISSUER OR THE TOWN OF FLORENCE, OR OF THE STATE OF ARIZONA, OR OF ANY POLITICAL SUBDIVISION THEREOF, WITHIN THE MEANING OF ANY STATE CONSTITUTIONAL PROVISION OR STATUTORY LIMITATION AND SHALL NEVER CONSTITUTE NOR GIVE RISE TO A PECUNIARY LIABILITY OF THE STATE OF ARIZONA, OR ANY POLITICAL SUBDIVISION THEREOF. THE

BONDS SHALL NOT CONSTITUTE, DIRECTLY OR INDIRECTLY, OR CONTINGENTLY OBLIGATE OR OTHERWISE CONSTITUTE A GENERAL OBLIGATION OF OR A CHARGE AGAINST THE GENERAL CREDIT OF THE TOWN OF FLORENCE, BUT SHALL BE SPECIAL LIMITED OBLIGATIONS OF THE ISSUER PAYABLE SOLELY FROM THE SOURCES DESCRIBED HEREIN AND IN THE INDENTURE, BUT NOT OTHERWISE. THE ISSUER HAS NO TAXING POWER.

Defeasance: The Indenture will provide that the Borrower and/or the Town may defease the lien of Indenture at any time by depositing with the Trustee for the benefit of the Bondholders government obligations sufficient to pay principal and interest on the Bonds to the maturity date

Management: The Purchased Assets will be managed by the Seller (or its affiliate) for a period of 5 years on a fixed fee contract that pays $500,000 annually in full compliance with federal qualified management contract rules (Rev Ruling 97-13). Town will assume management (on its own or by contract) after Y5

Bond Purchase Price: Purchaser will purchase the Bonds at a price of par in exchange for the Purchased Assets

Cost of Issuance All closing costs related to the Bonds, including the fees and expenses of Seller's Counsel, Issuer, Issuer's Counsel, Bond Counsel, Borrower, Borrower's Counsel, and Trustee will be paid by the Seller at closing

Town Costs: All costs incurred by the Town will be paid by the Town

Denominations: The Bonds will be issued in minimum denominations of $1,000,000 and will only be transferable to parties related to Seller

Flow of Funds: From cash flow generated by the Purchased Assets, the Manager will pay operating expenses, replenish reserve funds, and forward the balance to the Trustee, who will make payments in the following order of priority:

first, interest on the Bonds;

second, principal on the Bonds;

third, ongoing fees of the Borrower, Issuer and Trustee;

fourth, management fees;

fifth, required arbitrage rebate amounts, if any;

sixth, replenishment of reserve funds; and

seventh, remainder to Town.

Security: The Bonds will be issued pursuant to the Indenture as special obligations of the Issuer and shall be secured by a first priority security interest in all amounts held pursuant to the Indenture, and the pledged revenues which consist of the following:

(1) Revenues received by the Issuer under the Loan Agreement

(2) To the extent permitted by law, airst mortgage on all assets of Borrower

(3) A debt service/operating reserve fund will be established under the Indenture and be funded from cash deposits currently held by Seller, in an amount to be determined, subject to federal tax rule limitations

EXHIBIT C

ASSUMED LIABILITIES

- **CUSTOMER ACCOUNT SECURITY DEPOSITS (ADVANCE DEPOSITS MADE BY CUSTOMERS TO SECURE PAYMENT OF FUTURE CHARGES) WHICH COME DUE AFTER CLOSING**

- **METER ADVANCE REFUNDS DUE AFTER CLOSING**

- **ANNUAL AMOUNTS DUE ON THE LINE EXTENSION AGREEMENTS (LXAs) ATTACHED HERETO. SELLER SHALL BE RESPONSIBLE FOR THE PRO RATA SHARE OF AMOUNTS DUE UNDER THE LXAs FOR THE PERIOD ENDING ON THE CLOSING DATE**

EXHIBIT D

ALLOCATION OF PURCHASE PRICE

EXHIBIT E

CONSENTS AND APPROVALS REQUIRED OF SELLER

- APPROVAL FROM THE ARIZONA CORPORATION COMMISSION TO TRANSFER THE ASSETS AND DELETE THE CERTIFICATE OF CONVENIENCE AND NECESSITY (CC&N)

DRAFT

EXHIBIT F

GOVERNMENTAL APPROVALS REQUIRED OF BUYER

- APPROVAL FROM THE ARIZONA CORPORATION COMMISSION TO TRANSFER THE ASSETS AND DELETE THE CERTIFICATE OF CONVENIENCE AND NECESSITY (CC&N)

DRAFT

EXHIBIT G

FORM OF OPINION OF COUNSEL TO BUYER

[DATE]

Johnson Utilities, L.L.C.
Florence, AZ

$[_____]
The Industrial Development Authority of the City of Phoenix, Arizona
Water and Sewer Revenue Bonds
(Florence Water Company Project)
Series 2014

Ladies and Gentlemen:

We have acted as counsel to Florence Municipal Property Corporation (the "Buyer), an Arizona non-profit public benefit corporation formed on behalf of the Town of Florence, Arizona (the "Town") in connection with (a) the Asset Purchase and Lease Agreement, dated as of [____], 2014 (the "Sale Agreement") by and between the Buyer and Johnson Utilities, L.L.C., an Arizona limited liability company (the "Seller"), and (b) the Management Agreement (the "Management Agreement"), dated as of [_____], 2014 between the Buyer and Southwest Environmental Utilities, L.L.C., an Arizona corporation (the "Manager"). This opinion is delivered to you pursuant to Section 3.03(e) of the Sale Agreement.

In rendering this opinion, we have reviewed an executed copy of each of the following documents (collectively, the "Organizational Documents"):

(a) Articles of Organization of the Buyer dated [_____], as certified by the Arizona Secretary of State, and the Bylaws of the Buyer, certified by an authorized officer of the Buyer, dated [_____];

(b) Certificate of Good Standing issued [_____], by the Arizona Secretary of State for Buyer.

We have also reviewed an executed copy of each of the following documents (collectively, the "Transaction Documents"):

(a) the Sale Agreement executed by the Buyer;

(b) the Management Agreement executed by the Buyer;

DRAFT

(c) the Officer's Certificate of the appropriate officers or authorized representatives of the Buyer, certifying that (i) each covenant and agreement of the Buyer to be performed prior to or as of the Closing pursuant to the Sale Agreement and the Management Agreement has been performed, (ii) each representation and warranty of the Buyer is true and correct on the Closing Date, as if made on and as of the Closing, and (iii) the resolution of the Buyer attached thereto authorizing and approving execution of the Sale Agreement and the Management Agreement and performance of the transactions contemplated thereby;

(d) the Incumbency Certificate of the appropriate officers or authorized representatives of the Buyer; and

In addition, we have reviewed such matters of law as we have deemed necessary for the rendering of the opinions contained herein.

In rendering the following opinions, we have assumed and relied upon (i) the genuineness of all signatures (other than the Buyer); (ii) the authenticity and completeness of all documents submitted to us as originals and the conformity to original documents of all documents submitted to us as PDF, electronic, certified or photostatic copies; (iii) the accuracy and completeness of all the Organizational Documents of the Buyer made available to us; (iv) there has not been any mutual mistake of fact or misunderstanding, fraud, duress, criminal activity or undue influence; (v) the conduct of all the parties and their respective agents has complied with any requirement of good faith and fair dealing; (vi) there are no agreements or understandings among the parties to the Transaction Documents, written or oral, and there is no usage of trade or course of prior dealings among the parties that would, in either case, define, supplement or otherwise qualify the terms and conditions of the Transaction Documents; (vii) the constitutionality or validity of a relevant statute, rule, regulation or agency action is not at issue unless a reported decision in the State of Arizona has specifically addressed, but not resolved, or has established, its unconstitutionality or invalidity; (viii) all parties (other than the Buyer) have the power, authority and capacity to execute, deliver and perform the Transaction Documents and that there are no facts or circumstances relating to you that might prevent you from enforcing any of the rights to which our opinion relates; (ix) the enforceability of the Transaction Documents against all parties other than the Buyer; (x) each party to the Transaction Documents (other than the Buyer) has satisfied the legal requirements which are applicable to it to the extent necessary to make the Transaction Documents enforceable against it; (xi) no party to the Transaction Documents will in the future take any discretionary action (including any decision not to act) permitted under the Transaction Documents which would result in a violation of law or constitute a breach or default under any agreements, other than the Transaction Documents, to which any party to the Transaction Documents is a party or by which its property is bound, or under any court, arbitrator or administrative order, writ, judgment, or decree that names any party to the Transaction Documents and is specifically directed to its property; (xii) all parties will act in accordance with, and refrain from taking any action which is forbidden by, the terms and conditions of the Transaction Documents and that you will perform all of your obligations under the Transaction Documents; and (xiii) adequate consideration at law has been paid under the Transaction Documents.

We have not conducted any other investigation to confirm any facts set forth in the Organizational Documents and in the Transaction Documents and the other documents called

forth therein, and we have not conducted any independent investigation to confirm the facts upon which the opinions set forth herein are based.

Based solely upon the foregoing and subject to the assumptions, qualifications and limitations herein stated, we are of the opinion that:

1. The Buyer is an Arizona non-profit public benefit corporation formed on behalf of the Town and is organized, validly existing and in good standing under the laws of the State of Arizona.

2. The Buyer has the power and authority to execute and deliver the Transaction Documents to which it is a party, to consummate the transactions contemplated thereby and to perform its obligations thereunder.

3. The execution and delivery by the Buyer of the Transaction Documents to which the Buyer is a party, the consummation by the Buyer of the transactions contemplated by such Transaction Documents and the performance of the Buyer's obligations therein have been duly authorized and/or ratified by all necessary corporation action of the Buyer.

4. The Transaction Documents to which the Buyer is a party have been duly executed and delivered by the Buyer and constitute the valid and legally binding obligations of the Buyer, enforceable against the Buyer in accordance with their respective terms.

5. No consent or action of, or filing or registration with, any governmental or public regulatory body or authority is required to authorize, or is otherwise required in connection with either the execution and delivery by the Buyer of the Transaction Documents to which it is a party or the incurrence by the Buyer of its obligations under the Transaction Documents to which it is a party, except as may be have been obtained, made or taken prior to the date hereof.

6. The execution and delivery of the Transaction Documents by the Buyer do not, and the compliance with the terms of the Transaction Documents to which it is a party will not (A) result in a violation of the Buyer's Organizational Documents, (B) result in a breach of or default under any agreements or instruments (other than the Transaction Documents) to which the Buyer is a party, except for those agreements with respect to which any breach, default or violation thereof in the aggregate would not have a material adverse effect on the Buyer or the ability of the Buyer to perform its obligations under the Transaction Documents to which it is a party; or (C) result in any violation of any applicable Federal or State of Arizona law or statute, rule or regulation to which the Buyer is subject, or any judgment, order, writ, injunction or decree of any court or other tribunal located in the State of Arizona directed against and naming the Buyer, except where any such violations in the aggregate would not have a material adverse effect on the Buyer, or the ability of the Buyer to perform its obligations under the Transaction Documents.

7. There is no action, suit, proceeding, inquiry or investigation at law or in equity or by or before any governmental instrumentality or other agency pending or, to our knowledge, now threatened against or affecting the Buyer or to which the Buyer are or may be a party or to which the property of the Buyer is or may be subject, wherein an unfavorable decision, ruling or finding would adversely affect: (i) the existence or organization of the Buyer or the title to office

of any officer of the Buyer or any power of the Buyer; (ii) the validity or enforceability of the proceedings taken by the Buyer for the authorization, execution and delivery by the Transaction Documents; (iii) the validity or enforceability of the Transaction Documents; or (iv) the transactions contemplated by the Transaction Documents.

Our opinions are based on the assumptions (upon which we have relied with your consent) and subject to the qualifications and limitations, set forth in this letter, including the following:

1. For purposes of rendering the opinions set forth herein, we have assumed that the Transaction Documents are governed and interpreted by the laws of the State of Arizona. We express no opinion whatsoever with respect to any rules of choice or conflicts of laws.

2. We have assumed for purposes of this opinion that: (a) the parties to the Transaction Documents other than the Buyer (the "Other Parties") are duly organized, validly existing and in good standing with full power and authority to enter into, execute, deliver and perform the Transaction Documents and their respective obligations thereunder; (b) the Transaction Documents have been duly authorized by the Other Parties and the Other Parties have duly executed and delivered the Transaction Documents to which they are signatories; (c) the Other Parties have satisfied those legal requirements that are applicable to each of them to the extent necessary to make the Transaction Documents enforceable against each of them; (d) any contracts, agreements, or instruments to which the Other Parties are a party or by which its or their property is bound, other than the Transaction Documents, will be enforced as written (e) the Other Parties have complied with all legal requirements pertaining to each of their status as such status relates to their rights to enforce the Transaction Documents against the Buyer; (f) each natural person executing any of the Transaction Documents is legally competent; (g) all signatures are genuine, the Transaction Documents submitted to us as originals are authentic and the Transaction Documents submitted to us as copies conform to the originals; (h) all Transaction Documents are complete or will be appropriately completed (including, without limitation, all amendments and exhibits thereto); (i) any certifications dated prior to Closing remain true as of Closing; (j) there has not been any mutual mistake of fact or misunderstanding, fraud, duress or undue influence; (k) the conduct of the parties to the Transaction Documents has complied with any requirement of good faith, fair dealing and conscionability; (l) the Other Parties and any agent acting for the Other Parties in connection with the Transaction have acted in good faith and without notice of any defense against the enforcement of any rights created by, or adverse claim to any property or security interest transferred or created as part of, the Transaction Documents; (m) there are no agreements or understandings among the parties, written or oral, and there is no usage of trade or course of prior dealing among the parties that would, in either case, define, supplement or qualify the terms of the Transaction Documents; (n) the Buyer hold the requisite title and rights to any property involved in the transactions contemplated by the Transaction Documents; and (o) the Buyer will obtain all permits and governmental approvals required, and take all actions similarly required, relevant to consummation of the Transaction Documents or performance of the Transaction Documents.

3. We also assume that if the consent of any other person or entity is required to the assignment of any contract, agreement, instrument, lease, license, permit, warranty or approval, that such consent has been received and such consent was given by the person or entity required

and properly authorized to grant such consent. We note that we have no actual knowledge of the occurrence of any of the matters described in clauses (j) or (m), above, nor do we have any actual knowledge that any of the parties to the Transaction Documents have not complied with the requirement of good faith, fair dealing, and conscionability as assumed by clauses (k) or (l), above. We have not made any independent investigation or inquiry concerning the business or financial condition of the Buyer or concerning the operation, management, use or other dealings with the property of the Buyer.

4. Our opinions are subject to: (i) the effect of applicable bankruptcy, insolvency, reorganization, arrangement, moratorium, fraudulent transfer or fraudulent conveyance and other similar laws affecting creditor's rights generally; and (ii) limitations imposed by equitable doctrines, including without limitation, limitations upon the specific enforceability of provisions of the Transaction Documents, concepts of materiality, reasonableness (including commercial reasonableness of the sale or disposition of collateral), good faith and fair dealing, and the availability of injunctive relief or other equitable remedies (regardless whether considered in a proceeding in equity or at law).

5. We do not express any opinion on any matter not expressly addressed in this letter, and no other opinions should be implied therefrom. The opinions set forth herein are delivered based solely upon the facts, examinations, assumptions and other matters described herein as they exist as of the date hereof, and we have no obligation and disclaim any obligation to modify, supplement or update this opinion letter or otherwise to communicate with you with respect to events, changes in facts, law or matters which occur or come to our attention after the date hereof. This letter expresses our legal opinions as to matters set forth herein based on our professional judgment on the date hereof and is not to be construed as a guaranty or a warranty as to any legal or factual matter or that a court considering such matters would not rule in a manner contrary to the opinions expressed herein.

This opinion is delivered only to you in connection with the transactions referred to above and is solely for your benefit, and may be relied upon only by you. This opinion may not be relied upon by, nor copies delivered to, any other person without our express prior written consent; provided, however, that copies may be delivered to your counsel. This opinion letter is provided as a legal opinion only and not as a guarantee or warranty of the matters discussed herein. This opinion letter is given as of the date hereof and we undertake no obligation, and hereby disclaim any obligation, to update or supplement this opinion in response to a subsequent change in the law or future events affecting the Buyer or the transactions contemplated by the Transaction Documents.

Respectfully Submitted,

EXHIBIT H

FORM OF OPINION OF COUNSEL TO SELLER

[DATE]

Florence Municipal Property Corporation
Florence, AZ

$[_____]
The Industrial Development Authority of the City of Phoenix, Arizona
Water and Sewer Revenue Bonds
(Florence Water Company Project)
Series 2014

Ladies and Gentlemen:

We have acted as counsel to Johnson Utilities, L.L.C., an Arizona limited liability company (the "Seller") and Southwest Environmental Utilities, L.L.C., an Arizona limited liability company (the "Manager") in connection with (a) the Asset Purchase and Lease Agreement, dated as of [____], 2014 (the "Sale Agreement") by and between the Seller and Florence Municipal Property Corporation (the "Buyer"), an Arizona non-profit public benefit corporation formed on behalf of the Town of Florence, Arizona (the "Town"), and (b) the Management Agreement, dated as of [_____], 2014 between the Buyer and the Manager. This opinion is delivered to you pursuant to Section 3.02(f) of the Sale Agreement.

In rendering this opinion, we have reviewed an executed copy of each of the following documents (collectively, the "Organizational Documents"):

(a) Articles of Organization of the Seller dated [_____], as certified by the Arizona Secretary of State, and the Bylaws of the Seller, certified by an authorized officer of Seller, dated [_____];

(b) Articles of Organization of the Manager dated [_____], as certified by the Arizona Secretary of State, and the Bylaws of the Manager, certified by an authorized officer of the Manager, dated [_____];

(c) Certificates of Existence issued [_____], by the Arizona Secretary of State for Seller and Manager.

We have also reviewed an executed copy of each of the following documents (collectively, the "Transaction Documents"):

(a) the Sale Agreement executed by the Seller;

(b) the Management Agreement executed by the Manager;

(c) the Officer's Certificates of the appropriate officers or authorized representatives of the Seller and the Manager, certifying that (i) each covenant and agreement of the Seller and the Manager to be performed prior to or as of the Closing pursuant to the Sale Agreement and the Management Agreement has been performed, (ii) each representation and warranty of the Seller and the Manager is true and correct on the Closing Date, as if made on and as of the Closing, and (iii) the resolutions of the Seller and the Manager attached thereto authorizing and approving execution of the Sale Agreement and the Management Agreement and performance of the transactions contemplated thereby;

(d) the Incumbency Certificate of the appropriate officers or authorized representatives of the Seller and the Manager; and

In addition, we have reviewed such matters of law as we have deemed necessary for the rendering of the opinions contained herein.

In rendering the following opinions, we have assumed and relied upon (i) the genuineness of all signatures (other than the Seller and the Manager); (ii) the authenticity and completeness of all documents submitted to us as originals and the conformity to original documents of all documents submitted to us as PDF, electronic, certified or photostatic copies; (iii) the accuracy and completeness of all the Organizational Documents of the Seller and the Manager made available to us; (iv) there has not been any mutual mistake of fact or misunderstanding, fraud, duress, criminal activity or undue influence; (v) the conduct of all the parties and their respective agents has complied with any requirement of good faith and fair dealing; (vi) there are no agreements or understandings among the parties to the Transaction Documents, written or oral, and there is no usage of trade or course of prior dealings among the parties that would, in either case, define, supplement or otherwise qualify the terms and conditions of the Transaction Documents; (vii) the constitutionality or validity of a relevant statute, rule, regulation or agency action is not at issue unless a reported decision in the State of Arizona has specifically addressed, but not resolved, or has established, its unconstitutionality or invalidity; (viii) all parties (other than the Seller and the Manager) have the power, authority and capacity to execute, deliver and perform the Transaction Documents and that there are no facts or circumstances relating to you that might prevent you from enforcing any of the rights to which our opinion relates; (ix) the enforceability of the Transaction Documents against all parties other than the Seller and the Manager; (x) each party to the Transaction Documents (other than the Seller and the Manager) has satisfied the legal requirements which are applicable to it to the extent necessary to make the Transaction Documents enforceable against it; (xi) no party to the Transaction Documents will in the future take any discretionary action (including any decision not to act) permitted under the Transaction Documents which would result in a violation of law or constitute a breach or default under any agreements, other than the Transaction Documents, to which any party to the Transaction Documents is a party or by which its property is bound, or under any court, arbitrator or administrative order, writ, judgment, or decree that names any party to the Transaction Documents and is specifically directed to its property; (xii) all parties will act in accordance with, and refrain from taking any action which is forbidden by, the terms and conditions of the Transaction Documents and that you will perform all of your obligations under

the Transaction Documents; and (xiii) adequate consideration at law has been paid under the Transaction Documents.

We have not conducted any other investigation to confirm any facts set forth in the Organizational Documents and in the Transaction Documents and the other documents called forth therein, and we have not conducted any independent investigation to confirm the facts upon which the opinions set forth herein are based.

Based solely upon the foregoing and subject to the assumptions, qualifications and limitations herein stated, we are of the opinion that:

1. The Seller is a limited liability company organized, validly existing and in good standing under the laws of the State of Arizona.

2. The Manager is a limited liability company organized, validly existing and in good standing under the laws of the State of Arizona.

3. The Seller has the power and authority to execute and deliver the Transaction Documents to which it is a party, to consummate the transactions contemplated thereby and to perform its obligations thereunder.

4. The Manager has the power and authority to execute and deliver the Transaction Documents to which it is a party, to consummate the transactions contemplated thereby and to perform its obligations thereunder.

5. The execution and delivery by the Seller of the Transaction Documents to which the Seller is a party, the consummation by the Seller of the transactions contemplated by such Transaction Documents and the performance of the Seller's obligations therein have been duly authorized and/or ratified by all necessary limited liability company action of the Seller.

6. The execution and delivery by the Manager of the Transaction Documents to which the Manager is a party, the consummation by the Manager of the transactions contemplated by such Transaction Documents and the performance of the Manager's obligations therein have been duly authorized and/or ratified by all necessary limited liability company action of the Manager.

7. The Transaction Documents to which the Seller is a party have been duly executed and delivered by the Seller and constitute the valid and legally binding obligations of the Seller, enforceable against the Seller in accordance with their respective terms.

8. The Transaction Documents to which the Manager is a party have been duly executed and delivered by the Manager and constitute the valid and legally binding obligations of the Manager, enforceable against the Manager in accordance with their respective terms.

9. No consent or action of, or filing or registration with, any governmental or public regulatory body or authority is required to authorize, or is otherwise required in connection with either the execution and delivery by the Seller of the Transaction Documents to which it is a

party or the incurrence by the Seller of its obligations under the Transaction Documents to which it is a party, except as may be have been obtained, made or taken prior to the date hereof.

10. No consent or action of, or filing or registration with, any governmental or public regulatory body or authority is required to authorize, or is otherwise required in connection with either the execution and delivery by the Manager of the Transaction Documents to which it is a party or the incurrence by the Manager of its obligations under the Transaction Documents to which it is a party, except as may be have been obtained, made or taken prior to the date hereof.

11. The execution and delivery of the Transaction Documents by the Seller to which it is a party do not, and the compliance with the terms of the Transaction Documents to which it is a party will not (A) result in a violation of the Seller's Organizational Documents, (B) result in a breach of or default under any agreements or instruments (other than the Transaction Documents) to which the Seller is a party, except for those agreements with respect to which any breach, default or violation thereof in the aggregate would not have a material adverse effect on the Seller or the ability of the Seller to perform its obligations under the Transaction Documents to which it is a party; or (C) result in any violation of any applicable Federal or State of Arizona law or statute, rule or regulation to which the Seller is subject, or any judgment, order, writ, injunction or decree of any court or other tribunal located in the State of Arizona directed against and naming the Seller, except where any such violations in the aggregate would not have a material adverse effect on the Seller, or the ability of the Seller to perform its obligations under the Transaction Documents to which it is a party.

12. The execution and delivery of the Transaction Documents by the Manager to which it is a party do not, and the compliance with the terms of the Transaction Documents to which it is a party will not (A) result in a violation of the Manager's Organizational Documents, (B) result in a breach of or default under any agreements or instruments (other than the Transaction Documents) to which the Manager is a party, except for those agreements with respect to which any breach, default or violation thereof in the aggregate would not have a material adverse effect on the Manager or the ability of the Manager to perform its obligations under the Transaction Documents to which it is a party; or (C) result in any violation of any applicable Federal or State of Arizona law or statute, rule or regulation to which the Manager is subject, or any judgment, order, writ, injunction or decree of any court or other tribunal located in the State of Arizona directed against and naming the Manager, except where any such violations in the aggregate would not have a material adverse effect on the Manager, or the ability of the Manager to perform its obligations under the Transaction Documents to which it is a party.

13. There is no action, suit, proceeding, inquiry or investigation at law or in equity or by or before any governmental instrumentality or other agency pending or, to our knowledge, now threatened against or affecting the Seller or the Manager or to which the Seller or the Manager are or may be a party or to which the property of the Seller or the Manager is or may be subject, wherein an unfavorable decision, ruling or finding would adversely affect: (i) the existence or organization of the Seller or Manager or the title to office of any officer of the Seller or the Manager or any power of the Seller or Manager; (ii) the validity or enforceability of the proceedings taken by the Seller and the Manager for the authorization, execution and delivery by

the Transaction Documents to which each is a party; (iii) the validity or enforceability of the Transaction Documents; or (iv) the transactions contemplated by the Transaction Documents.

Our opinions are based on the assumptions (upon which we have relied with your consent) and subject to the qualifications and limitations, set forth in this letter, including the following:

1. For purposes of rendering the opinions set forth herein, we have assumed that the Transaction Documents are governed and interpreted by the laws of the State of Arizona. We express no opinion whatsoever with respect to any rules of choice or conflicts of laws.

2. We have assumed for purposes of this opinion that: (a) the parties to the Transaction Documents other than the Seller or the Manager (the "Other Parties") are duly organized, validly existing and in good standing with full power and authority to enter into, execute, deliver and perform the Transaction Documents and their respective obligations thereunder; (b) the Transaction Documents have been duly authorized by the Other Parties and the Other Parties have duly executed and delivered the Transaction Documents to which they are signatories; (c) the Other Parties have satisfied those legal requirements that are applicable to each of them to the extent necessary to make the Transaction Documents enforceable against each of them; (d) any contracts, agreements, or instruments to which the Other Parties are a party or by which its or their property is bound, other than the Transaction Documents, will be enforced as written (e) the Other Parties have complied with all legal requirements pertaining to each of their status as such status relates to their rights to enforce the Transaction Documents against the Seller or the Manager; (f) each natural person executing any of the Transaction Documents is legally competent; (g) all signatures are genuine, the Transaction Documents submitted to us as originals are authentic and the Transaction Documents submitted to us as copies conform to the originals; (h) all Transaction Documents are complete or will be appropriately completed (including, without limitation, all amendments and exhibits thereto); (i) any certifications dated prior to Closing remain true as of Closing; (j) there has not been any mutual mistake of fact or misunderstanding, fraud, duress or undue influence; (k) the conduct of the parties to the Transaction Documents has complied with any requirement of good faith, fair dealing and conscionability; (l) the Other Parties and any agent acting for the Other Parties in connection with the Transaction have acted in good faith and without notice of any defense against the enforcement of any rights created by, or adverse claim to any property or security interest transferred or created as part of, the Transaction Documents; (m) there are no agreements or understandings among the parties, written or oral, and there is no usage of trade or course of prior dealing among the parties that would, in either case, define, supplement or qualify the terms of the Transaction Documents; (n) the Seller and the Manager hold the requisite title and rights to any property involved in the transactions contemplated by the Transaction Documents; and (o) the Seller will obtain all permits and governmental approvals required, and take all actions similarly required, relevant to consummation of the Transaction Documents or performance of the Transaction Documents.

3. We also assume that if the consent of any other person or entity is required to the assignment of any contract, agreement, instrument, lease, license, permit, warranty or approval, that such consent has been received and such consent was given by the person or entity required and properly authorized to grant such consent. We note that we have no actual knowledge of the

occurrence of any of the matters described in clauses (j) or (m), above, nor do we have any actual knowledge that any of the parties to the Transaction Documents have not complied with the requirement of good faith, fair dealing, and conscionability as assumed by clauses (k) or (l), above. We have not made any independent investigation or inquiry concerning the business or financial condition of the Seller or concerning the operation, management, use or other dealings with the property of the Seller or the Manager.

4. Our opinions are subject to: (i) the effect of applicable bankruptcy, insolvency, reorganization, arrangement, moratorium, fraudulent transfer or fraudulent conveyance and other similar laws affecting creditor's rights generally; and (ii) limitations imposed by equitable doctrines, including without limitation, limitations upon the specific enforceability of provisions of the Transaction Documents, concepts of materiality, reasonableness (including commercial reasonableness of the sale or disposition of collateral), good faith and fair dealing, and the availability of injunctive relief or other equitable remedies (regardless whether considered in a proceeding in equity or at law).

5. We do not express any opinion on any matter not expressly addressed in this letter, and no other opinions should be implied therefrom. The opinions set forth herein are delivered based solely upon the facts, examinations, assumptions and other matters described herein as they exist as of the date hereof, and we have no obligation and disclaim any obligation to modify, supplement or update this opinion letter or otherwise to communicate with you with respect to events, changes in facts, law or matters which occur or come to our attention after the date hereof. This letter expresses our legal opinions as to matters set forth herein based on our professional judgment on the date hereof and is not to be construed as a guaranty or a warranty as to any legal or factual matter or that a court considering such matters would not rule in a manner contrary to the opinions expressed herein.

This opinion is delivered only to you in connection with the transactions referred to above and is solely for your benefit, and may be relied upon only by you. This opinion may not be relied upon by, nor copies delivered to, any other person without our express prior written consent; provided, however, that copies may be delivered to your counsel. This opinion letter is provided as a legal opinion only and not as a guarantee or warranty of the matters discussed herein. This opinion letter is given as of the date hereof and we undertake no obligation, and hereby disclaim any obligation, to update or supplement this opinion in response to a subsequent change in the law or future events affecting the Seller, the Manager or the transactions contemplated by the Transaction Documents.

Respectfully Submitted,

EXHIBIT I

SCHEDULE OF REAL ESTATE

Wells	
Name	Assessor Parcel No.
Silverado Well No. 1	210-34-022C
Anthem No 3	211-01-003
Johnson Ranch 5	210-20-005
Circle Cross 1	210-07-001H2
Morning Sun Farms Well 1	509-02-002L
Pecan WRP Monitor Well	104-22-008D
Pecan WRP Monitor Well 2	104-22-008D
Oasis 1	200-75-2590
Oasis 2	200-24-089B
Oasis 3	200-24-089B
San Tan Number 1	509-02-214A
San Tan Number 2	509-02-214A
Rancho Sendero No. 2	211-02-006
Johnson Ranch 7*	210-20-001H
Skyline 1	509-02-028D6
Johnson Ranch 3 *	210-21-004B1
Johnson Ranch 4	210-20-0040
Crestfield Manor 1 - Future	200-13-666A
Crestfield Manor 2 - Future	200-13-666C
Ricke 1	210-36-002D
Ricke 3	210-36-002B
Morning Sun Farms Well 2	509-03-002H
Hardison Well No 1	210-21-002D
Magma well NO. 1	210-40-019C
Maguia Well No 2	210-40-019B
Attaway Well, Section 13	210-12-001D
Rancho Sendero No. 1	211-02-004B
Anthem No. 2	211-01-0080
Anthem No. 4	211-01-0040
Sec11WWTP Mon Well*	200-24-091
Edwards Road 2	210-28-018
Wild Horse 1	200-74-0850
San Tan WRP Monitor Well	509-02-062D3
Anthem No. 1	211-01-0070
Bella Vista Well No. 1	210-23-001J
Ellsworth Well	In Progress
Monterra Wells	In Progress

Water Plants	
Name	Assessor Parcel No.
Silverado Water plant	210-34-022C
San Tan Water Storage	509-02-057B
Circle Cross Water Plant	210-07-001H
Oasis Water Plant	200-24-089A
CAP Pump Station No. 1	210-20-003R
Rancho Sendero Water Plant	211-02-0060
Wild Horse Water Plant	200-74-0850
Edwards Road Water Plant	210-28-001B
Ricke Water Plant	210-36-002D
Morning Sun Farms W. P.	509-03-002H
Bella Vista Water Plant	210-23-001J
Anthem Water Plant	211-01-0070
Johnson Ranch Water Plant	210-20-001J
RO system	210-20-001J

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Lift Stations	
Name	Assessor Parcel No.
Superstition Views	210-64-061B
Circle Cross #1	210-07-005H
Circle Cross #2	509-03-001D
Magma Lift Station	210-38-003B
4D/4F	210-66-951B
Crestfield Manor Lift Station	200-13-666B
Quail Run Lift Station	210-24-452B
Ocotillo Crossing	104-87-152B
Copper Basin #1	210-67-499B
Pecan Station	104-22-008D
Oasis Sunrise	200-24-089B
Rancho Bella Vista North Phase 1	210-71-937D
Laredo Ranch Lift Station	109-27-310B
Cambria Lift Station (the Links)	104-87-073E
Cambria L.S. Upgrade	104-22-040G
Station 4A	210-66-951C
Station Unit 6	210-54-0410
Copper Basin #2	210-73-007B
Morning Sun Farms	509-03-003M
JR Unit 29	210-76-337A
14-52B Lift Station	210-66-951C
Meadow Vista Lift Station	109-21-5050
Magic Ranch Phase III	200-03-5310
Rancho Bella Vista North Phase 2	210-71-937E
Magic Ranch	210-75-516A
Joy Drive Lift Station	109-26-820A
The Parks Lift Station	104-98-1140
Johnson Farms Lift Station	104-22-012L
Archer Meadows Lift Station	104-22-028Y
Ironwood Crossing Lift Station	104-25-002E
Coolidge High School	509-19-7000
Combs School	104-22-7120
San Tan Station	509-02-062D3
Reuse Station	200-24-003D5
Main Station	210-20-0001J
Whitewing	In Process
Belcera	In Process
Mitchell Trail	In Process

Wastewater Reclamation Plants	
Name	**Assessor Parcel No.**
Pecan Water Reclamation Plant	104-22-008M
Section 11 WWTP	200-24-0910
Precision	210-20-003J
San Tan Water Reclamation Plant	509-02-062D
Anthem WRP	211-02-0050
Copper Basin	210-25-002B
Oasis Golf Course	
Name	**Assessor Parcel No.**
Oasis Golf Course	200-24-090
Oasis Golf Course	200-24-089B

EXHIBIT J

PERSONAL PROPERTY

Vehicles		
YEAR	MODEL	VIN #
2013	Chevy Silv 4X4	1GCNKPEAXDZ163542
2013	Chevy Sil	1GCNCPEX7DZ139829
2013	Chevy Sil	1GCNKPEA6DZ122373
2013	Chevy Sil	1GCNCPEXXDZ137699
2012	Chevy Tahoe	1GNSCCE03CR151206
2012	Chevy Silv 4X2	1GCNCPEX8CZ351248
2004	Ford (Explorer) 4DSW	1FMZU64K34ZB34167
2003	INT'L 430 TK	1HTMMAAL53H594937
2001	Chevy Van	1GCHG35R111138049
1997	Ford FT8000/ Crane	1FDZU82EXVVA28834
1999	Dodge 1 TN P/U (RAM)	1B7MC3361XJ649823
2003	Chevy S-10	1GCCS14H038243181
2011	Chevy Colorado	1GCCCSBF91B8131208
2011	Chevy Colorado	1GCCCSBF98B2131156
2003	Chevy Colorado	1GCEC14V43Z350479
2004	Chevy Silverado	1GCEK14V54Z179844
2005	Chevy Colorado	1GCCS148958171593
2005	Chevy Colorado	1GCCS148158171801
2005	Chevy Colorado	1GCEC14XX5Z30110
2005	Chevy Colorado	1GCEC14X15Z300630
2006	Chevy Tahoe	1GNEK13ZX6J124092
2006	Chevy Tahoe Z71	1GNEK13T56R125051
2007	Ford Ranger	1FTYR10U77PA49120
2011	Chevy Colorado	1GCCSBF99B8131733
2008	Ford F150	1FTRF12268KB81941

Equipment List	
Item Description	ID No.
Safety Tripod Winch and Cable	04922W
TL 6035 Forklift	60467-CVC
6" Trash Pump	G6HJ100911
Massey Ferguson Tractor 263 (0000HO6131)	268740
Godwin 6" Dri-Prime Pump Model DC150M	0332772-17
Auger Post Hole Digger	GCABT-2077980
Honda Generator	EG 3500
Ramset Gun/ Powder activated	F467136
Saw Drill	A1__604501949
Drill	D091402479
Concrete Vibrator	0310-0067/WSD1
Nail Gun	132740__033
Auger & Bit	140C8
Cement Drill	316090
Topcon Rotating Laser	RT-SSA
Theodolite Surveying Equip	N/A
Magnum Power Piston (paint spayer)	BA114003
Trailer Jet unit	
Spectra Presision Laser LL300	S/N # 10035435
Sokkia B20 Automatic Level	N/A

Club at Oasis Equipment	
Item Description	Serial Number
Toro groundmaster 4500-D	30856-27000088
Toro Ground 3500-D	80839-270000816
John Deere 3235C # 29D0049	TC3235CO20653
John Deere 3235C # 2XD034	TC3235CO30323
John Deere 2500 Green Mower 11 Blade	TC2500D030521
John Deere 2500 Green Mower 11 Blade	TC2500D020124
John Deere 2500 Green Mower 8 Blade	TC250AD020630
Toro Workman 3300	07212-230000670
Club Car	RG0240-209521
Club Car	RG0431-412650
Express Dual 3000 reel Grinder	13252
Angmaster 3000 Bedknife Grinder	13253
Toro Sand Pro 5020	0886-210000255
John Deere RC2072 Rotary Deck Mower	
Massey Ferguson Tractor 263	5726E37454
EZ-Go Work Horse Utility Cart	1168708
John Deere Gator	M00TURF00844
John Deere Gator	
Lely Fertilizer Spreader	10Z13-134
Ryan Vert-cutter	507798
Ryan Vert-cutter	508450
Ryan Vert-cutter	508095
Hover Mower	GJAFE4164957
Hover Mower	GJAFE4164985
Air Compressor	101048
Welder	9227-704
Lawn Mower	5B5XG / 158VG
Slit Seeder	82120 / 2366
Edger	CAN006662862
Sod Cutter	5448448210
Hedge Trimmer	286900327
Chain Saw	290880369
Weedeater	T42512005560
Weedeater	T42512017164
Weedeater	T42512005572
Weedeater	T42512005541
400 Gallon Sprayer	No s/n
Cold Water Pressure Washer # EP-30115A	11060270-100367
Hot Water Pressure Washer # 11090330	11090330-169806
Yamaha 48 Volt & Charger	1073129
Yamaha 48 Volt & Charger	1194384
Yamaha 48 Volt & Charger	1386894
Yamaha 48 Volt & Charger	1489156
Yamaha 48 Volt & Charger	1073136
Yamaha 48 Volt & Charger	1194388

Yamaha 48 Volt & Charger	1489155
Yamaha 48 Volt & Charger	1012863
Yamaha 48 Volt & Charger	1386893
Yamaha 48 Volt & Charger	1104375
Yamaha 48 Volt & Charger	1194387
Yamaha 48 Volt & Charger	1073137
Yamaha 48 Volt & Charger	1194371
Yamaha 48 Volt & Charger	1386890
Yamaha 48 Volt & Charger	1489157
Yamaha 48 Volt & Charger	1073128
Yamaha 48 Volt & Charger	1489160
Yamaha 48 Volt & Charger	1073132
Yamaha 48 Volt & Charger	1194378
Yamaha 48 Volt & Charger	1194372
Yamaha 48 Volt & Charger	1194374
Yamaha 48 Volt & Charger	1194383
Yamaha 48 Volt & Charger	1194370
Yamaha 48 Volt & Charger	1489163
Yamaha 48 Volt & Charger	1194386
Yamaha 48 Volt & Charger	1194367
Yamaha 48 Volt & Charger	1489154
Yamaha 48 Volt & Charger	1386892
Yamaha 48 Volt & Charger	1073134
Yamaha 48 Volt & Charger	1194381
Yamaha 48 Volt & Charger	1194373
Yamaha 48 Volt & Charger	1238576
Yamaha 48 Volt & Charger	1194380
Yamaha 48 Volt & Charger	1238573
Yamaha 48 Volt & Charger	1194369
Yamaha 48 Volt & Charger	1386891
EZ Go Carts & Charges	122-9290
EZ Go Carts & Charges	122-9293
EZ Go Carts & Charges	122-9288
EZ Go Carts & Charges	122-9296
EZ Go Carts & Charges	122-9287
EZ Go Carts & Charges	122-9289
EZ Go Carts & Charges	122-9295
Club Cars	PH0910-007334
Club Cars	PH0910-007331
Club Cars	PH0910-007373
Club Cars	PH0910-007480
Club Cars	PH0910-007330

EXHIBIT K

PROPRIETARY RIGHTS

- ARIZONA DEPARTMENT OF ENVIRONMENTAL QUALITY AQUIFER PROTECTION PERMITS FOR THE PECAN, SAN TAN, ANTHEM, AND SECTION 11 WASTEWATER TREATMENT PLANTS
- ARIZONA DEPARTMENT OF WATER RESOURCES DESIGNATION OF ASSURED WATER SUPPLY FOR THE PHOENIX AND PINAL ACTIVE MANAGEMENT AREAS
- CENTRAL ARIZONA GROUNDWATER REPLENISHMENT AGREEMENT
- CENTRAL ARIZONA GOVERMENTS 208 PLAN
- PINAL COUNTY FRANCHISE AGREEMENTS
- TOWN OF FLORENCE OPERATING AGREEMENTS

EXHIBIT L

LISTING OF CONTRACTS

- FINAL COUNTY FRANCHISE AGREEMENT
- TOWN OF FLORENCE OPERATING AGREEMENT
- CENTRAL ARIZONA GROUNDWATER REPLENISHMENT DISTRICT REPLENISHMENT AGREEMENT
- ARIZONA STATE LAND DEPARTMENT SPECIAL LAND USE PERMIT
- CENTRAL ARIZONA SOLID WASTE BILLING AGREEMENT
- STATE LAND DEPARTMENT RIGHT OF WAY AGREEMENTS
- CENTRAL ARIZONA WATER CONSERVATION DISTRICT LAND USE LICENSES

JOHNSON UTILITIES POLICIES 2013-2014

Policy coverage	Policy Number	Term Dates	Insurance Company
Package: GL /Property/Auto	PHPK1016444	05/06/13 to 06/01/14	Philadelphia Insurance
Umbrella	PHPK643317	05/06/13 to 06/01/14	Philadelphia Insurance
Pollution	PHPK643317	11/09/10 to 06/01/14	Philadelphia Insurance
Solar	59MSKM4948	04/30/14 to 04/30/14	Hartford Insurance
Work Comp	N50890	01/16/14 to 01/16/15	SCF Indemnity
Group Medical	30106	06/01/13to 06/01/14	Blue cross / Blue Shield
Group Dental	01H5760GDEN	06/01/13 to 06/01/14	United Health Care
Group Life	C3981404	05/01/13 to 05/01/14	Colonial Life & Acc
Group Vision	9787748	05/01/13 to 05/01/14	Fidelity Security Life

THE CLUB AT OASIS LLC POLICIES 2013-2014

Policy coverage	Policy Number	Term Dates	Insurance Company
Package: GL/Property	CLP958867410	12/16/13 to 12/16/14	Central Mutual
Umbrella	CXS958867510	12/16!3 to 12/16/14	Central Mutual

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Master Utility/Offsite Facilities Hookup Fee Agreements

Date	Subdivision
4/12/2005	Anthem at Merrill Ranch
11/1/2007	Arizona Farms
2/28/2007	Bella Villagio
11/1/2007	Bella Vista Section 23
10/30/2009	Borgata at Hunt Highway
10/26/2009	Borgata Professional Plaza
12/19/2006	Caballero
6/7/2002	Circle Cross Ranch I
10/14/2004	Circle Cross Ranch II
6/27/2005	Circle Cross Ranch IIB
3/10/2002	Copper Basin
3/22/2005	Crestfield Manor @ Arizona Farms Village
2/8/2005	Felix Farms
5/20/2005	Heritage Estates
9/17/1999	Johnson Ranch
10/21/2004	Laredo Ranch
8/15/2005	Magic Ranch, Parcel G and Portions of K & F and Unit 2
11/1/2004	Magic Ranch, Parcels B & C
11/18/2005	Magma Ranch I
8/11/2005	Magma Ranch II
4/13/2004	Sonoran Villages
2/2/2009	Merrill Ranch
3/10/2006	Mesquite Trails
5/22/2003	Morning Sun Farms
11/1/2007	Paloroso Aspen Farms
6/12/2013	Quail Ranch
4/21/2005	Quail Run
4/8/2003	Rancho Bella Vista
4/12/2006	Salita del Sol @ San Tan
5/10/2001	San Tan Heights
5/31/2007	San Tan Shadows
8/20/2013	Sherwood Park
9/7/2006	SILVERADO RANCH
2/9/2004	Skyline Ranch
1/25/2007	Skyview Farms
2/1/2003	Superstition Views
9/31/2005	The Palms at Magic Ranch
2/21/2012	The Village at Magic Ranch
5/25/2005	Trailside Village aka Ocotillo Trails
2/1/2001	Wildhorse Estates
4/30/2006	Belcara at Pima Road
9/11/2006	Borgata Village Phase 1
1/20/2006	Ironwood Crossing
12/28/2006	Johnson Farms
1/26/2005	Milagro
10/17/2002	Pecan Estates
1/26/2005	Taylor Ranch
11/3/2004	Vineyard Estates
11/11/2004	Wayne Ranch
3/3/2014	Johnson Ranch Estates
3/7/2014	Ironwood 80

Water Line Extension Agreements

Date	Subdivision
08/12/13	American Leadership Academy Charter School - Florence
02/23/07	Anthem Market Place at Merrill Ranch
07/31/06	Unit 2 Anthem at Merrill Ranch
10/27/06	Unit 3 Anthem at Merrill Ranch
07/31/06	Unit 4 Anthem at Merrill Ranch
10/27/06	Unit 5 Anthem at Merrill Ranch
07/31/06	Unit 6 Anthem at Merrill Ranch
10/27/06	Unit 7 Anthem at Merrill Ranch
07/31/06	Unit 8 Anthem at Merrill Ranch
10/27/06	Unit 9 Anthem at Merrill Ranch
07/31/06	Unit 10 Anthem at Merrill Ranch
07/31/06	Unit 11 Anthem at Merrill Ranch
07/31/06	Unit 12 Anthem at Merrill Ranch
07/31/06	Unit 13 Anthem at Merrill Ranch
12/08/06	Unit 14 Anthem at Merrill Ranch
07/31/06	Unit 15 Anthem at Merrill Ranch
07/28/08	Unit 17 Anthem at Merrill Ranch
12/28/09	Unit 18 Anthem at Merrill Ranch
07/31/06	Unit 19 Anthem at Merrill Ranch
01/09/09	Unit 20 Anthem at Merrill Ranch
07/31/06	Unit 21 Anthem at Merrill Ranch
07/31/06	Unit 23 Anthem at Merrill Ranch
07/31/06	Unit 25 Anthem at Merrill Ranch
09/12/06	Unit 27 Anthem at Merrill Ranch
09/01/06	Unit 29 Anthem at Merrill Ranch
01/09/09	Unit 35A Anthem at Merrill Ranch
01/09/09	Unit 37 Anthem at Merrill Ranch
09/12/06	Unit 39 Anthem at Merrill Ranch
01/09/09	Unit 40 Anthem at Merrill Ranch
04/29/08	Unit 50 Anthem at Merrill Ranch
05/29/08	Unit 54 Anthem at Merrill Ranch
02/28/07	Bella Villagio
10/30/09	Borgata at Hunt Highway (Retail)
08/24/07	Borgata at San Tan; Unit 1
10/26/09	Borgata Professional Plaza
10/22/12	Central AZ College (San Tan Campus) and Bella Vista Farms Offsite Agreement
08/28/12	Central AZ College (San Tan Campus), Phase 1
06/07/02	Circle Cross Ranch; Phase 1; Parcels 1 & 4; portions of 2 & 5 (Laramie)
06/07/02	Circle Cross Ranch; Phase 1; Parcels 3 & 6; portions of 2 & 5 (2 & 5 = Laramie; 3 = Silverado
10/18/04	Circle Cross Ranch; Phase 2; Parcel 6-B
10/18/04	Circle Cross Ranch; Phase 2; Parcel 7
10/18/04	Circle Cross Ranch; Phase 2; Parcel 8
10/18/04	Circle Cross Ranch; Phase 2; Parcel 9
10/18/04	Circle Cross Ranch; Phase 2; Parcel 10
10/18/04	Circle Cross Ranch; Phase 2; Parcel 11

10/18/04	Circle Cross Ranch; Phase 2; Parcel 14
10/18/04	Circle Cross Ranch; Phase 2; Parcel 15
06/28/05	Circle Cross Ranch; Phase 2B; Parcel 12
06/28/05	Circle Cross Ranch; Phase 2B; Parcel 13
06/28/05	Circle Cross Ranch; Phase 2B; Parcel 16
06/28/05	Circle Cross Ranch; Phase 2B; Parcel 17
06/28/05	Circle Cross Ranch; Phase 2B; Parcel 18
06/28/05	Circle Cross Ranch; Phase 2B; Parcel 19
06/28/05	Circle Cross Ranch; Phase 2B; Parcel 20
06/28/05	Circle Cross Ranch; Phase 2B; Parcel 21
04/28/06	Copper Basin; Phase 1, Parcels A, B, C, D
10/01/02	Copper Basin; Phase 2
01/13/04	Copper Basin (Villages at); Phase 3A (split 4/28/06 from Unit 3)
01/13/04	Copper Basin (Villages at); Phase 3B (split 4/28/06 from Unit 3)
12/22/04	Copper Basin (Villages at); Phase 4
02/01/06	Copper Basin (Villages at); Phase 5A
04/10/08	Copper Basin, Village - Unit 5B
03/21/05	Crestfield Manor @ AZ Farms Village
09/06/05	Felix Farms
03/04/08	Florence High School
12/08/05	Heritage Estates
10/01/00	Mutschler, J. Jay (Mutschler 5 acres)
01/31/99	Rose Ross - See Contract # 2017
07/01/99	Ellis, David & Nancy J.
04/10/03	Rimrock Financial, Inc.
10/31/02	Montana Resources LLC
03/17/04	Kimpel, Robert & Lynn
05/04/04	Legler, Justin
05/18/04	Chamberlin, Randy (KEM Homes, Inc)
06/03/04	Maurer, Mark
07/27/04	Brennan, Lupita
06/18/04	Turcotte, David
06/23/04	Diamante Homes, Inc.
08/02/04	Call Builders
09/29/04	CBC incorporated
09/30/04	Kent, Joel and Pat
12/13/04	Schamac Custom Homes (W. Todd Schafer)
08/18/05	WJB Construction
03/10/05	Grant, Kelly & Mary
03/14/05	Turcotte, David (These 3 in one file)
04/04/05	Bell, Mark and Jody
04/19/05	Taylor, Scott (Astoria Homes Inc)
05/03/05	Quintana Hill Estates
09/08/05	Neilson, Pat
09/09/05	Cannon, Tom
09/19/05	Turcotte, David
09/26/05	Davis, Greg

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09/20/05	Fortuna, Dawn & David
01/31/06	Hundley, Sterling
12/15/05	Rounds, Rob
07/20/06	Kempton, Mitch
06/14/06	Gary 1, LLC
06/29/06	Whiting, Ken
08/24/06	Call Builders L.L.C. - Lots 46 & 47
10/20/06	Flores, Javier
11/17/06	Mendoza, Luis & Rosie
12/20/06	Colone, Cris
12/20/06	Plote, Larry
03/14/07	CDLM Properties, L.L.C.
08/15/07	MacPhall, Scott
07/26/07	Cascade Scottsdale at Gilbert
06/25/07	Lee, Tart Sing
07/17/07	Eduprize School
10/23/07	Jones, Spencer & Lindsay
10/23/07	Sundance Development, LLC - (20 acres)
05/08/08	Pierce, Brandon
11/27/07	San Tan Homes, LLC
12/19/07	Kelley Construction
12/04/07	King, David
01/16/08	Kastle Homes
06/05/08	Calvario, Victor
10/09/09	Mullen, Steve
06/18/10	Farnworth, Martin
01/10/12	Augusta Investments, LLC
03/06/14	ELM (Jarel Morrow)
02/24/14	ELM (Jarel Morrow)
12/31/98	Johnson Ranch Golf Course
04/15/04	Johnson Ranch Indigo Sky Blvd. - Construct Utility Plant
03/15/00	Johnson Ranch Unit 1 (24/83= 107) $750.00
12/22/98	Johnson Ranch Unit 2
12/22/98	Johnson Ranch Unit 3A
12/22/98	Johnson Ranch Unit 3B (Fairways)
12/22/98	Johnson Ranch Unit 4A
03/28/00	Johnson Ranch Unit 4B (The Greens)
09/06/01	Johnson Ranch Unit 4D & 04F (2)
03/01/00	Johnson Ranch Unit 5 (Lakeview Gardens)
12/01/09	Johnson Ranch Unit 6 (Equestrian Manor)
03/15/00	Johnson Ranch Unit 7
03/15/00	Johnson Ranch Unit 8
03/15/00	Johnson Ranch Unit 12 (A & B)
03/15/00	Johnson Ranch Unit 13
11/13/03	Johnson Ranch Unit 14/52 Phase 1 (Richmond American)
11/13/03	Johnson Ranch Unit 14/52 Phase 2 (Richmond American)
09/06/01	Johnson Ranch Unit 15

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02/27/03	Johnson Ranch Unit 16 Phase 1
02/27/03	Johnson Ranch Unit 16 Phase 2
02/27/03	Johnson Ranch Unit 16 Phase 3
02/27/03	Johnson Ranch Unit 17 Phase 1
02/27/03	Johnson Ranch Unit 17 Phase 2 & 3
02/27/03	Johnson Ranch Unit 18 Phase 1
02/27/03	Johnson Ranch Unit 18 Phases 2 & 3
04/28/04	Johnson Ranch Unit 19, 43, 44 & 45 (Solera, Phs III)
08/14/02	Johnson Ranch Unit 20 / 21
08/12/03	Johnson Ranch Unit 22A
09/10/03	Johnson Ranch Unit 22B
09/10/03	Johnson Ranch Unit 23A
04/15/04	Johnson Ranch Unit 23B
04/28/04	Johnson Ranch Unit 24
04/28/04	Johnson Ranch Unit 25
06/20/06	Johnson Ranch Unit 26B
04/15/04	Johnson Ranch Unit 27, Phase 1
04/15/04	Johnson Ranch Unit 27, Phase 2
04/15/04	Johnson Ranch Unit 28
08/13/04	Johnson Ranch Unit 29 Phase 2
08/12/03	Johnson Ranch Unit 29, Phase 1
06/20/06	Johnson Ranch Unit 30B
06/20/06	Johnson Ranch Unit 32
07/12/02	Johnson Ranch Unit 34
08/20/03	Johnson Ranch Unit 35 & 36
09/06/01	Rural Metro / Tosco / Unit 36 (Circle "K")
03/31/06	Johnson Ranch Unit 37 & 38
04/15/04	Johnson Ranch Unit 39, 40B, 50; Phase 1
10/02/03	Johnson Ranch Unit 40A, 48 & 49 (Solera, Phs I)
10/02/03	Johnson Ranch Unit 41 & 47 (Solera, Phs I)
04/15/04	Johnson Ranch Unit 42; Phase 2 (Solera)
04/15/04	Johnson Ranch Unit 46; Phase I
04/28/04	Johnson Ranch Unit 51
09/17/04	Magic Ranch Estates; Phase 1
01/22/99	Magic Ranch (Oasis Golf Course)
10/30/06	Magic Ranch (Oasis) - Parcels B and C
04/28/06	Magic Ranch (Oasis) - Parcel CC
06/01/02	Magic Ranch (Oasis) - Phase 3
10/15/01	Magic Ranch (Oasis) - Phase 1, Unit I (Lots 1-137 = 137 lots)
02/20/03	Magic Ranch (Oasis) - Phase 1, Unit 2 (Lots 138-258 = 121 lots)
04/01/04	Magic Ranch (Oasis) - Phase 2, Units 3 & 4
12/08/05	Magic Ranch (Oasis) - Phases 5 & 6
06/01/02	Magic Ranch (Oasis Sunrise) - Phase 1 (Mirage)
07/28/03	Magic Ranch (Oasis Sunrise) - Phase 2 (Mirage)
11/15/05	Magic Ranch Parcel G portions of K and F (Ironhorse at MR)
11/15/05	Magic Ranch Parcel G portions of K and F (Ironhorse at MR)
03/27/06	Magic Ranch - Unit 2

01/09/06	Magic Ranch (The Palms) - Unit 1
01/09/06	Magic Ranch (The Palms) - Unit 2
10/22/12	Magic Ranch (The Village)
11/18/04	Magma Ranch; Phases 1-10
08/23/05	Magma Ranch II; Unit 1
08/23/05	Magma Ranch II; Unit 2 - Parcel 4
08/23/05	Magma Ranch II; Unit 2, Parcel 5
08/23/05	Magma Ranch II; Unit 03
08/23/05	Magma Ranch II; Unit 04
04/13/05	Magma Ranch III AKA Sonoran Villages
05/22/03	Morning Sun Farms & South (Model Lots)
07/19/04	Morning Sun Farms; Phase 1
07/19/04	Morning Sun Farms; Phase 2
08/05/05	Morning Sun Farms; Phase 3
04/13/06	Morning Sun Farms; Phase 4
04/21/05	Quail Run
04/08/03	Rancho Bella Vista; Parcel A
07/26/06	Rancho Bella Vista - Units 2a 2b 2c 3a 3b
10/07/04	Rancho Bella Vista South; Phase 1
10/01/04	Rancho Bella Vista South; Phase 1 (Ryland)
05/01/05	Rancho Bella Vista South; Phase 2 (Ryland)
10/31/05	Rancho Bella Vista South/ Phase 3A
02/28/06	Rancho Bella Vista South; Phase 3B
09/24/04	San Tan Heights; Phase 3; Parcel A-1
09/24/04	San Tan Heights; Phase 3; Parcel A-2
09/24/04	San Tan Heights; Phase 3; Parcel A-3
09/24/04	San Tan Heights; Phase 3; Parcel A-4
09/24/04	San Tan Heights; Phase 3; Parcel A-5
09/24/04	San Tan Heights; Phase 3; Parcel A-6
09/24/04	San Tan Heights; Phase 3; Parcel A-7
09/24/04	San Tan Heights; Phase 3; Parcel A-8
09/24/04	San Tan Heights; Phase 3; Parcel A-9 & Infrastructure
10/21/05	San Tan Heights; Phase 4; Parcel C-6
10/21/05	San Tan Heights; Phase 4; Parcel C-7
10/21/05	San Tan Heights; Phase 4; Parcel C-8
10/21/05	San Tan Heights; Phase 4; Parcel C-9
10/21/05	San Tan Heights; Phase 4; Parcel C-10
10/21/05	San Tan Heights; Phase 4; Parcel C-11
10/21/05	San Tan Heights; Phase 4; Parcel C-12
10/21/05	San Tan Heights; Phase 4; Parcel C-13
07/21/03	San Tan Heights; Phs 2; Parcel A
07/22/03	San Tan Heights; Phs 2; Parcel B
07/23/03	San Tan Heights; Phs 2; Parcel C
07/21/03	San Tan Heights; Phs 2; Parcel D
07/24/03	San Tan Heights; Phs 2; Parcel E
07/25/03	San Tan Heights; Phs 2; Parcel F
07/21/03	San Tan Heights; Phs 2; Parcel I

07/26/03	San Tan Heights; Phs 2; Parcel J
07/27/03	San Tan Heights; Phs 2; Parcel K
10/21/03	San Tan Heights; Phs 2; Parcel L
08/01/02	San Tan Villages Parcel 01
08/01/02	San Tan Villages Parcel 02
08/01/02	San Tan Villages Parcel 03
08/01/02	San Tan Villages Parcel 04
04/09/02	San Tan Villages Parcel 05
04/09/02	San Tan Villages Parcel 06
04/09/02	San Tan Villages Parcel 07
02/07/02	San Tan Villages Parcel 08
02/07/02	San Tan Villages Parcel 09
09/07/06	Silverado Ranch; Unit 1A
09/07/06	Silverado Ranch; Unit 1B
09/07/06	Silverado Ranch; Unit 1C
09/07/06	Silverado Ranch; Unit 1D
09/07/06	Silverado Ranch; Unit 1E
09/07/06	Silverado Ranch; Unit 1F
09/07/06	Silverado Ranch; Unit 1G
09/07/06	Silverado Ranch, Unit 1H
10/01/07	Skyline Ranch Market Place
08/18/04	Skyline Ranch; Phase 1, Parcel A
08/18/04	Skyline Ranch; Phase 1, Parcel B
08/18/04	Skyline Ranch; Phase 1, Parcel C
08/18/04	Skyline Ranch; Phase 1, Parcel D
08/11/04	Skyline Ranch; Phase 2, Parcel A
08/11/04	Skyline Ranch; Phase 2, Parcel B
08/11/04	Skyline Ranch; Phase 2, Parcel C
08/11/04	Skyline Ranch; Phase 2, Parcel D
08/11/04	Skyline Ranch; Phase 2, Parcel E
08/11/04	Skyline Ranch; Phase 2, Parcel F
08/11/04	Skyline Ranch; Phase 2, Parcel G
08/11/04	Skyline Ranch; Phase 2, Parcel H
08/11/04	Skyline Ranch; Phase 2, Parcel I
07/22/13	St. Michael the Archangel Parish Hall
02/01/03	Superstition Views Phase I
08/12/03	Superstition Views Phase II
08/29/08	Superstition Views Phase III
06/05/06	Whitewing at San Tan Magma
12/29/98	Wild Horse Estates Phase 1
04/17/06	Wild Horse Estates Phase 2

Sewer Line Extension Agreement

Date	Subdivision
02/23/07	Anthem Market Place at Merrill Ranch
07/31/06	Unit 2 Anthem at Merrill Ranch
10/27/06	Unit 3 Anthem at Merrill Ranch
07/31/06	Unit 4 Anthem at Merrill Ranch
10/27/06	Unit 5 Anthem at Merrill Ranch
07/31/06	Unit 6 Anthem at Merrill Ranch
10/27/06	Unit 7 Anthem at Merrill Ranch
07/31/06	Unit 8 Anthem at Merrill Ranch
10/27/06	Unit 9 Anthem at Merrill Ranch
07/31/06	Unit 10 Anthem at Merrill Ranch
07/31/06	Unit 11 Anthem at Merrill Ranch
07/31/06	Unit 12 Anthem at Merrill Ranch
07/31/06	Unit 13 Anthem at Merrill Ranch
12/08/06	Unit 14 Anthem at Merrill Ranch
07/31/06	Unit 15 Anthem at Merrill Ranch
07/28/08	Unit 17 Anthem at Merrill Ranch
12/28/09	Unit 18 Anthem at Merrill Ranch
07/31/06	Unit 19 Anthem at Merrill Ranch
01/09/09	Unit 20 Anthem at Merrill Ranch
07/31/06	Unit 21 Anthem at Merrill Ranch
in process	Unit 22A Anthem at Merrill Ranch
in process	Unit 22B Anthem at Merrill Ranch
07/31/06	Unit 23 Anthem at Merrill Ranch
07/31/06	Unit 25 Anthem at Merrill Ranch
09/12/06	Unit 27 Anthem at Merrill Ranch
10/01/06	Unit 29 Anthem at Merrill Ranch
01/09/09	Unit 35A Anthem at Merrill Ranch
01/09/09	Unit 37 Anthem at Merrill Ranch
09/12/06	Unit 39 Anthem at Merrill Ranch
01/09/09	Unit 40 Anthem at Merrill Ranch
04/29/08	Unit 50 Anthem at Merrill Ranch
05/28/08	Unit 54 Anthem at Merrill Ranch
05/14/07	Banner Ironwood Medical Center, Phase I
04/30/06	Belcara at Pima Road
02/28/07	Bella Villagio
08/24/07	Borgata at San Tan Unit 1
10/02/07	Bulk Wastewater Treatment Agreement - ONLY
07/03/07	Castlegate Ward Meeting House
10/22/12	Central AZ College & Bella Vista Farms Comm. Property Offsites
08/28/12	Central AZ College (San Tan Campus)
06/07/02	Circle Cross Parcels 01,02,04,05 - Phase I
06/07/02	Circle Cross Parcels 2,3,5,6 - Phase I
10/18/04	Circle Cross Ranch - Phase II Parcel 06B
10/18/04	Circle Cross Ranch - Phase II Parcel 07
10/18/04	Circle Cross Ranch - Phase II Parcel 08

10/18/04	Circle Cross Ranch - Phase II Parcel 09
10/18/04	Circle Cross Ranch - Phase II Parcel 10
10/18/04	Circle Cross Ranch - Phase II Parcel 11
10/18/04	Circle Cross Ranch - Phase II Parcel 14
10/18/04	Circle Cross Ranch - Phase II Parcel 15
06/28/05	Circle Cross Ranch - Phase IIB Parcel 12
06/28/05	Circle Cross Ranch - Phase IIB Parcel 13
06/28/05	Circle Cross Ranch - Phase IIB Parcel 16
06/28/05	Circle Cross Ranch - Phase IIB Parcel 17
06/28/05	Circle Cross Ranch - Phase IIB Parcel 18
06/28/05	Circle Cross Ranch - Phase IIB Parcel 19
06/28/05	Circle Cross Ranch - Phase IIB Parcel 20
06/28/05	Circle Cross Ranch - Phase IIB Parcel 21
01/23/08	Coolidge High School No. 2 - LS & FM
04/28/06	Copper Basin Unit 1, Parcels A, B, C, D
10/01/02	Copper Basin Unit 2
01/13/04	Copper Basin Unit 3A, Village (split 4/28/06 from 3)
01/13/04	Copper Basin Unit 3B, Village (split 4/28/06 from 3)
12/22/04	Copper Basin, Village - Unit 4
02/01/06	Copper Basin, Village - Unit 5A
04/10/08	Copper Basin, Village - Unit 5B
03/21/05	Crestfield Manor@AZ Farms Village
09/06/05	Felix Farms
03/04/08	Florence High School
11/14/12	Happy Valley East Campus LS/FM
12/08/05	Heritage Estates
12/15/06	Ironwood Crossing Unit 1
12/15/06	Ironwood Crossing Unit 2 (Parcels 1, 2, & 3)
11/17/10	Ironwood Crossing Unit 3A (Parcel 15)
07/26/12	Ironwood Crossing Unit 3B (Parcels 11 & 12)
07/26/12	Ironwood Crossing Unit 3C (Parcels 13 & 14)
10/02/07	J.O. Combs Educational Village
04/15/04	Johnson Ranch Indigo Sky Blvd. - Construct Utility Plant
03/15/00	Johnson Ranch Unit 1 (24/ 83 = 107)
12/22/98	Johnson Ranch Unit 2
12/22/98	Johnson Ranch Unit 3A
12/22/98	Johnson Ranch Unit 3B (Fairways)
12/22/98	Johnson Ranch Unit 4A
03/28/00	Johnson Ranch Unit 4B (The Greens)
09/06/01	Johnson Ranch Units 4D & 4F (2)
03/28/00	Johnson Ranch Unit 5 (Lakeview Gardens)
12/0/99	Johnson Ranch Unit 6 (Equistrian Manor)
03/15/00	Johnson Ranch Unit 7
03/15/00	Johnson Ranch Unit 8
03/15/00	Johnson Ranch Unit 12 (A & B)
03/15/00	Johnson Ranch Unit 13
11/13/03	Johnson Ranch Unit 14/52 Phase 1

11/13/03	Johnson Ranch Unit 14/52 Phase 2
09/06/01	Johnson Ranch Unit 15
02/27/03	Johnson Ranch Unit 16 Phase 1
02/27/03	Johnson Ranch Unit 16 Phase 2
02/27/03	Johnson Ranch Unit 16 Phase 3
02/27/03	Johnson Ranch Unit 17 Phase 1
02/27/03	Johnson Ranch Unit 17 Phase 2 and 3
02/27/03	Johnson Ranch Unit 18 Phase 1
02/27/03	Johnson Ranch Unit 18 Phases 2 & 3
04/28/04	Johnson Ranch Unit 19, 43, 44 & 45
08/14/02	Johnson Ranch Units 20 / 21
08/12/03	Johnson Ranch Unit 22A
09/10/03	Johnson Ranch Unit 22B
09/10/03	Johnson Ranch Unit 23A
04/15/04	Johnson Ranch Unit 23B
04/28/04	Johnson Ranch Unit 24
04/28/04	Johnson Ranch Unit 25
06/20/06	Johnson Ranch Unit 26B
04/15/04	Johnson Ranch Unit 27, Phase 1
04/15/04	Johnson Ranch Unit 27, Phase 2
04/15/04	Johnson Ranch Unit 28
08/12/03	Johnson Ranch Unit 29, Phase 1
08/13/04	Johnson Ranch Unit 29, Phase 2
06/20/06	Johnson Ranch Unit 30B
06/20/06	Johnson Ranch Unit 32
07/12/02	Johnson Ranch Unit 34
08/20/03	Johnson Ranch Units 35 & 36
09/06/01	Johnson Ranch Rural Metro/Tosco Unit 36
03/31/06	Johnson Ranch Unit 37 & 38
04/15/04	Johnson Ranch Unit 39, 40B, 50
10/02/03	Johnson Ranch Unit 40A, 48 & 49
10/02/03	Johnson Ranch Units 41 & 47
04/15/04	Johnson Ranch Unit 42, (Solera, Phs II)
04/15/04	Johnson Ranch Unit 46, Phase 1
04/28/04	Johnson Ranch Unit 51
10/21/04	Laredo Ranch Phase I
10/21/04	Laredo Ranch Phase II
10/21/04	Laredo Ranch Lift Station
01/22/99	Magic Ranch (Oasis Golf Course)
04/28/06	Magic Ranch (Oasis) Parcel CC
06/01/02	Magic Ranch (Oasis Sunrise) - Phase I (Mirage)
07/28/03	Magic Ranch (Oasis Sunrise) - Phase II (Mirage)
02/18/03	Magic Ranch (Oasis) - Phase 1, Unit I (Lots 1-137)
02/18/03	Magic Ranch (Oasis) - Phase 1, Unit 2 (Lots 138-258)
04/01/04	Magic Ranch (Oasis) - Phase 2, Units 3 and 4
12/08/05	Magic Ranch (Oasis) - Phases 5 and 6
11/01/06	Magic Ranch Parcels B and C

09/17/04	Magic Ranch Estates - Unit 1
11/15/05	Magic Ranch Parcel G portions of K and F (Ironhorse)
11/15/05	Magic Ranch Parcel G portions of K and F (Ironhorse)
03/28/06	Magic Ranch - Unit 2
01/09/06	Magic Ranch (The Palms) - Unit 1
01/09/06	Magic Ranch (The Palms) - Unit 2
10/22/12	Magic Ranch (The Village)
11/18/04	Magma Ranch I
08/23/05	Magma Ranch II Unit 1
08/23/05	Magma Ranch II Unit 2, Phase 4
08/23/05	Magma Ranch II Unit 2, Phase 5
08/23/05	Magma Ranch II Unit 3
08/23/05	Magma Ranch II Unit 4
01/26/05	Milagro - Sewer Only
05/22/03	Morning Sun Farms & South (Model Lots)
07/19/04	Morning Sun Farms Phase 1
07/19/04	Morning Sun Farms Phase 2
08/05/05	Morning Sun Farms Phase 3
04/13/06	Morning Sun Farms Unit 4
03/31/08	Ocotillo Crossing
05/25/05	Ocotillo Trails (Trailside Village)
01/02/07	Parks, The (Parcels A & B)
	Parks, The: Offsite Gravity Line (Parcels A & B)
05/15/12	Pecan Creek 1st Meeting House
06/30/06	Pecan Creek South Unit 1
06/30/06	Pecan Creek South Unit 2
06/30/06	Pecan Creek South Unit 3
06/30/06	Pecan Creek South Unit 4
06/30/06	Pecan Creek South Unit 5
06/30/06	Pecan Creek South Unit 6
11/15/02	Pecan Estates - Parcel 1
11/15/02	Pecan Estates - Parcel 2
11/15/02	Pecan Estates - Parcel 3
11/15/02	Pecan Estates - Parcel 4 - SHEA
11/15/02	Pecan Estates - Parcel 5 - SHEA
11/15/02	Pecan Estates - Parcel 6 - FULTON
11/15/02	Pecan Estates - Parcel 7 - SHEA
11/15/02	Pecan Estates - Parcel 8 - TAYLOR
09/19/07	Pinal Professional Village
04/21/05	Quail Run
07/26/06	Rancho Bella Vista - Units 2a 2b 2c 3a 3b
04/08/03	Rancho Bella Vista Phase 01
02/28/06	Rancho Bella Vista South Phase 3B (Lots 632-756)
04/08/03	Rancho Bella Vista South Phase 01
10/01/04	Rancho Bella Vista South Phase 01
05/01/05	Rancho Bella Vista South Phase 02
10/31/05	Rancho Bella Vista South Phase 03A

09/24/04	San Tan Heights Parcel A 01
09/24/04	San Tan Heights Parcel A 02
09/24/04	San Tan Heights Parcel A 03
09/24/04	San Tan Heights Parcel A 04
09/24/04	San Tan Heights Parcel A 05
09/24/04	San Tan Heights Parcel A 06
09/24/04	San Tan Heights Parcel A 07
09/24/04	San Tan Heights Parcel A 08
09/24/04	San Tan Heights Parcel A 09
07/21/03	San Tan Heights Parcel A
07/22/03	San Tan Heights Parcel B
07/23/03	San Tan Heights Parcel C
07/21/03	San Tan Heights Parcel D
07/24/03	San Tan Heights Parcel E
07/25/03	San Tan Heights Parcel F
07/21/03	San Tan Heights Parcel I
07/26/03	San Tan Heights Parcel J
07/27/03	San Tan Heights Parcel K
10/21/03	San Tan Heights Parcel L
10/21/05	San Tan Heights Parcel C 06
10/21/05	San Tan Heights Parcel C 07
10/21/05	San Tan Heights Parcel C 08
10/21/05	San Tan Heights Parcel C 09
10/21/05	San Tan Heights Parcel C 10
10/21/05	San Tan Heights Parcel C 11
10/21/05	San Tan Heights Parcel C 12
10/21/05	San Tan Heights Parcel C 13
08/01/02	San Tan Villages Parcel 01
08/01/02	San Tan Villages Parcel 02
08/01/02	San Tan Villages Parcel 03
08/01/02	San Tan Villages Parcel 04
04/09/02	San Tan Villages Parcel 05
04/09/02	San Tan Villages Parcel 06
04/09/02	San Tan Villages Parcel 07
02/07/02	San Tan Villages Parcel 08
02/07/02	San Tan Villages Parcel 09
01/23/08	Shea Homes at Johnson Farms (Neighborhood 1)
01/23/08	Shea Homes at Johnson Farms (Neighborhood 2)
04/01/12	Shea Homes at Johnson Farms (Neighborhood 3: Phases 3A, 3B, 3C)
04/19/12	Shea Homes at Johnson Farms (Neighborhood 7A: Phases 1 and 2)
10/21/10	Shea Homes at Johnson Farms. (Neighborhood 7B)
01/23/08	Shoppes at Pecan Ranch, The
09/07/06	SILVERADO UNIT 01A
09/07/06	SILVERADO UNIT 01B
09/07/06	SILVERADO UNIT 01C
09/07/06	SILVERADO UNIT 01D
09/07/06	SILVERADO UNIT 01E

09/07/06	SILVERADO UNIT 01F
09/07/06	SILVERADO UNIT 01G
09/07/06	SILVERADO UNIT 01H
10/01/07	Skyline Ranch Marketplace
08/18/04	Skyline Ranch Phase 01
08/18/04	Skyline Ranch Phase 01, Parcel A
08/18/04	Skyline Ranch Phase 01, Parcel B
08/18/04	Skyline Ranch Phase 01, Parcel C
08/18/04	Skyline Ranch Phase 01, Parcel D
08/11/04	Skyline Ranch Phase 02, Parcel A
08/11/04	Skyline Ranch Phase 02, Parcel B
08/11/04	Skyline Ranch Phase 02, Parcel C
08/11/04	Skyline Ranch Phase 02, Parcel D
08/11/04	Skyline Ranch Phase 02, Parcel E
08/11/04	Skyline Ranch Phase 02, Parcel F
08/11/04	Skyline Ranch Phase 02, Parcel G
08/11/04	Skyline Ranch Phase 02, Parcel H
08/11/04	Skyline Ranch Phase 02, Parcel I
07/22/13	St. Michael the Archangel Parish Hall
02/01/03	Superstition Views Phase I
08/11/03	Superstition Views Phase II
08/29/08	Superstition Views Phase III
01/31/08	Taylor Ranch
11/03/04	Vineyard Estates
10/27/04	Wayne Ranch
11/11/04	Wayne Ranch
06/05/06	Whitewing at San Tan Magma

EXHIBIT M

EXCEPTIONS TO ENFORCEABILITY

EXHIBIT N

EVENTS OF DEFAULT

NOT APPLICABLE

EXHIBIT O

EXCEPTIONS TO TAX REPRESENTATION

NOT APPLICABLE

EXHIBIT P

[RESERVED]

EXHIBIT Q

REQUIRED CONSENTS

NOT APPLICABLE

EXHIBIT R

EXCEPTIONS TO LITIGATION REPRESENTATIONS

***Johnson Utilities LLC dba Johnson Utilities Company v. Swing First Golf, LLC*;**
In the Court of Appeals, State of Arizona, Division One, Case No. 1 CA-CV 13-0625
(Maricopa County Superior Court Case No. CV2008-000141)

ADEQ NOTICE OF VIOLATION NUMBERS 92021,97512,102722,102257,103956,

EXHIBIT S

INSURANCE POLICIES

JOHNSON UTILITIES POLICIES 2013-2014

Policy coverage	Policy Number	Term Dates	Insurance Company
Package: GL /Property/Auto	PHPK1016444	05/06/13 to 06/01/14	Philadelphia Insurance
Umbrella	PHPK643317	05/06/13 to 06/01/14	Philadelphia Insurance
Pollution	PHPK643317	11/09/10 to 06/01/14	Philadelphia Insurance
Solar	59MSKM4948	04/30/14 to 04/30/14	Hartford Insurance
Work Comp	N50890	01/16/14 to 01/16/15	SCF Indemnity
Group Medical	30106	06/01/13to 06/01/14	Blue cross / Blue Shield
Group Dental	01H5760GDEN	06/01/13 to 06/01/14	United Health Care
Group Life	C3981404	05/01/13 to 05/01/14	Colonial Life & Acc
Group Vision	9787748	05/01/13 to 05/01/14	Fidelity Security Life

THE CLUB AT OASIS LLC POLICIES 2013-2014

Policy coverage	Policy Number	Term Dates	Insurance Company
Package: GL/Property	CLP958867410	12/16/13 to 12/16/14	Central Mutual
Umbrella	CXS958867510	12/16l3 to 12/16/14	Central Mutual

ATTACHMENT 3

	Town Of Florence Water Rates	Johnson Utilities Water Rates
	Current	Current
	$32.68	$31.51
	Town of Florence Wastewater Rates	**Johnson Utilities Wastewater Rates**
	Current	Current
	$39.09	$42.00
Total Water & Sewer	**$71.77**	**$73.51**

*** Comparison based on 7,500 Gals of usage per month with a 3/4" Meter**

ATTACHMENT 4

PUBLIC NOTICE OF THE APPLICATION OF JOHNSON UTILITIES, LLC, FOR APPROVAL OF THE SALE AND TRANSFER OF ASSETS AND CONDITIONAL CANCELLATION OF ITS CERTIFICATE OF CONVENIENCE AND NECESSITY (Docket No. WS-02987A-13-0477)

On December 31, 2013, Johnson Utilities, LLC (the "Company") filed with the Arizona Corporation Commission ("Commission") an application ("Application") for approval to sell and transfer all of its utility assets to the Town of Florence ("Town") and to cancel its Certificate of Convenience and Necessity ("CC&N") upon consummation of the sale and transfer of the assets to the Town. The Commission's Utilities Division Staff ("Staff") has not yet made a recommendation regarding the Application and the Commission is not bound by the proposals made by the Company, Staff or any intervenors in the docket. The Commission will issue a decision regarding the Application following consideration of the matter and, if applicable, testimony and evidence. Copies of the Application are available at the Company's offices at 968 East Hunt Hwy, San Tan Valley, Arizona, 85143 and at the Commission's offices at 1200 West Washington, Phoenix, Arizona, 85007 for public inspection during regular business hours and on the internet via the Commission's website (www.azcc.gov) using the e-docket function.

The Company has requested that the Commission consider its Application as soon as practicable at a regularly scheduled Open Meeting at the Commission's offices, 1200 West Washington, Phoenix, Arizona, 85007. Public comments will be taken at such Open Meeting. Please check http://www.azcc.gov/Divisions/Administration/Meetings/ for the schedule and agendas for the Commission's upcoming Open Meetings. Written public comments may be submitted via email (http://www.azcc.gov/Divisions/Utilities/Forms/PublicCommentForm1.pdf), or by mailing a letter referencing Docket No. WS-02987A-13-0477 to: Arizona Corporation Commission, Consumer Services Section, 1200 West Washington, Phoenix, Arizona, 85007.

The law provides for an open public hearing at which, under appropriate circumstances, interested parties may intervene. Any person or entity entitled by law to intervene and having a direct and substantial interest in the matter will be permitted to intervene. If you would like to intervene, you must file a written motion to intervene with the Commission, and you must send copies of the motion to the Company or its legal counsel, and to all parties of record in the case. Your motion to intervene must contain the following:

1. Your name, address, and telephone number, and the name, address, and telephone number of any party upon whom documents are to be served in your place, if desired;

2. A short statement of your interest in the proceeding (e.g., a customer of the Company, a shareholder of the Company, etc.); and

3. A statement certifying that a copy of your motion to intervene has been mailed to the Company or its counsel and to all parties of record in the case.

The granting of motions to intervene shall be governed by A.A.C. R14-3-105. If representation by legal counsel is required by Rule 31 of the Rules of the Arizona Supreme Court, intervention will be conditioned upon the intervenor obtaining legal counsel to represent the intervenor. For information about requesting intervention, visit the Commission's webpage at http://www.azcc.gov/divisions/utilities/forms/interven.pdf. The granting of intervention, among other things, entitles a party to present sworn evidence at hearing if a hearing is held and to cross-examine other witnesses. However, failure to intervene will not preclude any customer from appearing at the hearing, if a hearing is held, and making a statement on such customer's own behalf.

If you have any question about the Application, you may contact the Company at 480-987-9870. If you wish to file written comments on the Application or want further information on intervention you may contact the Consumer Services Section of the Commission at 1200 West Washington, Phoenix, Arizona 85007, or call 602-542-4251 or 1-800-222-7000 if outside the metro Phoenix area.

The Commission does not discriminate on the basis of disability in admission to its public meetings. Persons with a disability may request a reasonable accommodation such as a sign language interpreter, as well as request this document in an alternative format, by contacting the ADA Coordinator Shaylin Bernal, e-mail sabernal@azcc.gov, voice phone number 602-542-3931. Requests should be made as early as possible to allow time to arrange the accommodation.

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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

BOB STUMP, Chairman
GARY PIERCE
BRENDA BURNS
BOB BURNS
SUSAN BITTER SMITH

IN THE MATTER OF THE APPLICATION OF JOHNSON UTILITIES, LLC, DOING BUSINESS AS JOHNSON UTILITIES COMPANY, FOR APPROVAL OF SALE AND TRANSFER OF ASSETS AND CONDITIONAL CANCELLATION OF ITS CERTIFICATE OF CONVENIENCE AND NECESSITY.	DOCKET NO. WS-02987A-13-0477

DIRECT TESTIMONY OF KARL GEHRING

ENGELMAN BERGER, P.C.
3636 North Central Avenue, Suite 700
Phoenix, Arizona 85012

EXHIBIT
Number ST HOA-1
ADMITTED

ENGELMAN BERGER, P.C.
3636 North Central Avenue, Suite 700
Phoenix, Arizona 85012

I. INTRODUCTION.

Q. PLEASE STATE YOUR NAME, OCCUPATION AND BUSINESS ADDRESS.

A. My name is Karl Gehring. I have continuously served as the Community Manager for the San Tan Heights Homeowners Association (the "Association") since June 10, 2013. My business address is 270 E. Hunt Highway, San Tan Valley, Arizona 85143.

Q. HAVE YOU PREVIOUSLY TESTIFIED IN ANY OTHER PROCEEDINGS BEFORE THE ARIZONA CORPORATION COMMISSION?

A. No.

II. PURPOSE OF TESTIMONY.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. In my testimony, I will present documentation from the Association's records of an existing, unresolved claim by the Association against Johnson Utilities and the reasons why the Association believes it would be appropriate for the Corporation Commission to require Johnson Utilities to set aside a cash reserve for this claim until it is resolved or adjudicated.

III. DESCRIPTION OF THE ASSOCATION.

Q. PLEASE DESCRIBE THE ASSOCIATION.

A. San Tan Heights is a master planned community currently comprising over ~~3,200~~ 3756 residents. The San Tan Heights master planned community is governed by the Association. The Association's common areas include community parks and substantial greenbelt areas. The Association also manages and maintains two lakes. The Association and its residents receive all of their potable and non-potable water utility service, and wastewater utility service from Johnson Utilities.

It is my understanding that the Association and its residents are among Johnson Utilities largest customers for potable and non-potable water service and wastewater service. The terms and conditions of the transfer of Johnson Utilities' assets to the Town of Florence, and the continued, uninterrupted water and sewer service to the Association and its current and future residents is of vital importance to the Association.

ENGELMAN BERGER, P.C.
3636 North Central Avenue, Suite 700
Phoenix, Arizona 85012

IV. DESCRIPTION OF THE ASSOCIATION'S LAKE DAMAGE CLAIM AGAINST JOHNSON UTILITIES.

Q. PLEASE DESCRIBE THE CAUSE OF THE ASSOCIATION'S LAKE DAMAGE CLAIM AGAINST JOHNSON UTILITIES.

A. According to the July 2013 Johnson Utilities' Customer Report attached to my testimony as Exhibit 1 (the "July 2013 Newsletter"), on or about May 10, 2013, Johnson Utilities discharged effluent that exceeded lawful turbidity limits into one of the Association's Lakes (the "Southern Lake," which is made up of two smaller lakes that are connected to one another commonly referred to as the "North and South Lakes"). According to the July 2013 Newsletter, effluent that exceeded lawful turbidity limits continued to be discharged in the South Lake until at least May 13, 2013, because of human error by a Johnson Utilities' weekend employee. The July 2013 Newsletter also noted that the subject effluent's high turbidity levels "caused the loss of fish in the pond and unpleasant odor." The Southern Lake was required to be drained and dredged because of the unlawful effluent being discharged into it by Johnson Utilities. *See* attached copies of news articles authored by Wendy Miller of Independent Newsmedia Inc. that is attached to my testimony as Exhibit 2. At the time the lake was drained to clear the excessive turbidity levels, Johnson Utilities' contractor, who was dredging the lake of dead fish and other debris before the lake could be refilled, damaged the liners of the Southern Lake. The Association also incurred damages to lake equipment from this event and consequential damage to landscaping as a result of insufficient available effluent water.

Q. DID JOHNSON UTILITIES AGREE TO REPAIR THE DAMAGE TO THE SOUTHERN LAKE'S LINERS?

A Initially, yes. The July 2013 Newsletter stated: "As a courtesy, Johnson has agreed to repair the pond liner." It also assured its readers that "none of the costs of . . . removing the sediment, or repairing the pond liner will be borne by the customers of Johnson Utilities."

Q. DID JOHNSON UTILIITIES ACTUALLY REPAIR THE DAMAGE TO THE SOUTHERN LAKE'S LINERS AFTER IT WAS DRAINED TO REMOVE THE HIGH TURBITY EFFLUENT DISCHARGED INTO THE LAKE BY JOHNSON UTILITIES?

A. No, Johnson Utilities did not repair the damage to the Southern Lake. The Association, with a contribution from its insurer, was forced to pay for the repairs to the Southern Lake caused by Johnson Utilities and its contractor as a result of Johnson Utilities' discharge of effluent in excess of lawful environmental requirements over the course of at least 3 days.

Q HAS THE SOUTHERN LAKE BEEN REPAIRED?

A. Yes, the Association was forced to repair the damage to the Southern Lake because of Johnson Utilities' failure and refusal to repair the damage. *See* invoice and check attached to my testimony as Exhibit 3.

Q DESCRIBE THE NATURE AND AMOUNT OF DAMAGES SUSTAINED BY THE ASSOCIATION RESULTING FROM THE DISCHARGE OF EFFLUENT EXCEEDING LAWFUL REQUIRMENTS INTO THE SOUTHERN LAKE AND THE OTHER RESULTING DAMAGES.

A. Prior to having effluent over twenty times the legal limit discharged into it, the Southern Lake and its liners were fully functional. After the discharge and Johnson Utilities' efforts to remediate it, the Southern Lake was empty – except for fish carcasses and smelly bacteria – and the liners were damaged and unusable without substantial repairs. The Association hired Cairo Canal Solutions ("CCS") at a cost of $296,769.67 to repair the Southern Lake. *See* CCS invoice and copy of payment attached to my testimony as Exhibit 3. The Association also incurred other damages including the cost of water testing, replacement of fish, replacement of lake light fixtures, replacement of dead landscaping caused by insufficient available effluent, and wear and tear on the pump for the smaller Northern Lake which was required to run more frequently to offset some of lost Southern Lake effluent irrigation. *See* exemplary invoices attached to my testimony as Exhibit 4.

Q. WHAT ACTION DOES THE ASSOCIATION REQUEST THAT THE COMMISSION TAKE WITH RESPECT TO THIS MATTER?

A. The Association requests the Commission to require Johnson Utilities to establish a reserve account in an amount sufficient to cover the Association's claims relating to the direct and consequential damages to the Southern Lake resulting from the discharge of non-conforming effluent into the Southern Lake as described in my testimony.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

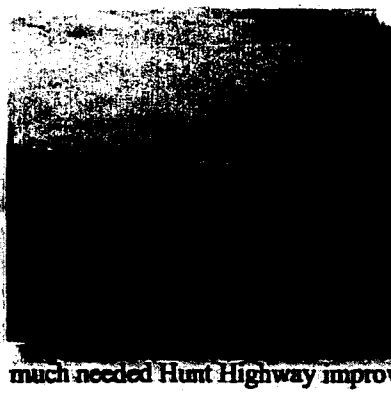
A. Yes.

ENGELMAN BERGER, P.C.
3636 North Central Avenue, Suite 700
Phoenix, Arizona 85012

EXHIBIT 1

JOHNSON UTILITIES CUSTOMER REPORT:

Hunt Highway



As construction work continues on widening Hunt Highway Phase 1 from Empire Road to Thompson Peak, we have learned that the county has planned to start and pay for phase 2 of the project. This phase will bring the much needed Hunt Highway improvements all the way to Gary Road. We would like to thank our Supervisor Cheryl Chase and the other Supervisors in Pinal County for their help in making this happen.

San Tan Heights HOA Pond Update

Johnson Utilities provides only Class A+ effluent water to the San Tan Heights HOA and Johnson Ranch Golf Course. After a power outage on Friday evening, May 10, 2013, the San Tan water reclamation plant experienced an upset when two out of three blower pumps failed to restart automatically when power was restored. This condition lead to high turbidity in the water which resulted in a discharge of effluent that exceeded the turbidity limits. This event should have been corrected on Saturday by the weekend employee whose job is to check the plant and verify that it is operating correctly. Unfortunately, the employee failed to do so. On Monday, May 13, 2012, the weekday operator found the plant in an upset mode and diverted the flow from the San Tan Heights HOA pond to Johnson Utilities' on site recharge facility. The blower pumps were manually reset and the plant quickly returned to its normal operating condition producing A+ effluent. Johnson Utilities also started to immediately pump the effluent water from the pond back into the San Tan water reclamation plant for reprocessing. There were incorrect reports that raw sewage was discharged into the San Tan Heights HOA pond. At no time was raw sewage ever discharged into the HOA's pond. The effluent discharged to the pond had been processed at the San Tan wastewater treatment plant, although the effluent was high in turbidity due to the failure of two of three blower pumps to restart following the power outage. The high turbidity caused the loss of fish in the pond and the unpleasant odor. The San Tan Heights HOA pond has remained drained for three reasons. First, at the time of the high turbidity condition, the San Tan Heights HOA already had plans to drain the pond for a construction improvement project. The HOA elected to complete the construction while the pond was drained. Second, since the pond has been in operation, years of sediment collected at the bottom of the pond from storm water runoff, dust storms, and the birds, fish and other wildlife which inhabit the pond. As a courtesy, Johnson Utilities has removed this sediment from the pond. Third, with the sediment removed, the workers observed that the pond liner had deteriorated in places. Again as a courtesy, Johnson has agreed to repair the pond liner. These projects are nearing completion and water should be filling the lakes shortly. None of the costs of reprocessing the turbid effluent, removing the sediment, or repairing the pond liner will be borne by the customers of Johnson Utilities.

Water Pressure

Johnson Utilities has received water pressure complaints in the previous weeks from customers. We have experienced reduced pressure in parts of the system during peak water use times due to the fact that two wells were taken out of service. We have moved water from other water plants within our water system to help with the pressure. We also have construction in progress to connect three existing wells directly to our storage tanks and one new well will be added to the system within the next 30 to 60 days once approved by ADEQ. We anticipate the pressure increasing as each of these construction projects are finished. We understand our customer's desire for us to maintain the pressure above 40 psi at all times, so that landscaping irrigation systems and appliances work optimally. Our current construction projects will assist in this goal when complete.

Johnson Utilities apologizes for any inconvenience these situations have caused for our customers.

EXHIBIT 2

Update: San Tan Heights residents fear health risks due to problem with effluent

By Wendy Miller
Independent Newsmedia Inc. USA

Last Modified: May 16, 2013 05:26PM

Update: On May 15, Johnson Utilities posted the following message to customers on its website, http://www.johnsonutilities.com:

Johnson Utilities continues its work to address a turbidity incident at its San Tan wastewater facility this week. The incident was the source of an unpleasant, but harmless, odor and considerable public interest. The incident began with a partial power failure that has now been remedied. It was erroneously reported that untreated sewage was discharged into the San Tan Homeowners Association pond.

As reported to ADEQ, Johnson Utilities responded to the incident by halting discharge of effluent to the lake and removing the water for reprocessing through the WRP. Johnson is now completely emptying the pond. They will then remain empty until scheduled repairs by the San Tan Heights HOA are completed. The HOA is making changes to the piping connecting their two ponds. Because this work was planned before the turbidity event this week, it has allowed the HOA to take advantage of the drained pond.

The HOA ponds are used for storage of Class A + effluent for irrigation purposes only. There is no connection between the ponds and any drinking water delivery system. Johnson Utilities' only source of drinking water is groundwater.

Earlier today, ADEQ inspected the HOA ponds, the San Tan water reclamation plant (WRP), the only lift station serving the WRP, and a grease interceptor. The lift station was found to be in compliance. The inspection of the grease interceptor showed that it had been pumped and was in good operating condition. Johnson Utilities conducts an annual inspection of grease interceptors to ensure grease is kept out of the sewer system. ADEQ agreed that the heavy sediment that had been exposed today on the bottom of the pond is normal lake sediment caused over the years of runoff, animal waste, dust, and many other sources. This sediment will contain animal fecal material and chemicals from storm water runoff. ADEQ also inspected agency and on-site records, reporting no issues.

The following story was posted to the Independent's website May 15, prior to JU's online message.

Typically in May, the Szatkowski family fills their backyard pool with fresh water in anticipation of the warm weather and fun times ahead. This year, maybe not.

The Szatkowskis live in The Villages, a community in San Tan Heights, along West Hunt Highway near Gary Road in San Tan Valley. On Monday night, Channel 12 News in Phoenix reported sewage had backed up into the lakes flanking the West Hunt Highway entrance to the community.

Tracy Szatkowski considers the spillage a health hazard.

"Absolutely I feel there are health risks," she told the Independent Tuesday, adding her husband was probably going to postpone filling the family pool. "It's scary when you're trying to raise your children in a healthy environment and this happens."

Johnson Utilities, the local water provider and wastewater-treatment company, denied the allegations in a letter to its customers, calling the TV station's coverage "total misrepresentations of the truth."

In its response, which was e-mailed to its customers in San Tan Valley, JU attributed the problem to a power interruption in the multi-step process that treats the effluent so it is clean enough for human contact (read the entire statement below). JU said the odor (which many residents have complained about to the Independent's news partners, www.santanvalley.com and http://www.kpho.com/video?clipId=8878968&autostart=true) was caused by the bacteria used in the initial stages of treating the raw waste.

JU trucks drained the lakes on Monday and Tuesday. It will fill the lakes with chlorinated water prior to releasing treated effluent back into the pond, it said in its e-mailed message.

Janet Anderson heard about the incident Monday morning when she turned on her computer.

"There were four or five e-mails about this and I wondered, what the heck is going on?" she told the Independent Wednesday. The San Tan Valley resident has many friends who live in The Villages and she worried for their safety.

"Did you know the water is used to irrigate the grass?" she asked. "What if children run in that grass?"
She is part of a group that is attempting to save the fish and ducks that inhabit the lakes.

"They won't let us go in and get the turtles," she said. "The Johnson Utilities workers (who were cleaning the lakes) said we couldn't go in the water because it's contaminated. But when we (eventually) get the turtles out, the problem is, how do we clean them?"

It's not the first time Johnson Utilities has reported problems with the water.

"There was the E.coli scare about six months ago," Mrs. Szatkowski said.

On Aug. 21-22, JU notified its customers about a suspected problem with its drinking water in its Florence area drinking water and advised customers to use an alternative form of water, such as bottled water, according to a message it issued Aug. 23 to notify the public that the water in Florence and San Tan Valley did not contain harmful bacteria.

"We all bought water at Walmart," Mrs. Szatkowski said.

This week's incident was the first time Mrs. Szatkowski was aware anything like this has happened during her three and a half years living in San Tan Heights. However, she did notice the Johnson Utilities warning lights blinking in the community about two to three weeks ago but never heard what they indicated.

The Independent called Johnson Utilities but has not received a response as of press time.

District 2 Supervisor Cheryl Chase issued this response Tuesday to the situation in San Tan Valley:
"Today my office became aware of an incident that occurred last night in San Tan Heights. Neighbors reported what appeared to be raw sewage in the water features outside the residential community. I am concerned about this issue and have spoken directly with Johnson Utilities in an effort to learn more. The utility company has assured me that raw sewage was not released and they are working with state environmental officials to resolve the problem.

"Regardless of the cause, I expect utilities serving customers in my district to alert me to major problems affecting my constituents. I was not happy to learn of this latest problem from the media," she said.

Pinal County does not have regulatory authority over public utilities, according to Heather Murphy, Pinal County's public information officer. The statutes and rules governing utilities rests with the Arizona Corporation Commission and the Arizona Department of Environmental Quality, she said.

Letter from Johnson Utilities, sent May 14 via e-mail to its customers:
Last night, during the 10:00 o'clock news, Channel 12 grossly misled its viewers and the customers of Johnson Utilities. Channel 12 claimed that "water filled with feces, waste and other synonyms we can't even say on TV" was flowing into the San Tan Heights HOA pond. Further, in the caption to the video posted on AzCentral.com, Channel 12 claimed "San Tan Heights lake filled with sewage after pump malfunction at utility plant." These are total misrepresentations of the truth.

The San Tan Heights HOA receives treated effluent from Johnson Utilities. This treated effluent is the result of a multi-step process which produces class A+ effluent which is clean enough for human contact. However, due to a power interruption, the process which reduces the turbidity (turbidity is the cloudiness or haziness of a fluid caused by individual particles and can reduce the oxygen content of water) was interrupted, thus allowing water into the pond which had a higher than normal turbidity.

It was reported that fish were killed and an odor was caused by chemicals released into the pond. The fact is that fish require oxygen, turbidity limits oxygen and thusly the fish cannot survive these incidents of high turbidity. The odor is caused by the bacteria which are used in the initial stages of treating the raw waste. These bacteria were carried over with the turbid water.

Effluent used for reuse purposes must have a turbidity of less than 2 nephelometric turbidity units (NTU). Therefore, based on the high turbidity, we proceeded with draining the pond by pumping the water back into the plant for retreatment. High turbidity water can also hide pathogens from the disinfection process. Thus, in an abundance of caution, Johnson Utilities will treat the pond with chlorinated water prior to releasing treated effluent back into the pond.

Johnson Utilities' employees are investigating the event to determine the cause and solutions to prevent this from happening in the future.

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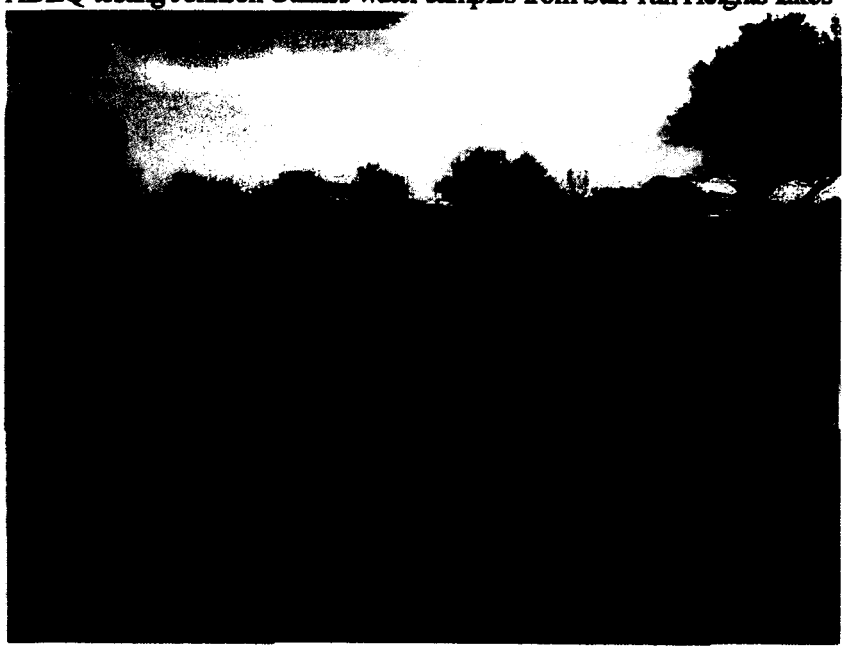
ADEQ testing Johnson Utilities water samples from San Tan Heights lakes



Workers washed off hard surfaces while water was being pumped out of the lake May 14 at The Villages in San Tan Heights. (Independent Newspapers/Wendy Miller)

By Wendy Miller
Independent Newsmedia Inc. USA

Updated May 20, 2013

The Arizona Department of Environmental Quality is testing water samples taken from the lakes at the entrance to The Villages, a community in San Tan Heights, along West Hunt Highway near Gary Road in San Tan Valley, Mark Shaffer, communications director for ADEQ, confirmed Thursday night.

On May 13, Channel 12 News in Phoenix reported sewage had backed up into the lakes flanking the West Hunt Highway entrance to the community.

Johnson Utilities, the local water provider and wastewater-treatment company, denied the allegations in a letter to its customers, calling the TV station's coverage "total misrepresentations of the truth."

In its response, which was e-mailed to its customers in San Tan Valley, JU attributed the problem to a power interruption in the multi-step process that treats the effluent so it is clean enough for human contact (read the entire statement below). JU said the odor (which many residents have complained about to the Independent's news partners, www.santanvalley.com and http://www.kpho.com/video?clipId=8878968&autostart=true) was caused by the bacteria used in the initial stages of treating the raw waste.

JU trucks drained the lakes on Monday and Tuesday. It planned to fill the lakes with chlorinated water prior to releasing treated effluent back into the pond, it said in its e-mailed message.

The lakes remain empty while ADEQ is investigating the incident, Mr. Shaffer said.

Johnson Utilities called ADEQ Monday afternoon to report higher-than-normal levels of turbidity, Mr. Shaffer said during a phone interview.

Turbidity is the cloudiness or haziness of a fluid caused by individual particles; the particles can reduce the oxygen content of the water, according to a letter from JU to its customers.

The acceptable federal standard for turbidity levels is 5 MPU, Mr. Shaffer explained. The daily reports of turbidity levels kept by Johnson Utilities showed high levels for four consecutive days: 52 MPU on May 11. 108 MPU on May 12, 106 MPU by May 13, and 20 MPU on May 14, Mr. Shaffer said.

"We're looking at some that were more than 20 times the standard," Mr. Shaffer said.

The state agency was unable to test the water for sewage because JU had already pumped 75 percent of the water from the lakes before ADEQ arrived Tuesday, Mr. Shaffer said.

"It minimized what we could do in terms of the integrity of the water," he said.
He said JU was just doing what it was asked to do during an earlier water-related incident.

"That was one of the big points raised in 2008, when there was a problem at the Pecan Creek Wastewater Treatment Plant (in San Tan Valley). They wouldn't pump it out at that time," he said.

In an article published July 9, 2008 in the Queen Creek/San Tan Valley Independent, Johnson Utilities Vice President

Brian Tompsett said the wastewater treatment plant serving the area experienced a sewage backup the weekend of May 18, 2008.

Mr. Tompsett said the system's pumps were not able to function properly because of "debris getting into the pumps."

Until the testing is completed, Mr. Shaffer recommended residents exercise caution and stay away from the area. Some residents in The Villages and neighboring communities are concerned about the safety of the effluent, which is used to water the grass at the community, since last week.

Janet Anderson heard about the incident the morning of Monday, May 13, when she turned on her computer.

"There were four or five e-mails about this and I wondered, what the heck is going on?" she told the Independent Wednesday. The San Tan Valley resident has many friends who live in The Villages and she worried for their safety.

"Did you know the water is used to irrigate the grass?" she asked. "What if children run in that grass?"
Villages resident Tracy Szatkowski considers the spillage a health hazard.

"Absolutely I feel there are health risks," she told the Independent May 14, adding her husband was probably going to postpone filling the family pool. "It's scary when you're trying to raise your children in a healthy environment and this happens."

Other problems have been reported about Johnson Utilities water.

"There was the E.coli scare about six months ago," Mrs. Szatkowski said.

On Aug. 21-22, JU notified its customers about a suspected problem with its drinking water in its Florence area drinking water and advised customers to use an alternative form of water, such as bottled water, according to a message it issued Aug. 23 to notify the public that the water in Florence and San Tan Valley did not contain harmful bacteria.

"We all bought water at Walmart," Mrs. Szatkowski said.

This week's incident was the first time Mrs. Szatkowski was aware anything like this has happened during her three and a half years living in San Tan Heights. However, she did notice the Johnson Utilities warning lights blinking in the community about two to three weeks ago but never heard what they indicated.

The Independent called Johnson Utilities twice last week regarding the warning lights and water testing but had not received a response as of press time Friday.

District 2 Supervisor Cheryl Chase issued this response May 14 to the situation in San Tan Valley:
"Today my office became aware of an incident that occurred last night in San Tan Heights. Neighbors reported what appeared to be raw sewage in the water features outside the residential community. I am concerned about this issue and have spoken directly with Johnson Utilities in an effort to learn more. The utility company has assured me that raw sewage was not released and they are working with state environmental officials to resolve the problem.

"Regardless of the cause, I expect utilities serving customers in my district to alert me to major problems affecting my constituents. I was not happy to learn of this latest problem from the media," she said.

Pinal County does not have regulatory authority over public utilities, according to Heather Murphy, Pinal County's public information officer. The statutes and rules governing utilities rests with the Arizona Corporation Commission and the Arizona Department of Environmental Quality, she said.

Click here to read Johnson Utilities' letters to customers from May 14 and May 15.

Comments

You are encouraged to leave relevant comments but engaging in personal attacks, threats, online bullying or commercial spam will not be allowed. All comments should remain within the bounds of fair play and civility. (You can disagree with others courteously, without being disagreeable.) Feel free to express yourself but keep an open mind toward finding value in what others say. To report abuse or spam, click the X in the upper right corner of the comment box. For more information, please visit our FAQ page.

Add a comment...

Comment

Facebook social plugin

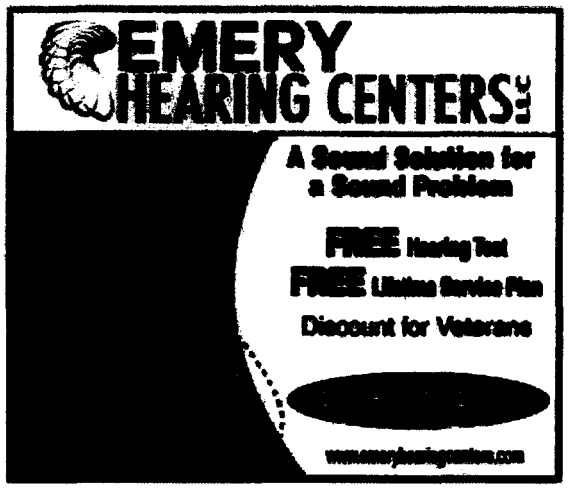


EXHIBIT 3

Invoice

Date	Invoice
11/1/2013	135

"Innovative Canal Solutions for Today and Beyond"

1630 S. Stapley Dr. Suite 119
Mesa, AZ 85204
480-921-4080 Phone
480-921-4087 Fax

CCS Project # 2013-02

P.O. No.

Client

San Tan Heights HOA
270 E. Hunt Highway, Suite 16#317
San Tan Valley, AZ 85143
Attn: Karl Gehring Comminity Manager

Description	Amount
South Lake -Prep perimeter shotcrete areas, install geotextile fabric,CCS 1500 liner spray installation, clean up, De Mob	133,128.10
North Lake -Prep perimeter, install geotextile fabric, liner spray installation, clean up, De Mob	142,722.09
Mobilization, Empty Lakes and prep Basin Invert	10,000.00
Tax	10,919.48

Installation by Certified Installation Contractor- 1st Class Foam Roofing and Coating, LLC
Contractor Lic 262043

Authorized

George J. Cavis

Total $296,769.67

U.S. Bank Confidential Communication

Requested by: Scott Strong

This check image contains confidential information. If you print this image, please store it in a secure place to avoid unauthorized usage of this information. Increased security awareness when discarding or destroying this document is recommended.

Item #1

Account No.:

Amount: $296769.67

Check No.: 1159

Routing No.: 12210515

Sequence No.: 008897987255

Date: 12/03/2013

Front:

001159

SAN TAN HEIGHTS
C/O FIRSTSERVICE RESIDENTIAL
9000 E PIMA CTR PKWY, STE 300
SCOTTSDALE, AZ 85258

DATE 11/27/2013

AMOUNT $296,769.67

Pay Two Hundred Ninety-Six Thousand Seven Hundred Sixty-Nine and 67/100*****

TO THE ORDER OF

CAIRO CANAL SOLUTIONS
1630 S STAPLEY DR
STE 119
MESA, AZ 85204

⑈001159⑈

Back:

EXHIBIT 4

Arizona Lake and Pond Management L.L.C.

8328 W. Molly Lane
Peoria, AZ 85383

Phone # 623-293-6866 arizonalake1@yahoo.com
Fax # 623-561-6765

Invoice

Date	Invoice #
1/9/2014	4927

Bill To

SAN TAN HEIGHTS
C/O FIRST SERVICE RESIDENTIAL
9000 East Pima Center Pkwy-Suite 300
Scottsdale AZ 85258

P.O. No.

Quantity	Item	Description	Rate	Amount
1	3	BLUE DYE	60.00	60.00

Thank you for your business.

	$60.00
	$0.00
	$60.00

September 20, 2013 Quote# 2242

First Service-San Tan Heights
Hunt Hwy and Village Lane
Queen Creek, AZ 85242
Dana Skoczylas

Ref: Replace Broken Fixtures
Phone: 480-551-4300
Fax: 480-987-8780
Email: dana.skoczylas@fsresidential.com

Thank you for the opportunity to provide you service. Please find for your review and approval the below quote to:

- Replace three (3) broken fixtures throughout different locations around the
- Replace two (2) well lights around lakes

Total parts & Labor $1,022.07
Sales tax not included

Tax on material and permit costs, if necessary, are not included.

Note:Poles and fixtures have a 6-8 week lead time.

Upon approval, please sign the area indicated and return to DECA Southwest for scheduling. Please do not hesitate to call me with any questions.

50% of final project cost is due upon receipt of signed contract. This deposit is non-refundable if contract is cancelled. Remainder of project will be billed monthly as portions are completed. Payment terms are 30 days net.

Quote valid for 30 days.

Respectfully,

Joe Rowley
Projects Mgr
joe.rowley@decasw.com

Accepted by,

Printed-Name-Title

Signature Date
First Service-San Tan Heights

AN UNDERWOOD BROTHERS CO.
EST. 1990

We Beautify the World

January 13, 2014

San Tan Heights

Attn: Karl Gehring
Re: Lantana replacements due to late water being off

We hereby submit the proposal for Lantana replacements due to late water being off. Included in our bid is all labor and material to complete the said work. This proposal is to be included as an exhibit in any contract.

Our proposal includes the following items:

San Tan Heights - Lantana replacements due to late water being off

Qty	Unit	Location	Unit Price	Total Price
180	5 Gallon	Lantana	$26.00	$4,680.00
			Sub Total:	$4,680.00
			Sales Tax @ 4.30%:	$204.05
			Total:	$4,884.05

CLARIFICATIONS:

- This Proposal MUST be made an exhibit in any contract awarded to AAA LANDSCAPE.
- AAA Landscape is not responsible for damage due to poor soil conditions, rodents, vandalism, and/or "ACTS OF NATURE".
- Owner requested increases in the quantities of the unit priced items (if applicable) will be re-priced in accordance with current pricing at the time of the contract change order.

Terms of Contract:
Payment is due upon completion of work. Past due accounts shall be subject to a late charge fee of $50.00 or 18% annually, whichever is greater. Owner agrees to pay any additional costs and attorney's fees associated with collection of past due amounts.

If you have any questions, please feel free to call.

Sincerely,

Liz Foutz
Director of Client Services

Note: This proposal expires in 30 calendar days. Acceptance of this proposal- The above prices, specifications, and conditions are satisfactory and are hereby accepted. You are authorized to do the work as specified.

Authorized Signature: _____ Date of Acceptance: _____

Phoenix Office
3747 E. Southern Ave.
Phoenix, AZ 85040
P 602.437.2690

Tucson Office
4742 N. Romero Rd.
Tucson, AZ 85705
P 520.888.3223

aaalandscape.com

Advanced Pump & Control Systems LLC
3729 East Pony Track Lane
Queen Creek, AZ 85240

Invoice

Date	Invoice #
10/2/2013	1887
ROC 234539	

Bill To
San Tan Heights Community HOA Rossmar & Graham 270 East Hunt Hwy Suite 16 # 317 San Tan Valley, AZ 85143

EXHIBIT
ST HOA-2
ADMITTED

P.O. No.	Terms	Due Date	Project	S.O. No.
verbal Karl	Due on receipt	10/2/2013		

Description	Qty	Rate	Hours	Amount
Materials		16,422.67		16,422.67
Pump Work Labor		3,180.00		3,180.00
Contractor Sales Tax		1,701.68		1,701.68
Shipping		600.00		600.00
Crane Service	6	100.00		600.00

PAST DUE:FINANCE CHARGE OF 1 1/2% PER MONTH WILL BE ADDED TO PAST DUE ACCOUNTS (18% ANNUAL)

Balance Due $22,504.35

Office 602-793-5367 | Fax 480-655-5352

Arizona Lake and Pond Management L.L.C.

8328 W. Molly Lane
Peoria, AZ 85383

Phone # 623-293-6866 arizonalake1@yahoo.com
Fax # 623-561-6765

Invoice

Date	Invoice #
10/10/2013	4678

Bill To

SAN TAN HEIGHTS
C/O FIRST SERVICE RESIDENTIAL
9000 East Pima Center Pkwy-Suite 300
Scottsdale AZ 85258

P.O. No.

Quantity	Item	Description	Rate	Amount
800	10	Live Fish (BLUEGILL 3.5" TO 4.5")	1.60	1,280.00
150	10	Live Fish (LARGEMOUTH BASS 4" TO 5")	4.00	600.00
800	10	Live Fish (RED EAR SUNFISH 3.5" TO 4.5")	1.70	1,360.00
2,000	10	Live Fish (GOLDFISH 3" TO 5")	0.65	1,300.00
300	10	Live Fish (CHANNEL CATFISH 8" TO 11")	2.50	750.00
40,000	10	Live Fish (FATHEAD MINNOWS)	0.07	2,800.00
140	10	Live Fish (WHITE AMUR 8" TO 11")	10.00	1,400.00
	4	TAX 8.1%	768.69	768.69
		50% DUE AT TIME OF STOCKING. SECOND 50% DUE IN SPRING AT TIME OF SECOND STOCKING		
		FIRST CHECK WILL BE $5129.35		

Thank you for your business.

	$10,258.69
	$-5,129.35
	$5,129.34

EXHIBIT

tabbies

ST HOA - 4

ADMITTED

EXHIBIT

tabbies

ST HOA-5

ADMITTED

EXHIBIT

tabbies

ST HOA-6

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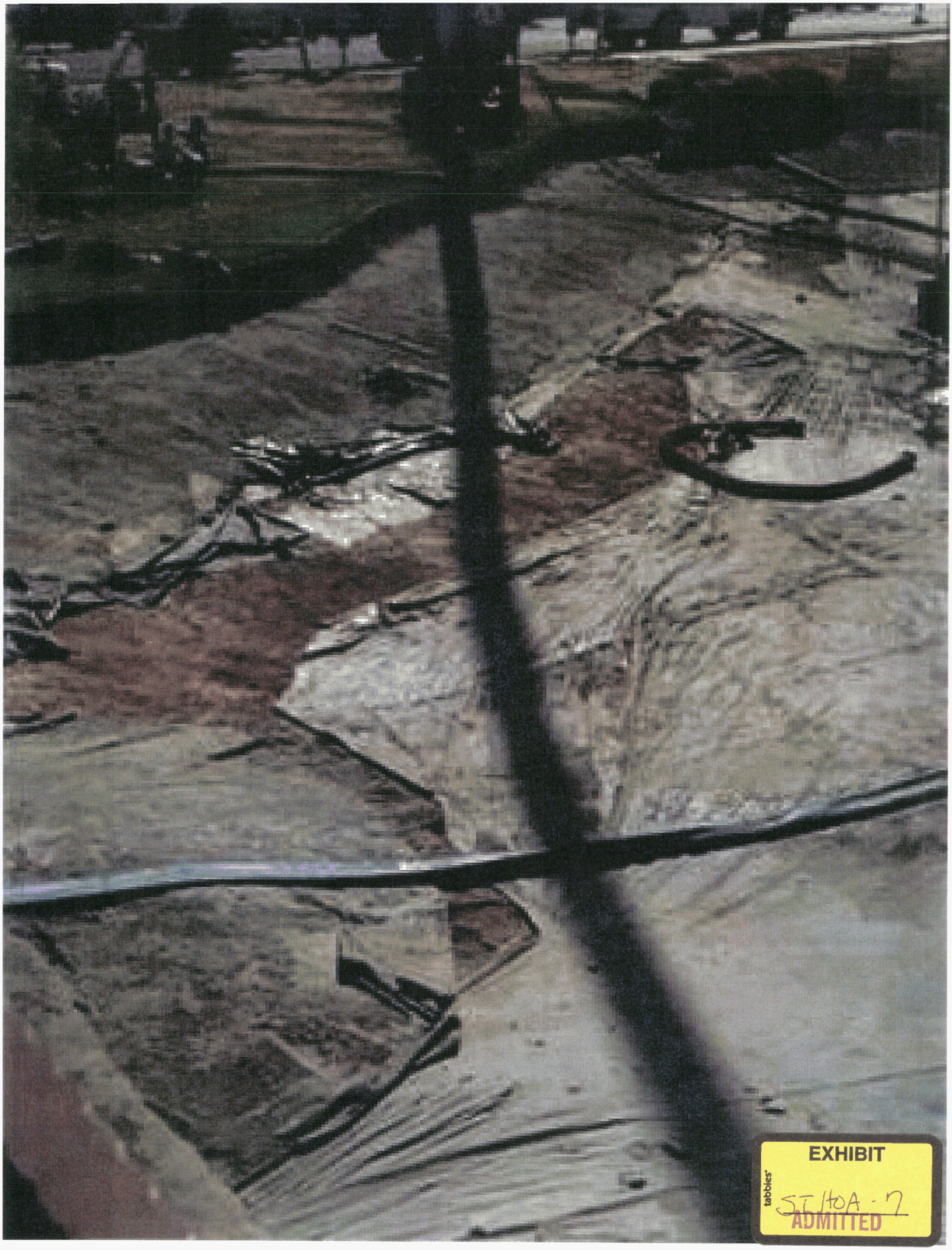

EXHIBIT

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ST HOA - 7

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EXHIBIT

STIPOA-8

ADMITTED

EXHIBIT
ST HOA - 9
ADMITTED

NEW APPLICATION

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BEFORE THE ARIZONA CORPORATION COMMISSION

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AZ CORP COMMISSION
DOCKET CONTROL

Arizona Corporation Commission
DOCKETED
DEC 31 2013
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COMMISSIONERS

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BOB STUMP-Chairman
GARY PIERCE
BRENDA BURNS
BOB BURNS
SUSAN BITTER SMITH

IN THE MATTER OF THE APPLICATION OF JOHNSON UTILITIES, LLC, DOING BUSINESS AS JOHNSON UTILITIES COMPANY, FOR APPROVAL OF SALE AND TRANSFER OF ASSETS AND CONDITIONAL CANCELLATION OF ITS CERTIFICATE OF CONVENIENCE AND NECESSITY.

DOCKET NO. WS-02987A-13-0477

APPLICATION FOR APPROVAL OF THE SALE AND TRANSFER OF ASSETS AND CONDITIONAL CANCELLATION OF CERTIFICATE OF CONVENIENCE AND NECESSITY

BROWNSTEIN HYATT FARBER SCHRECK, LLP
One East Washington Street, Suite 2400
Phoenix, AZ 85004

Applicant Johnson Utilities, LLC, ("Johnson Utilities" or the "Company") hereby applies, pursuant to A.R.S. § 40-285(A), Arizona Administrative Code ("A.A.C.") R14-2-402(D) and R14-2-602(D), for an order of the Arizona Corporation Commission ("Commission") approving the sale and transfer of all of its utility assets and operations in Pinal County, Arizona, to the Town of Florence ("Florence" or the "Town"), an Arizona municipality, and the cancellation and extinguishment of its Certificates of Convenience and Necessity (collectively, the "CC&N") to provide water and wastewater services, conditioned upon consummation of a sale to the Town.

I. THE PARTIES.

A. Johnson Utilities, LLC.

Johnson Utilities is a public service corporation regulated by the Commission which holds a CC&N first granted in Decision 60223 (May 27, 1997) and various extensions thereof authorizing the Company to provide water and wastewater utility services within the defined geographic area depicted on the maps attached hereto as Attachment 1. The Company's existing water CC&N covers approximately 72 square miles and its wastewater CC&N covers approximately 87 square miles. Johnson Utilities generally serves from the boundary of the Town of Queen Creek southeast to the Town of Florence.

EXHIBIT
A-1
ADMITTED

Johnson Utilities operates two water systems: Johnson Ranch Public Water System No. 11-128 and Anthem at Merrill Ranch Public Water System No. 11-136. The Johnson Ranch water system consists of 17 wells, 12 storage tanks totaling 6.25 million gallons, and a distribution system serving approximately 20,170 service connections as of December 2012. The Anthem at Merrill Ranch water system consists of four wells, two storage tanks totaling to 1.5 million gallons, and a distribution system serving approximately 2,000 service connections as of December 2012.

Johnson Utilities operates four wastewater systems: Pecan, San Tan, Section 11 and Anthem. The San Tan system has a 2.0 million gallon per day ("MGD") extended aeration wastewater reclamation plant ("WRP") that served approximately 7,275 service laterals as of December 2012. The Section 11 system has a 1.6 MGD anaerobic lagoon wetland WRP that served approximately 6,750 service laterals as of December 2012. The Pecan system has a 2.0 MGD extended aeration WRP that served approximately 10,515 service laterals as of December 2012. The Anthem system has a 1.5 MGD extended aeration WRP that served approximately 4,700 service laterals as of December 2012. In total, Johnson Utilities provided wastewater service to approximately 29,240 service laterals as of December 2012.

Currently, Johnson Utilities has applications pending to extend its water and wastewater CC&N in Dockets WS-02987A-12-0136, WS-02987A-13-0284 and WS-02987A-13-0310.

B. <u>Town of Florence</u>.

The Town of Florence was founded in 1866 and has a current population of approximately 27,000. The Town provides police, fire, library, senior center, parks, water, sewer, sanitation and other services to the community. Currently, the Town provides water and sewer service to a population of approximately 21,000.

C. <u>Florence Municipal Property Corporation</u>.

Florence Municipal Property Corporation, an Arizona non-profit corporation, is being formed on behalf of the Town of Florence to hold the assets acquired from Johnson Utilities.

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Phoenix, AZ 85004

II. THE TRANSACTION.

Over the years leading up to the filing of this Application, the Town has expressed an interest in acquiring the assets of Johnson Utilities and providing water and wastewater service to the customers currently served by the Company. The Town currently provides water and wastewater services to many of its residents, and the Johnson Utilities service area integrates well with the Town's planning area. This is the Town's second effort at purchasing the assets of Johnson Utilities. The Town originally considered purchasing the Company's assets in 2007.

Johnson Utilities and the Town are working toward finalizing the terms and conditions under which the Florence Municipal Property Corporation would acquire the assets of the Company, including its right to provide water and wastewater utility services to customers residing within the Company's CC&N, resulting in the extinguishment of that CC&N. Johnson Utilities and the Town anticipate that an Asset Purchase Agreement will be presented to the Florence Town Council for approval within the next 30 days.

For a period of 18 months following the acquisition, the Town has no plans to change the rates charged to existing customers of Johnson Utilities. The Town will complete a full rate study to make a determination on future rates. The Town will assume Johnson Utilities' obligations with respect to outstanding main extension agreements and customer security deposits.

Johnson Utilities will provide notice of this application to its customers by a separate mailing in January as well as through publication in the local newspapers of general circulation in the service area. Johnson Utilities and the Town will work to ensure that the transaction is seamless to customers.

The closing of the transaction is conditioned upon receipt of a conditional order from the Commission cancelling Johnson Utilities' CC&N upon notice to the Commission of the successful consummation of the transaction. Johnson Utilities will file a notice with the Commission that the condition precedent to the cancellation of its CC&N has been satisfied. At that juncture, the cancellation would become permanent and unconditional.

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Phoenix, AZ 85004

Once the Commission's Utilities Division determines that this application is sufficient, Johnson Utilities will withdraw the applications pending in Dockets WS-02987A-12-0136, WS-02987A-13-0284 and WS-02987A-13-0310 to extend its water and sewer CC&N.

III. THE PUBLIC INTEREST.

In order to provide consistent service and rates to its citizens, and to consolidate the Johnson Utilities' water and wastewater systems with the municipal systems already operated by the Town, the Town desires to become the sole water and wastewater utility service provider within its municipal boundaries. Johnson Utilities agrees with the Town that such a course of action is in the public interest. In addition, the acquisition will provide the Town with access to additional water production facilities and wastewater treatment facilities, and allow for the interconnection of the water and wastewater systems, resulting in greater reliability, capacity and regionalization.

IV. CONTACT INFORMATION.

A. Johnson Utilities

Johnson Utilities, LLC
Attn: George H. Johnson
5230 East Shea Boulevard, Suite 200
Phoenix, Arizona 85254
Phone: 480-998-3300

B. Attorneys for Johnson Utilities

Jeffrey W. Crockett, Esq.
Brownstein Hyatt Farber Schreck, LLP
One East Washington Street, Suite 2400
Phoenix, Arizona 85004
Phone: 602-382-4062

C. Town of Florence

Town of Florence
775 North Main Street
P.O. Box 2670
Florence, Arizona 85132
Phone: 520-868-7500

BROWNSTEIN HYATT FARBER SCHRECK, LLP
One East Washington Street, Suite 2400
Phoenix, AZ 85004

D. **Attorneys for Town of Florence**

Jim Mannato, Town Attorney
Town of Florence
PO Box 2670
Florence, Arizona 85132
Phone: 520-868-7557

V. RELIEF REQUESTED.

Johnson Utilities respectfully requests that the Commission:

1. Approve the sale and transfer of all of the assets of Johnson Utilities pursuant to A.R.S. § 40-285(A) and A.A.C. R14-2-402(D) and R14-2-602(D); and

2. Approve the cancellation and extinguishment of the Certificates of Convenience and Necessity for Johnson Utilities as depicted on Attachment 1, conditioned upon close of the transaction between the Town and the Company and issue its final order to that effect; and

3. Grant such further relief as may be appropriate in the circumstances.

RESPECTFULLY submitted this 31st day of December, 2013.

BROWNSTEIN HYATT FARBER SCHRECK, LLP

Jeffrey W. Crockett, Esq.
One East Washington Street, Suite 2400
Phoenix, Arizona 85004
Attorneys for Johnson Utilities, LLC

ORIGINAL and thirteen (13) copies of the foregoing filed this 31st day of December, 2013, with:

Docket Control
ARIZONA CORPORATION COMMISSION
1200 West Washington Street
Phoenix, Arizona 85007

COPIES of the foregoing hand-delivered this 31st day of December, 2013, to:

Bob Stump, Chairman
ARIZONA CORPORATION COMMISSION
1200 West Washington Street
Phoenix, Arizona 85007

BROWNSTEIN HYATT FARBER SCHRECK, LLP
One East Washington Street, Suite 2400
Phoenix, AZ 85004

Gary Pierce, Commissioner
ARIZONA CORPORATION COMMISSION
1200 West Washington Street
Phoenix, Arizona 85007

Brenda Burns, Commissioner
ARIZONA CORPORATION COMMISSION
1200 West Washington Street
Phoenix, Arizona 85007

Bob Burns, Commissioner
ARIZONA CORPORATION COMMISSION
1200 West Washington Street
Phoenix, Arizona 85007

Susan Bitter Smith
ARIZONA CORPORATION COMMISSION
1200 West Washington Street
Phoenix, Arizona 85007

Lyn Farmer, Chief Administrative Law Judge
Hearing Division
ARIZONA CORPORATION COMMISSION
1200 West Washington Street
Phoenix, Arizona 85007

Janice Alward, Chief Counsel
Legal Division
ARIZONA CORPORATION COMMISSION
1200 West Washington Street
Phoenix, Arizona 85007

Steve Olea, Director
Utilities Division
ARIZONA CORPORATION COMMISSION
1200 West Washington Street
Phoenix, Arizona 85007

COPY of the foregoing sent by regular mail this 18th day of December, 2013, to:

Jim Mannato, Town Attorney
TOWN OF FLORENCE
PO Box 2670
Florence, Arizona 85132

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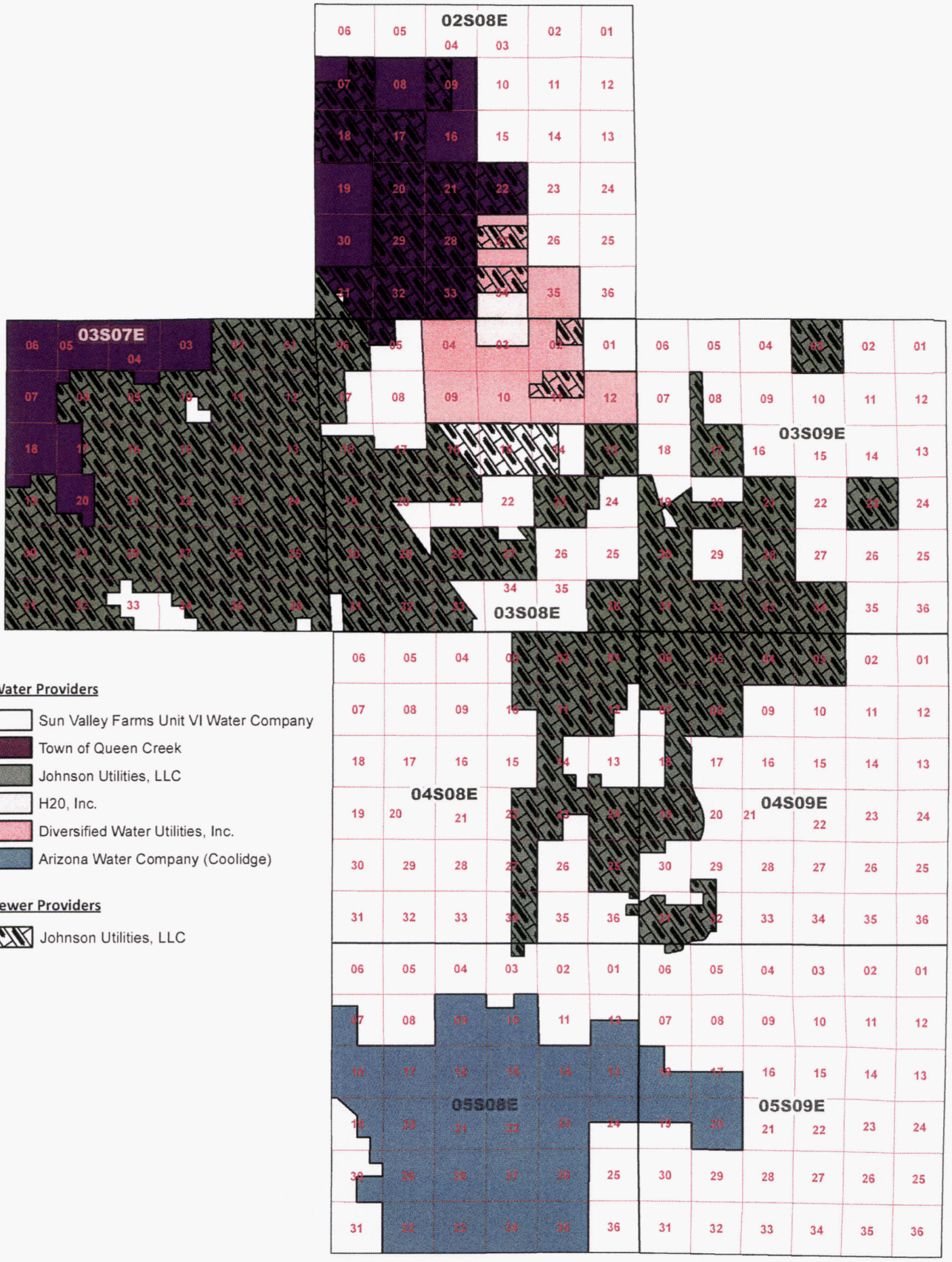
BROWNSTEIN HYATT FARBER SCHRECK, LLP
One East Washington Street, Suite 2400
Phoenix, AZ 85004

ATTACHMENT 1



Water Providers

- Sun Valley Farms Unit VI Water Company
- Town of Queen Creek
- Johnson Utilities, LLC
- H20, Inc.
- Diversified Water Utilities, Inc.
- Arizona Water Company (Coolidge)

Sewer Providers

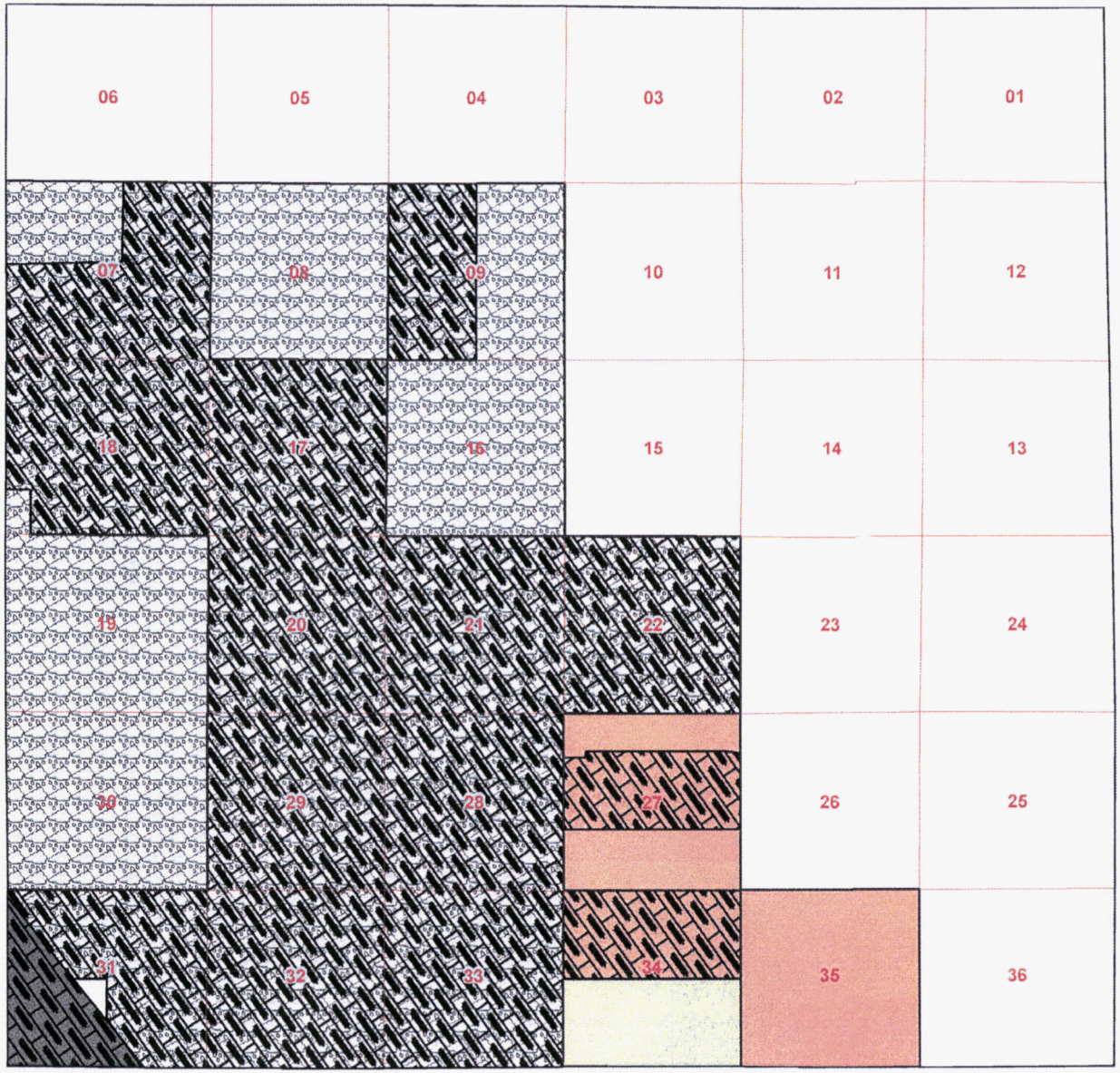
- Johnson Utilities, LLC

Map No. 6

PINAL COUNTY

RANGE 8 East

TOWNSHIP 2 South



W-02859A (2)
Diversified Water Utilities, Inc.

WS-02987A (8)
Johnson Utilities, LLC

Sewer

W-02425A (2)
Sun Valley Farms Unit VI Water Company

(2)
Town of Queen Creek (Nonjurisdictional)

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Arizona Corporation Commission
Utilities Division
Engineering Section\GIS Mapping
602-542-4251

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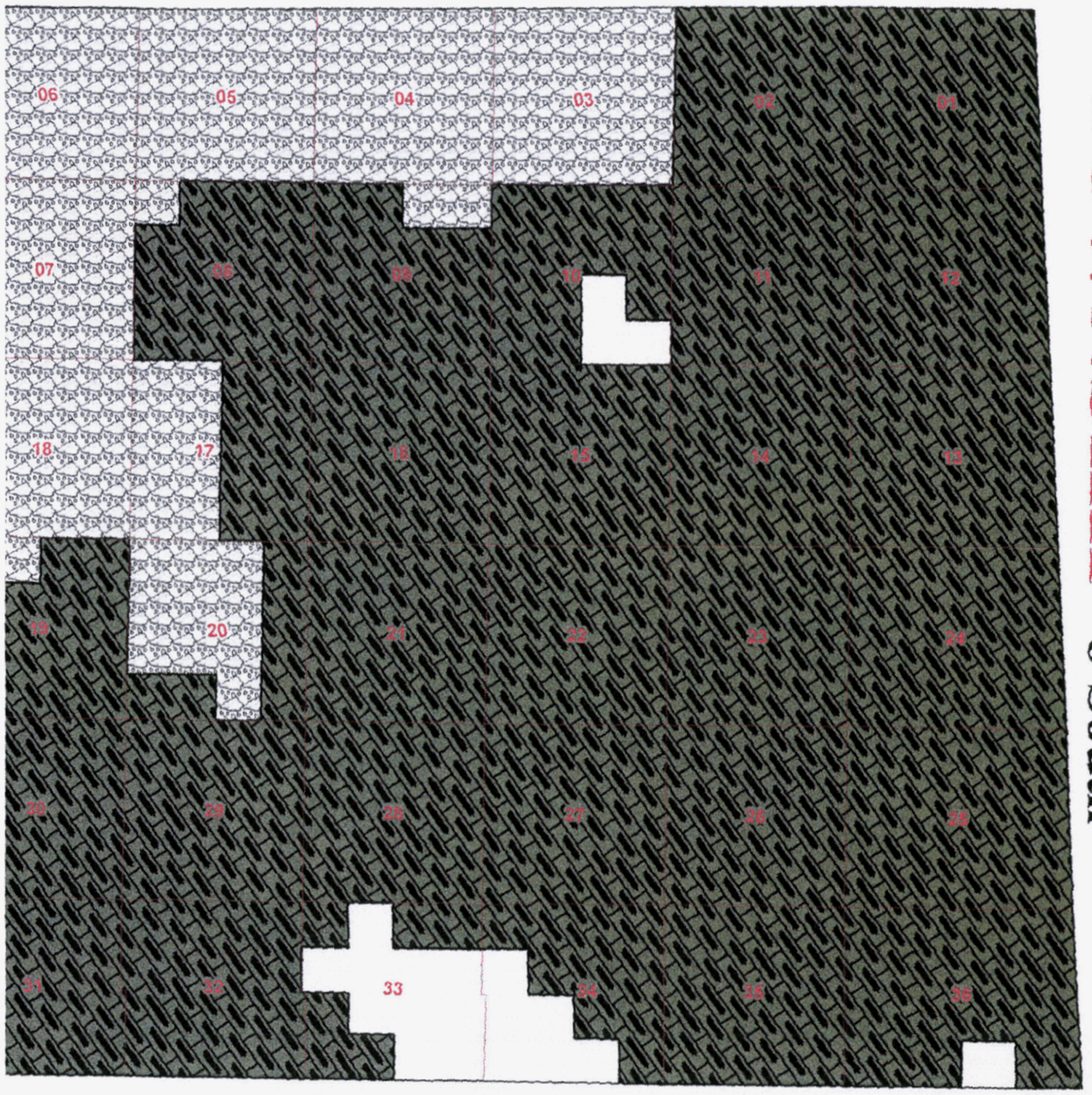
TR2S8E 23 SEP 2013

PINAL COUNTY

Map No. 10

RANGE 7 East

TOWNSHIP 3 South



WS-02987A (8)
Johnson Utilities, LLC

Sewer

(2)
Town of Queen Creek (Nonjurisdictional)

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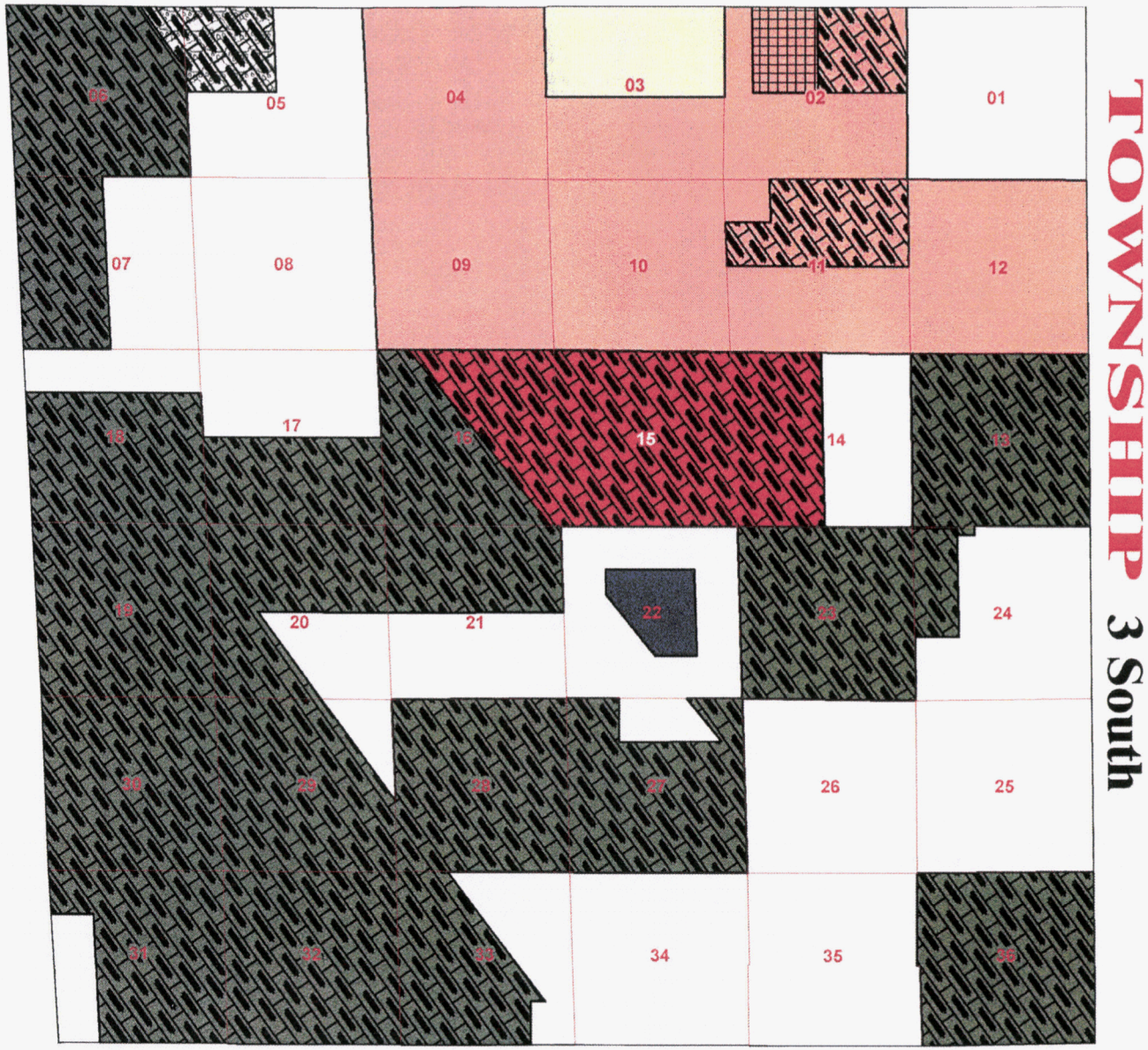
Utilities Division
Engineering Section\GIS Mapping

PINAL COUNTY

Map No. 11

RANGE 8 East



TOWNSHIP 3 South

W-02859A (3)
Diversified Water Utilities, Inc.

WS-02987A (8)
Johnson Utilities, LLC

Sewer

W-02425A (2)
Sun Valley Farms Unit VI Water Company

(2)
Town of Queen Creek (Nonjurisdictional)

(2)
Johnson Utilities, LLC
Docket No. WS-02987A-12-0136
2nd Amended Application for Extension for Water Only

(1)
Johnson Utilities, LLC
Docket No. WS-02987A-13-0284
Amended Application for Extension for Water and Sewer

(1)
Johnson Utilities, LLC
Docket No. WS-02987A-13-0310
Application for Extension for Sewer Only

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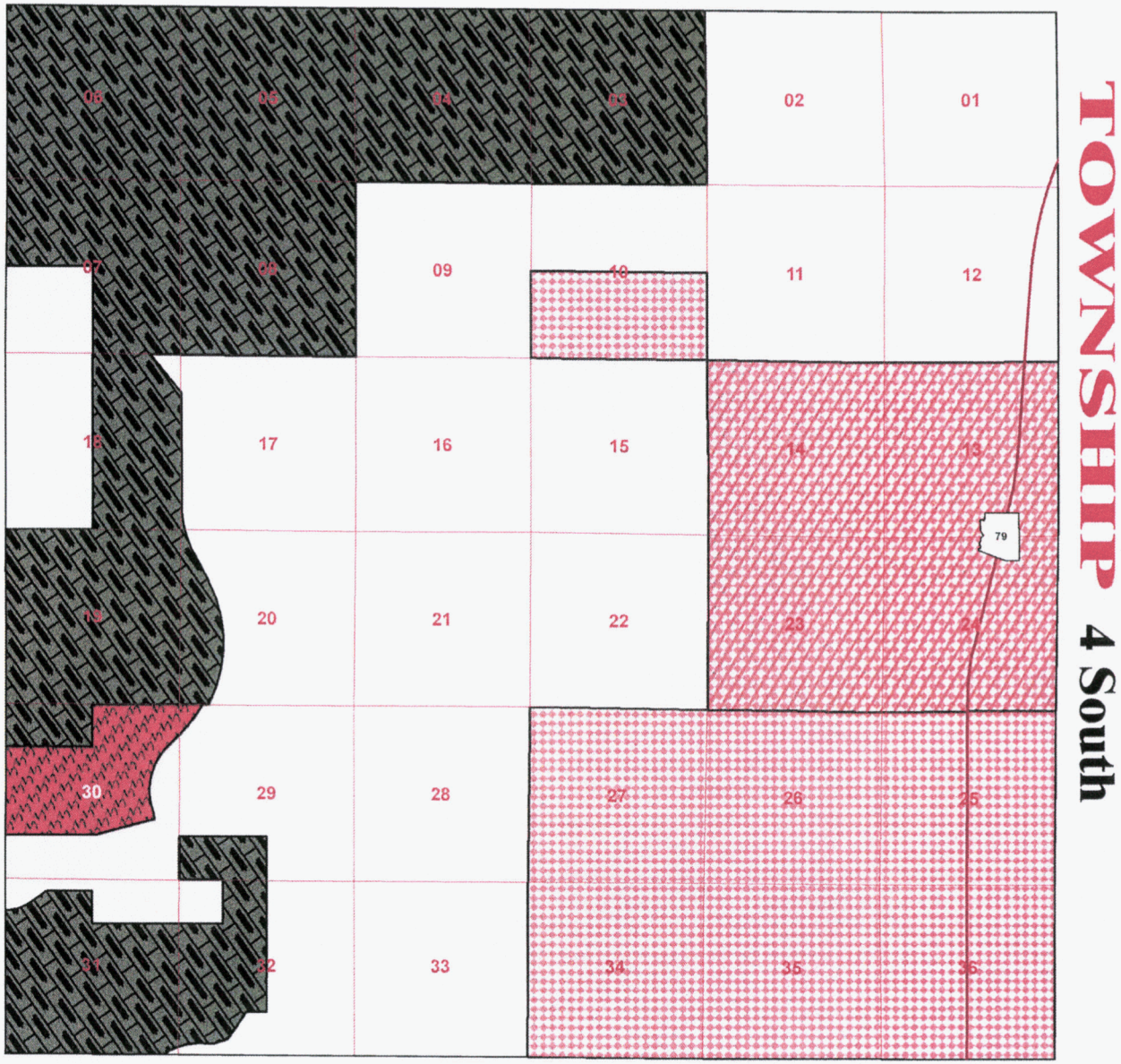
PINAL COUNTY

Map No. 12

RANGE 9 East



TOWNSHIP 4 South

WS-02987A (8) — Sewer
Johnson Utilities, LLC

(4) — Sewer
City of Florence (Nonjurisdictional)

(2) — Sewer
Johnson Utilities, LLC
Docket No. WS-02987A-12-0136
2nd Amended Application for
Extension for Water & Sewer

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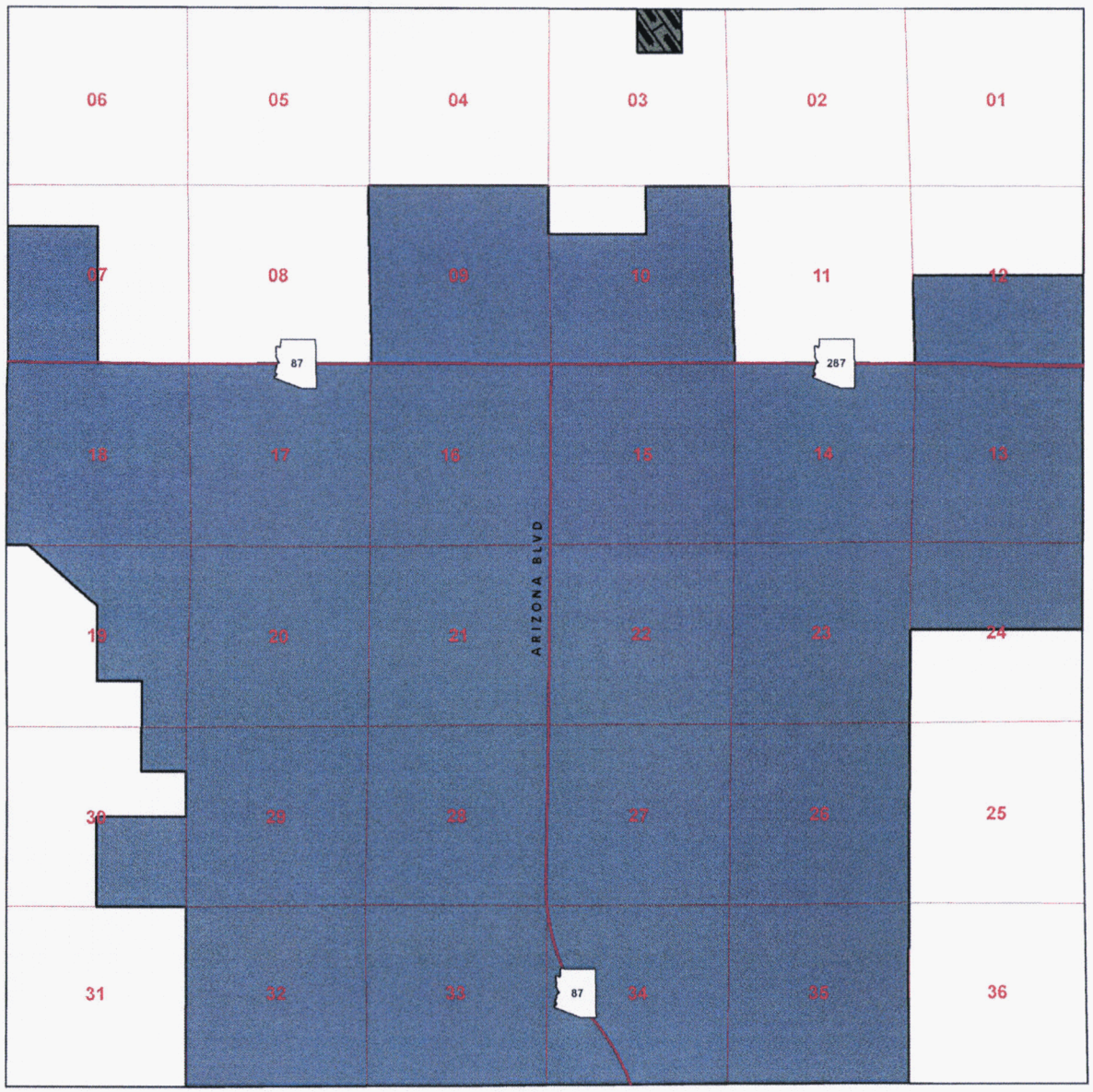
PINAL COUNTY

Map No. 20

RANGE 8 East



TOWNSHIP 5 South

W-01445A (40)(4)
Arizona Water Company (Coolidge)

WS-02987A (8)
Johnson Utilities, LLC

Sewer

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TR5S8E 03 JUL 2008

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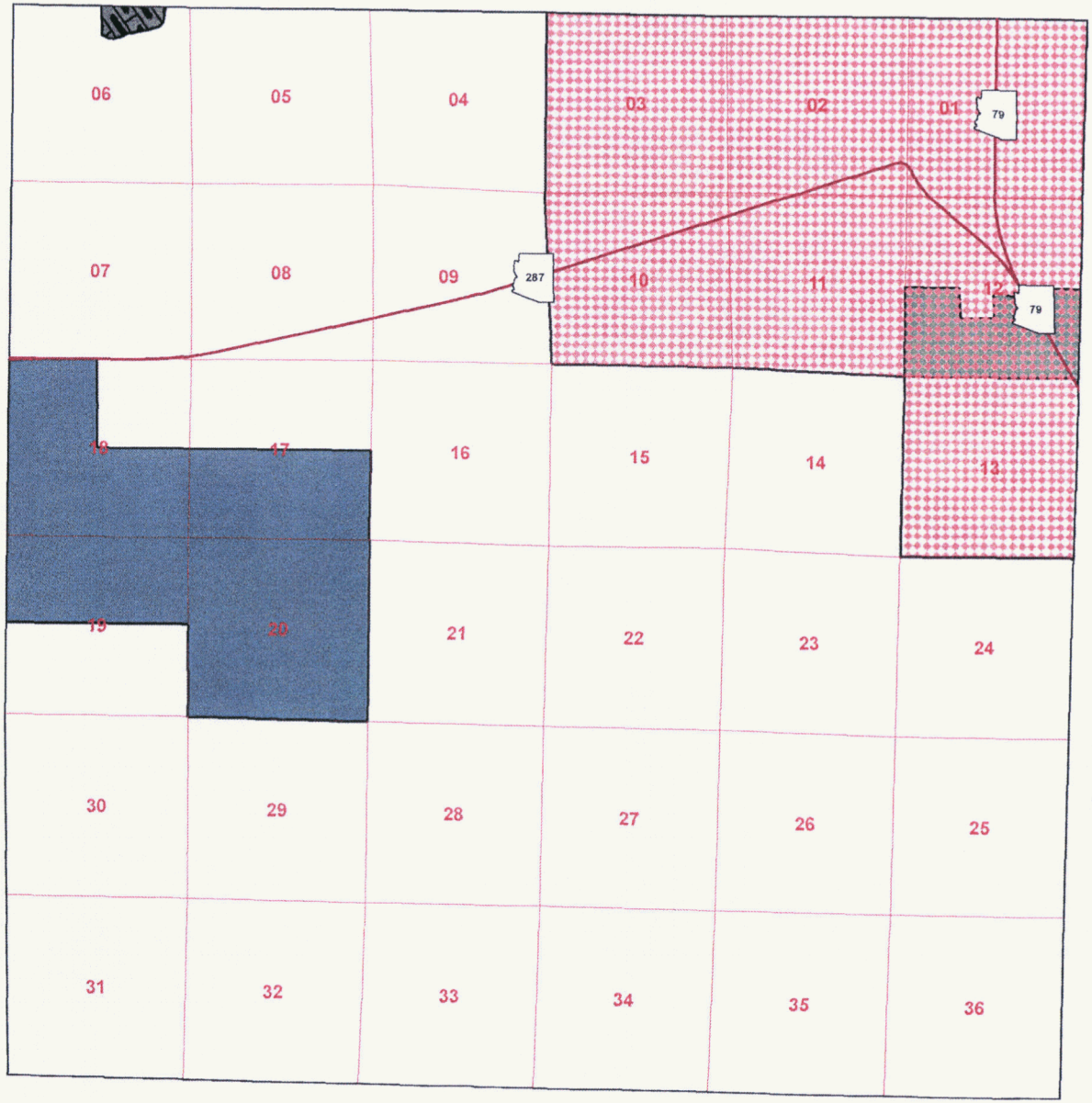
PINAL COUNTY

Map No. 21

RANGE 9 East

TOWNSHIP 5 South



W-01445A (40)(4)
Arizona Water Company (Coolidge)

WS-02987A (8)
Johnson Utilities, LLC

Sewer

(4)
City of Florence (Nonjurisdictional)

(2)
Southwest Environmental Utilities, LLC
Docket No. WS-20878A-13-0065
(Amended Application for CC&N for Water & Wastewater)

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Utilities Division
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TR5S9E 03 JUL 2008

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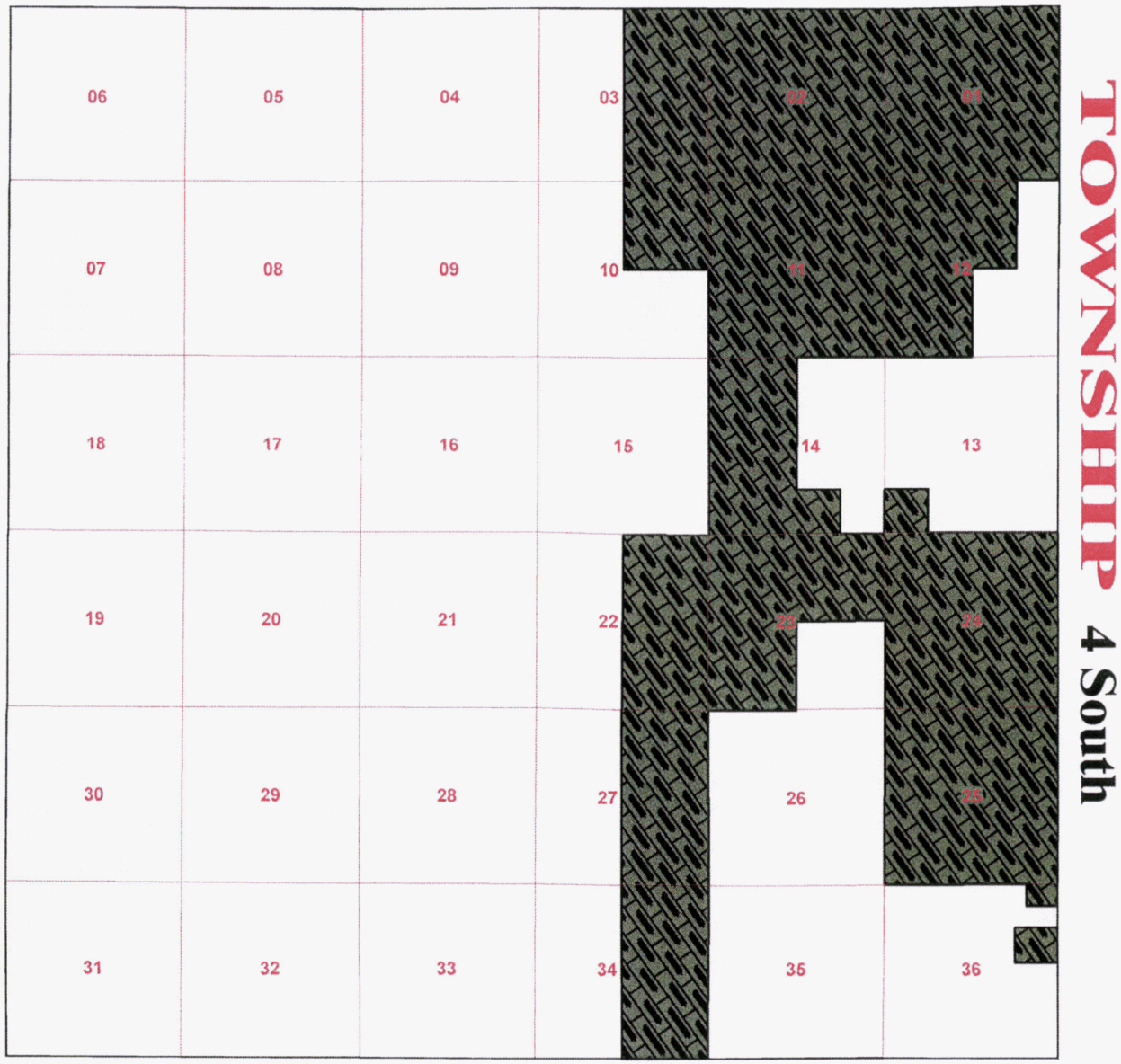
PINAL COUNTY

Map No. 51

RANGE 8 East



TOWNSHIP 4 South

WS-02987A (8)
Johnson Utilities, LLC

Sewer

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Arizona Corporation Commission
Utilities Division
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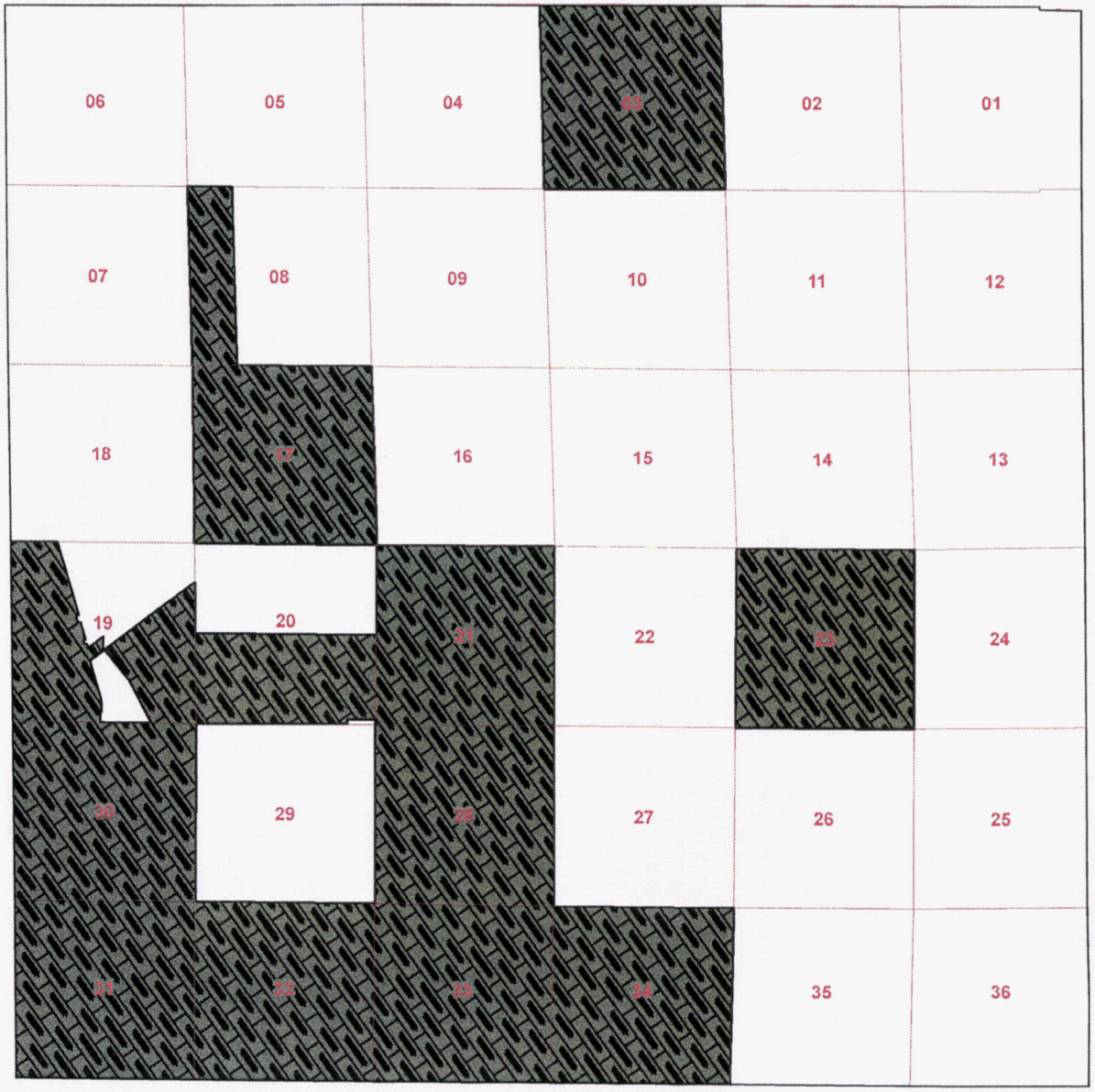
PINAL COUNTY

Map No. 55

RANGE 9 East

TOWNSHIP 3 South



WS-02987A (8)
Johnson Utilities, LLC

Sewer

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Arizona Corporation Commission
Utilities Division
Engineering Section\GIS Mapping
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TR3S9E 26 JUN 2012

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

BOB STUMP – Chairman
GARY PIERCE
BRENDA BURNS
ROBERT BURNS
SUSAN BITTER SMITH

IN THE MATTER OF THE APPLICATION OF JOHNSON UTILITIES, LLC DOING BUSINESS AS JOHNSON UTILITIES COMPANY, FOR APPROVAL OF THE SALE AND TRANSFER OF ASSETS AND CONDITIONAL CANCELLATION OF ITS CERTIFICATE OF CONVENIENCE AND NECESSITY.	**DOCKET NO. WS-02987A-13-0477**

DIRECT TESTIMONY OF DANIEL HODGES

MARCH 28, 2014

EXHIBIT
Holder
A-2
ADMITTED

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BROWNSTEIN HYATT FARBER SCHRECK, LLP
One East Washington Street, Suite 2400
Phoenix, AZ 85004
602.382.4040

I. INTRODUCTION.

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Daniel Hodges. My business address is 5230 East Shea Boulevard, Suite 200, Scottsdale, Arizona 85254.

Q. DO YOU WORK FOR JOHNSON UTILITIES, L.L.C.?

A. Yes.

Q. HAVE YOU TESTIFIED PREVIOUSLY IN ANY OTHER PROCEEDINGS BEFORE THE ARIZONA CORPORATION COMMISSION?

A. Yes. I have testified as a witness for Johnson Utilities in Dockets WS-02987A-08-0180, WS-02987A-09-0083 and WS-02987-12-0136.

II. PURPOSE OF TESTIMONY.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. On December 31, 2013, Johnson Utilities, L.L.C. ("Johnson Utilities" or the "Company") filed an Application for Approval of the Sale and Transfer of Assets and Conditional Cancellation of Certificate of Convenience and Necessity (the "Application"). In its Application, Johnson Utilities requested an order from the Arizona Corporation Commission ("Commission") approving the sale and transfer of the Company's utility assets and operations to the Town of Florence ("Town"), an Arizona municipality, and the cancellation and extinguishment of its Certificates of Convenience and Necessity (collectively, the "CC&N") to provide water and wastewater services, conditioned upon consummation of a sale to the Town. In my testimony, I describe Johnson Utilities and its operations, the proposed transaction between the Company and the Town, and the reasons why the asset sale and transfer is in the public interest.

III. DESCRIPTION OF JOHNSON UTILITIES.

Q. PLEASE DESCRIBE JOHNSON UTILITIES.

A. Johnson Utilities is a public service corporation regulated by the Commission which holds a CC&N to provide water and wastewater service in Pinal County,

Arizona, first granted in Decision 60223 (May 27, 1997). Subsequent expansions of the Company's CC&N were approved by the Commission in Decisions 61069 (August 7, 1998), 62087 (November 19, 1999), 63960 (September 4, 2001) as amended by Decision 64062 (October 4, 2001), 67585 (February 15, 2005), 67586 (February 15, 2005), 68235 (October 25, 2005), 68236 (October 25, 2005), 68237 (October 25, 2005), 68960 (September 21, 2006), 68961 (September 21, 2006), 68995 (October 20, 2006), 69167 (December 5, 2006), 69414 (April 16, 2007), 70411 (July 3, 2008), 70849 (March 17, 2009), and 73236 (June 26, 2012). Johnson Utilities also has three applications pending to extend its water and wastewater CC&N in Dockets WS-02987A-12-0136, WS-02987A-13-0284 and WS-02987A-13-0310.

Maps depicting the Company's existing CC&N are attached to my testimony as Attachment 1. Johnson Utilities' existing water CC&N covers approximately 72 square miles and its wastewater CC&N covers approximately 87 square miles. Johnson Utilities generally serves from the boundary of the Town of Queen Creek southeast to the Town of Florence.

Q. DOES JOHNSON UTILITIES SERVE CUSTOMERS RESIDING OR LOCATED WITHIN THE MUNICIPAL BOUNDARIES OF THE TOWN OF FLORENCE?

A. Yes. As of December 2013, the Company served approximately 2,174 water connections and approximately 2,076 sewer connections within the municipal boundaries of the Town of Florence. The Company's remaining customers reside or are located within unincorporated areas of Pinal County.

Q. DO YOU HAVE AN ESTIMATE OF THE NUMBER OF CUSTOMERS CURRENTLY SERVED BY JOHNSON UTILITIES WHO RESIDE OR ARE LOCATED OUTSIDE THE MUNICIPAL BOUNDARIES OF THE TOWN OF FLORENCE?

A. Yes. As of December 2013, the Company served approximately 20,780 water

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connections and approximately 28,825 sewer connections outside of the municipal boundaries of the Town of Florence.

Q. DOES JOHNSON UTILITIES SERVE ANY CUSTOMERS RESIDING OR LOCATED WITHIN THE MUNICIPAL BOUNDARIES OF THE TOWN OF QUEEN CREEK?

A. No.

Q. DOES JOHNSON UTILITIES SERVE ANY CUSTOMERS RESIDING OR LOCATED WITHIN MARICOPA COUNTY?

A. No. All customers reside or are located within Pinal County and the Company's CC&N does not include any areas within Maricopa County.

Q. PLEASE DESCRIBE JOHNSON UTILITIES' WATER SYSTEMS.

A. Johnson Utilities operates two water systems—the Johnson Ranch Public Water System No. 11-128 and Anthem at Merrill Ranch Public Water System No. 11-136. The Johnson Ranch water system consists of 16 wells, 12 storage tanks totaling 7.20 million gallons, and a distribution system serving approximately 20,780 service connections as of December 2013. The Anthem at Merrill Ranch water system consists of four wells, two storage tanks totaling 1.5 million gallons, and a distribution system serving approximately 2,174 service connections as of December 2013.

Q. PLEASE DESCRIBE JOHNSON UTILITIES' WASTEWATER TREATMENT PLANTS.

A. Johnson Utilities operates four wastewater treatment plants: Pecan, San Tan, Section 11 and Anthem. The San Tan system has a 2.0 million gallon per day ("MGD") extended aeration wastewater reclamation plant ("WRP") that served approximately 7,263 service laterals as of December 2013. The Section 11 system has a 1.6 MGD anaerobic lagoon wetland WRP that served approximately 8,629 service laterals as of December 2013. The Pecan system has a 2.0 MGD extended aeration WRP that served approximately 11,225 service laterals as of

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December 2013. The Anthem system has a 1.5 MGD extended aeration WRP that served approximately 3,783 service laterals as of December 2013. In total, Johnson Utilities provided wastewater service to approximately 30,901 service laterals as of December 2013.

IV. DESCRIPTION OF SOUTHWEST ENVIRONMENTAL UTILITIES, LLC.

Q. WHAT IS SOUTHWEST ENVIRONMENTAL UTILITIES, LLC?

A. Southwest Environmental Utilities, LLC, ("SEU") is an entity controlled by George Johnson which was formed to provide water and wastewater service to proposed new master planned developments located in the southeast part of the Town of Florence. On March 21, 2013, SEU filed an application with the Commission in Docket WS-20878A-13-0065 for certificates of convenience and necessity to provide water and wastewater service to the areas identified in the application. That application is pending.

Q. DOES THE TOWN OF FLORENCE INTEND TO PROVIDE WATER AND WASTEWATER SERVICES TO THOSE AREAS INCLUDED IN SEU'S APPLICATION FOR A CC&N?

A. Yes. Because the developments included in SEU's application are located within the municipal boundaries of the Town, it is logical for the Town to serve those developments, and it is the Town's intention to do so.

V. THE TRANSACTION.

Q. PLEASE DESCRIBE THE PROPOSED TRANSACTION BETWEEN JOHNSON UTILITIES AND THE TOWN OF FLORENCE.

A. Over the years leading up to the filing of the Application in this case, the Town has repeatedly expressed interest in acquiring the assets and operations of Johnson Utilities. Currently, the Town provides water and wastewater services to many of its residents, and the Town believes that Johnson Utilities' service area integrates well with the Town's planning area. This is the Town's second effort at purchasing the assets of Johnson Utilities. The Town originally considered

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purchasing the Company's assets in 2007.

Johnson Utilities and the Town are working toward finalizing the terms and conditions of an asset purchase and lease agreement (the "Asset Purchase and Lease Agreement") whereby the Town would acquire the assets and operations of the Company, including the rights and obligations to provide water and wastewater utility services to current and future customers residing within the Company's CC&N.

Q. WHEN DO YOU ANTICIPATE THAT THE ASSET PURCHASE AND LEASE AGREEMENT WILL BE COMPLETED?

A. On March 26, 2014, the Town Council held a public meeting and work session to review and discuss a draft of the Asset Purchase and Lease Agreement. The response of the Council and the Mayor to the draft was very positive. In fact, a motion was unanimously passed to authorize the Town Manager to finalize all agreements with Johnson Utilities and SEU and come back to the Council for action on those agreements at an upcoming council meeting. I expect that a final version of the Asset Purchase and Lease Agreement will be presented to the Town Council for a vote at a council meeting in April 2014.

Q. ASSUMING THE TOWN COUNCIL APPROVES THE ASSET PURCHASE AND LEASE AGREEMENT, WHAT HAPPENS NEXT?

A. Once the Town Council approves the Asset Purchase and Lease Agreement, it will be signed by the parties but will be subject to two major approvals that still must be obtained before the transaction can close. The Commission must issue an order approving the sale and transfer of Johnson Utilities' assets to the Town and conditionally cancelling the Company's CC&N, contingent upon the closing of the transaction. In addition, the transaction must be approved by a majority of the voting citizens of the Town in a special election. If either of these approvals are not obtained, then the signed Asset Purchase and Lease Agreement will be void and of no further force or effect.

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Q. HAS THE TOWN SCHEDULED THE SPECIAL ELECTION?

A. Yes. On February 18, 2014, the Town Council approved and adopted Resolution 1421-14 which authorizes a special election to be held on May 20, 2014, regarding the Town's acquisition of the assets of Johnson Utilities and any assets of SEU. The Town Manager, Charles Montoya, has told the Company that reaction from residents to the acquisition has been positive thus far and the Town does not foresee any issue with the election.

Q. ASSUMING THAT THE REQUIRED APPROVALS ARE OBTAINED FROM THE COMMISSION AND THE VOTERS, WHEN DO YOU ANTICIPATE THE TRANSACTION WILL CLOSE?

A. The Town has budgeted the acquisition for its current fiscal year which ends June 30, 2014. We hope to be able to close the transaction before the end of June 2014.

Q. PLEASE DESCRIBE THE MAJOR PROVISIONS OF THE ASSET PURCHASE AND LEASE AGREEMENT.

A. Attached to my testimony as Attachment 2 is the most recent draft of the Asset Purchase and Lease Agreement. Please bear in mind that the agreement is still a working draft and it has not been approved or signed by either the Town or Johnson Utilities. With that caveat, I will briefly summarize the key provisions of the agreement:

- The Town will acquire all of the assets of Johnson Utilities as outlined in the Asset Purchase and Lease Agreement, free and clear of all liens, mortgages, pledges, encumbrances and charges of every kind, which are useful, available for use or necessary for the Town's operation of the utility business.
- The Town will assume all of Johnson Utilities' obligations under existing main extension agreements and master utility agreements as outlined in the Asset Purchase and Lease Agreement.
- The Town will receive $2,500,000 cash in the off-site facilities hookup fee account and any balance in the Central Arizona Groundwater Replenishment District ("CAGRD") adjuster fee account, reduced by any shortfall from the October 2013 CAGRD

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bill advanced by Johnson Utilities.

- The Town will assume all existing customer accounts and will receive customer deposits held on account.
- Once the asset transfer is approved by the Commission, the CC&N of Johnson Utilities will be cancelled.
- The Town will pay a purchase price of $121,000,000 in the form of non-recourse revenue bonds.
- Johnson Utilities and the Town will enter into a management agreement ("Management Agreement") whereby Johnson Utilities will operate the business for a period of five years.

Q. HOW WILL THE ACQUISITION BE FINANCED BY THE TOWN?

A. As described in Section 2.01 and Exhibit "B" of the Asset Purchase and Lease Agreement, the Town will deliver to Johnson Utilities one or more series of non-recourse water and sewer revenue bonds issued by the Industrial Development Authority of the City of Phoenix (the "IDA") pursuant to a Trust Indenture between the IDA and Zion's First National Bank and a loan agreement between the IDA and the Town. The 30-year bonds will mature in 2044 and bear interest at the rate of 6.625% per annum for the first five years and 8.00% per annum thereafter. The interest is payable to Johnson Utilities semi-annually on February 1 and August 1 each year. Repayment of principal will begin in the sixth year of the bonds.

Q. HAS THERE BEEN ANY CHANGE IN THE STRUCTURE OF THE TRANSACTION AS IT IS DESCRIBED IN THE APPLICATION FILED BY JOHNSON UTILITIES?

A. Yes. In the Application, Johnson Utilities stated that the Town of Florence would be forming a non-profit municipal property corporation to acquire and hold the assets acquired from Johnson Utilities. However, the Town has since determined that it will acquire and hold the assets directly.

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Q. DOES THE ASSET PURCHASE AND LEASE AGREEMENT REFLECT THIS CHANGE IN STRUCTURE?

A. No, not yet. The Asset Purchase and Lease Agreement still reflects that the assets will be acquired by the Florence Municipal Property Corporation. This is one of the revisions that still needs to be made to the agreement.

Q. YOU TESTIFIED EARLIER THAT JOHNSON UTILITIES SERVES CUSTOMERS BOTH INSIDE AND OUTSIDE THE TOWN'S MUNICIPAL BOUNDARIES. WILL THE TOWN OF FLORENCE SERVE ALL CURRENT AND FUTURE CUSTOMERS WITHIN THE COMPANY'S CC&N REGARDLESS OF WHETHER THEY ARE LOCATED WITHIN THE MUNICIPAL BOUNDARIES OF THE TOWN?

A. Yes. The Town has assured Johnson Utilities that it will serve all current and future customers within the boundaries of the Company's CC&N.

Q. YOU ALSO TESTIFIED EARLIER THAT JOHNSON UTILITIES HAS APPLICATIONS PENDING TO EXPAND ITS CC&N IN DOCKETS WS-02987A-12-0136, WS-02987A-13-0284 AND WS-02987A-13-0310. WILL THE TOWN OF FLORENCE SERVE FUTURE CUSTOMERS IN THE AREAS COVERED BY THE COMPANY'S APPLICATIONS TO EXPAND ITS CC&N?

A. Yes. The Town has assured Johnson Utilities that it will serve future water and wastewater customers within the areas covered by the three pending CC&N extension applications.

Q. DOES THE TOWN OF FLORENCE HAVE PRIOR EXPERIENCE OWNING AND OPERATING MUNICIPAL WATER AND WASTEWATER SYSTEMS?

A. Yes. The Town owns and operates existing water and wastewater facilities and systems serving a population of approximately 21,000. That is one of the reasons we believe the Town is well suited to acquire the assets and operations of Johnson

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Utilities.

Q. WILL EXISTING CUSTOMERS OF JOHNSON UTILITIES SEE ANY DISRUPTION IN THEIR SERVICE AS A RESULT OF THE ASSET TRANSFER AND SALE?

A. No. Johnson Utilities and the Town will work hard to ensure that the transaction is smooth and seamless to customers. To that end, Johnson Utilities and the Town will enter into the Management Agreement described in Section 2.06 of the Asset Purchase and Lease Agreement whereby Johnson Utilities will operate the transferred water and wastewater assets for a period of five years. At the end of five years, the Town will assume management of the water and wastewater systems. Given the Town's operational experience and solid track record providing water and wastewater services to its residents, the existing customers of Johnson Utilities will continue to receive a high level of service throughout the transition.

Q. DOES THE TOWN INTEND TO INTERCONNECT ITS EXISTING WATER AND WASTEWATER FACILITIES AND THOSE OF JOHNSON UTILITIES FOLLOWING THE CLOSING?

A. It is my understanding that there are no current plans to interconnect the utility plant of Johnson Utilities and the utility plant of the Town.

Q. WILL THE TRANSACTION RESULT IN A REDUCTION OF THE CURRENT WORKFORCE OF JOHNSON UTILITIES?

A. No. All of the existing employees of Johnson Utilities will remain employees of the Company during the five-year term of the Management Agreement and will then be transitioned to the Town pursuant to a transition agreement. Thus, we do not anticipate any reduction in the current workforce.

Q. WILL THE TRANSACTION HAVE AN EFFECT ON ANY OTHER REGULATED UTILITY?

A. No. As the Commission is aware, the Town of Queen Creek has acquired private

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water companies over the past several years in the immediate vicinity of Johnson Utilities. Thus, municipal consolidation of private utilities in the area is already underway. The Town's acquisition of Johnson Utilities will continue this trend, and will have no impact on any existing utility in the area.

VI. RATES AND CUSTOMER SERVICE.

Q. HOW DO THE RATES AND CHARGES OF THE TOWN OF FLORENCE COMPARE TO THE RATES AND CHARGES OF JOHNSON UTILITIES?

A. The current rates and charges of the Town are comparable to the current rates and charges of Johnson Utilities. I have attached a comparison to my testimony as Attachment 3 which shows the rates of the Town and the current rates of the Company.

Q. WHAT WILL HAPPEN TO THE RATES FOR CURRENT JOHNSON UTILITIES CUSTOMERS FOLLOWING THE CLOSING?

A. The Town has agreed that it will not increase existing rates and charges for 18 months following the closing. I would note also that the Town currently charges a 5% franchise fee on the water and wastewater services provided to all Johnson Utilities customers residing within the Town's municipal boundaries. Once the acquisition closes, the rates for those customers will be reduced by 5% because the franchise fee will no longer apply.

Q. HAS THE TOWN INDICATED WHEN IT MIGHT CONSIDER CHANGES IN RATES AND CHARGES?

A. The Town has indicated that it will undertake and complete a full rate study in order to make a determination on any changes in future rates and charges.

Q. FOR CUSTOMERS RESIDING OUTSIDE THE TOWN'S MUNICIPAL BOUNDARIES, ARE THERE ASSURANCES THAT THE TOWN WILL TREAT THOSE CUSTOMERS ON AN EQUAL FOOTING WITH CUSTOMERS RESIDING INSIDE THE MUNICIPAL BOUNDARIES?

A. Yes. While I am not an attorney, I have become aware during the Company's

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negotiations with the Town that such assurances are codified in the Arizona statutes. Title 9, Chapter 5, Article 2 of the Arizona Revised Statutes addresses municipal ownership of utilities. Specifically, A.R.S. § 9-511(A) states as follows:

> A. A municipal corporation may engage in any business or enterprise which may be engaged in by persons by virtue of a franchise from the municipal corporation, and may construct, purchase, acquire, own and maintain within or without its corporate limits any such business or enterprise. A municipal corporation may also purchase, acquire and own real property for sites and rights-of-way for public utility and public park purposes, and for the location thereon of waterworks, electric and gas plants, municipal quarantine stations, garbage reduction plants, electric lines for the transmission of electricity, pipelines for the transportation of oil, gas, water and sewage, and for plants for the manufacture of any material for public improvement purposes or public buildings. <u>If a municipality provides water to another municipality, the rates it charges for the water to the public in the other municipality shall be one of the following</u>:
>
> 1. <u>The same or less than the rates it charges its own residents for water</u>.
> 2. <u>The same or less than the rates the other municipality charges its residents for water</u>.
> 3. <u>If the other municipality does not provide water, the average rates charged for water to the residents in the other municipality by private water companies</u>.
> 4. <u>Rates determined by a contract which is approved by both municipalities and in which such rates are justified by a cost of service study or by any other method agreed to by both municipalities</u>. (emphasis added)

From the plain language of this statute, it is clear to me that the Town must treat customers residing outside its municipal boundaries on an equal footing with those residing inside the municipal boundaries. In addition to the statute quoted above, A.R.S. § 9-511.01 describes the procedure that a municipality such as the Town of Florence must follow in order to increase water or wastewater rates or rate components, either inside or outside its boundaries:

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A. A municipality engaging in a domestic water or wastewater business shall not increase any water or wastewater rate or rate component, fee or service charge without complying with the following:

1. Prepare a written report or supply data supporting the increased rate or rate component, fee or service charge. A copy of the report shall be made available to the public by filing a copy in the office of the clerk of the municipality governing board at least thirty days before the public hearing described in paragraph 2.

2. Adopt a notice of intention by motion at a regular council meeting to increase water or wastewater rates or rate components, fees or service charges and set a date for a public hearing on the proposed increase that shall be held not less than thirty days after adoption of the notice of intention. A copy of the notice of intention showing the date, time and place of the hearing shall be published one time in a newspaper of general circulation within the boundaries of the municipality not less than twenty days before the public hearing date.

B. After holding the public hearing, the governing body may adopt, by ordinance or resolution, the proposed rate or rate component, fee or service charge increase or any lesser increase.

C. Notwithstanding section 19-142, subsection B, the increased rate or rate component, fee or service charge shall become effective thirty days after adoption of the ordinance or resolution.

D. Any proposed water or wastewater rate or rate component, fee or service charge adjustment or increase shall be just and reasonable.

E. Rates and charges demanded or received by municipalities for water and wastewater service shall be just and reasonable. Every unjust or unreasonable rate or charge demanded or received by a municipality is prohibited and unlawful. (emphasis added)

This statute requires that rate increases be justified, that prior notice of rate increases be provided, and that a public hearing be held before any rate increase is implemented. Additionally, the statute prohibits as unlawful any rate increase that is not just and reasonable. This procedure protects residents and non-residents alike.

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Q. DO YOU BELIEVE THERE IS A RISK THE TOWN MAY DISCONTINUE WATER OR WASTEWATER SERVICE TO CUSTOMERS RESIDING OUTSIDE OF THE TOWN'S MUNICIPAL BOUNDARIES?

A. No. Again, while I am not an attorney, I have become aware during the Company's negotiations with the Town of a statute which directly addresses this question. A.R.S. § 9-516(C) states as follows:

> C. A city or town acquiring the facilities of a public service corporation rendering utility service without the boundaries of such city or town, or which renders utility service without its boundaries, shall not discontinue such service, once established, as long as such city or town owns or controls such utility. A city or town which renders utility service outside of its boundaries as prescribed by this subsection shall not be prohibited from selling a part of its utility operation to another utility which operates under regulations prescribed by law. (emphasis added)

The plain language of this statute makes clear that the Town of Florence may not discontinue water or wastewater service to customers residing outside of its municipal boundaries.

VII. CUSTOMER NOTICE.

Q. HAS JOHNSON UTILITIES PROVIDED NOTICE OF THE APPLICATION AND HEARING DATE TO ITS CUSTOMERS?

A. Yes. Johnson Utilities first provided notice of the proposed sale and transfer of utility assets to the Town of Florence in the Company's March 2014 Newsletter which was mailed to all customers with their monthly bills. The notice followed exactly the format of the notice that was used by H2O, Inc., to notify its customers of the planned sale and transfer of its assets to the Town of Queen Creek in Docket W-02234A-13-0237. In addition to mailing the notice directly to customers, Johnson Utilities uploaded the newsletter and notice to the Company's website. A copy of the notice is attached hereto as Attachment 4.

Additionally, Johnson Utilities mailed a notice of the Application and the hearing date in this case to all of its customers via first class mail as required by

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the Procedural Order in this case dated March 14, 2014. The Company also published the required notice in the March 24, 2014, statewide edition of *The Arizona Republic*. On March 28, 2014, Johnson Utilities filed in the docket an Affidavit of Publication from *The Arizona Republic* attesting to the timely publication of the required notice and an affidavit signed by me attesting that the required public notice was mailed to all customers of the Company via first class mail by March 26, 2014.

Q. WHAT HAS BEEN THE REACTION OF CUSTOMERS SO FAR REGARDING THE PROPOSED SALE AND TRANSFER OF THE UTILITY ASSETS TO THE TOWN OF FLORENCE?

A. The response from the Company's customers to date has been very favorable. We have seen virtually no opposition by customers to the proposed sale.

Q. YOU TESTIFIED EARLIER THAT JOHNSON UTILITIES HAS THREE APPLICATIONS PENDING TO EXTEND ITS WATER AND WASTEWATER CC&N IN DOCKETS WS-02987A-12-0136, WS-02987A-13-0284 AND WS-02987A-13-0310. HAS THE COMPANY PROVIDED NOTICE OF THE PROPOSED ASSET SALE AND TRANSFER TO THE LANDOWNERS REQUESTING SERVICE IN THOSE DOCKETS?

A. Yes. The Company has provided notice of the application and the hearing date to these landowners. I would note that one of the landowners, Pulte Home Corporation, has intervened in this docket.

VIII. <u>CUSTOMER DEPOSITS</u>.

Q. DOES JOHNSON UTILITIES HOLD ANY CUSTOMER DEPOSITS, AND IF SO, WHAT WILL BECOME OF THOSE CUSTOMER DEPOSITS ONCE THE PROPOSED ASSET SALE AND TRANSFER IS APPROVED?

A. Johnson Utilities does hold customer deposits in the approximate total amount of $1,117,500 as of March 17, 2014. Pursuant to Section 1.01(i) of the Asset Purchase and Lease Agreement, the customer deposits are part of the "Purchased

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Assets" in this transaction.

IX. MAIN EXTENSION AGREEMENTS.

Q. DOES JOHNSON UTILITIES HAVE OUTSTANDING REFUND OBLIGATIONS UNDER WATER MAIN EXTENSION AGREEMENTS OR SEWER COLLECTION MAIN EXTENSION AGREEMENT?

A. Yes. Unlike many water and sewer utilities, Johnson Utilities refunds the full amount of advances in aid of construction received from parties to main extension agreements, so there are many agreements with refund obligations remaining. Pursuant to Section 1.01(e) of the Asset Purchase and Lease Agreement, the Company will assign approximately 274 water main extension agreements and approximately 260 sewer collection main extension agreements to the Town of Florence at closing. These agreements are listed by subdivision in the exhibits to Asset Purchase and Lease Agreement. Once assigned, the Town steps into the shoes of Johnson Utilities and is obligated to perform and to make refunds of advances in aid of construction ("AIAC") in accordance with the terms and conditions of the agreements.

Q. ARE THERE ANY MAIN EXTENSION AGREEMENTS WITH OUTSTANDING REFUND OBLIGATIONS THAT WILL NOT BE ASSIGNED TO THE TOWN OF FLORENCE?

A. No. All main extension agreements with outstanding AIAC refund obligations will be assigned to the Town.

Q. HOW WILL THE REFUNDS OF ADVANCES TO DEVELOPERS BE HANDLED BY THE TOWN FOLLOWING CLOSING?

A. As I testified above, the Town will simply step into the shoes of Johnson Utilities so there will be no change in the way that AIAC refunds to developers are currently made. In other words, refunds will continue to be paid by August 31 of each year covering any eligible revenues received by the Town during the preceding July 1 to June 30 period.

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Q. IS JOHNSON UTILITIES A PARTY TO ANY MASTER UTILITY AGREEMENTS WITH DEVELOPERS AND/OR LANDOWNERS?

A. Yes. Johnson Utilities is a party to approximately 52 master utility agreements which are listed by subdivision in the exhibits to the Asset Purchase and Lease Agreement.

Q. WILL JOHNSON UTILITIES ALSO ASSIGN THE VARIOUS MASTER UTILITY AGREEMENTS TO THE TOWN OF FLORENCE?

A. Yes. All master utility agreements between Johnson Utilities and developers will be assigned to the Town of Florence at closing pursuant to Section 1.01(f) of the Asset Purchase and Lease Agreement. Like the main extension agreements, once the master utility agreements are assigned, the Town steps into the shoes of Johnson Utilities and is obligated to perform in accordance with the terms and conditions of the agreements.

X. <u>HOOK-UP FEES</u>.

Q. DOES JOHNSON UTILITIES CHARGE HOOK-UP FEES TO PAY FOR NECESSARY OFF-SITE UTILITY INFRASTRUCTURE?

A. Yes. Pursuant to the Company's approved tariffs, Johnson Utilities charges an off-site water facility hook-up fee per connection based on water meter size and an off-site wastewater hook-up fee per connection based on sewer lateral size. These fees may only be assessed once per parcel, service connection or lot within a subdivision. All funds collected by Johnson Utilities as hook-up fees are deposited into a separate interest bearing account and are treated as non-refundable contributions in aid of construction.

Q. WHAT WILL BECOME OF THESE HOOK-UP FEES ONCE THE SALE AND TRANSFER IS APPROVED?

A. Pursuant to Section 1.01(i) of the Asset Purchase and Lease Agreement, $2,500,000 in the hook-up fee account will be transferred to the Town at closing.

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XI. CAGRD ADJUSTER.

Q. DOES JOHNSON UTILITIES HAVE A CENTRAL ARIZONA GROUNDWATER REPLENISHMENT DISTRICT ADJUSTER CHARGE?

A. Yes. The Commission approved a Central Arizona Groundwater Replenishment District ("CAGRD") tax recovery adjuster charge in Decision 71854.

Q. HOW DOES THE CAGRD ADJUSTER OPERATE?

A. Each year, Johnson Utilities submits a CAGRD adjuster tariff to the Commission for approval for the coming year. A CAGRD adjuster charge is assessed each month on each customer bill. CAGRD adjuster charges collected from customers are placed into a separate CAGRD account and are used to pay the annual CAGRD assessment when it comes due.

Q. WHAT WILL BECOME OF THE CAGRD ADJUSTER ACCOUNT BALANCE AT CLOSING?

A. Pursuant to Section 1.01(i) of the Asset Purchase and Lease Agreement, any balance in the CAGRD account at the time of closing, as reduced by any shortfall from the October 2013 CAGRD tax bill advanced by Johnson Utilities, is part of the "Purchased Assets" in this transaction.

XII. PUBLIC INTEREST.

Q. WHAT ARE THE BENEFITS OF SALE TO THE TOWN OF FLORENCE?

A. In order to provide consistent service and rates to its citizens, and to consolidate the Johnson Utilities' water and wastewater systems with the municipal systems already operated by the Town, the Town desires to become the sole water and wastewater utility service provider within its municipal boundaries. Johnson Utilities agrees with the Town that such a course of action is in the public interest. In addition, the acquisition will provide the Town with access to additional water production facilities and wastewater treatment facilities, and allow for the future interconnection of the water and wastewater systems, resulting in greater reliability, capacity and regionalization.

The Town would like to be the sole provider of water and sewer service within the town boundaries. Also, it is important for the future growth of the Town of Florence to be able control and plan the water supplies that will be needed. The Town of Florence will also be a more stabilizing force for customer issues and resolutions.

Q. WHAT ACTION DOES JOHNSON UTILITIES REQUEST THAT THE COMMISSION TAKE WITH RESPECT TO THE APPLICATION?

A. Johnson Utilities requests that the Commission issue its order (i) approving the sale and transfer of the assets of Johnson Utilities to the Town of Florence in accordance with the terms and conditions of the Asset Purchase and Lease Agreement pursuant to A.R.S. § 40-285(A), A.A.C. R14-2-402(D) and R14-2-602(D); (ii) authorizing Johnson Utilities to engage in any transactions and to execute any documents necessary to effectuate the authorizations granted by the Commission in this docket; and (iii) approving the cancellation and extinguishment of the CC&N of Johnson Utilities as depicted on Attachment 1, conditioned upon the closing of the transaction between the Town and the Company. In addition, I would respectfully ask that the Commission issue its order expeditiously so that the Town can meet its objective of closing this transaction within the current fiscal year which ends June 30, 2014.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.

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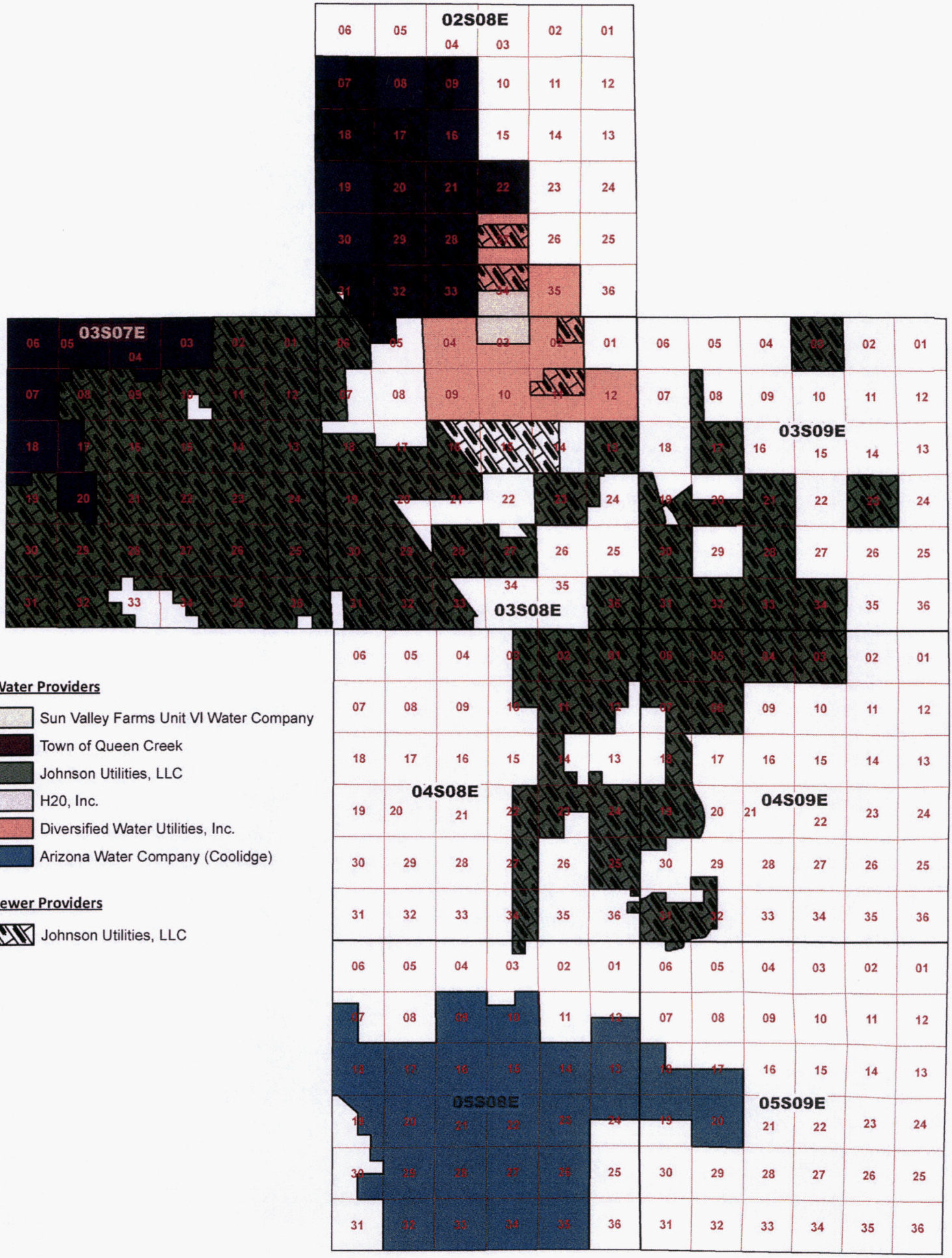
ATTACHMENT 1



Water Providers

- Sun Valley Farms Unit VI Water Company
- Town of Queen Creek
- Johnson Utilities, LLC
- H20, Inc.
- Diversified Water Utilities, Inc.
- Arizona Water Company (Coolidge)

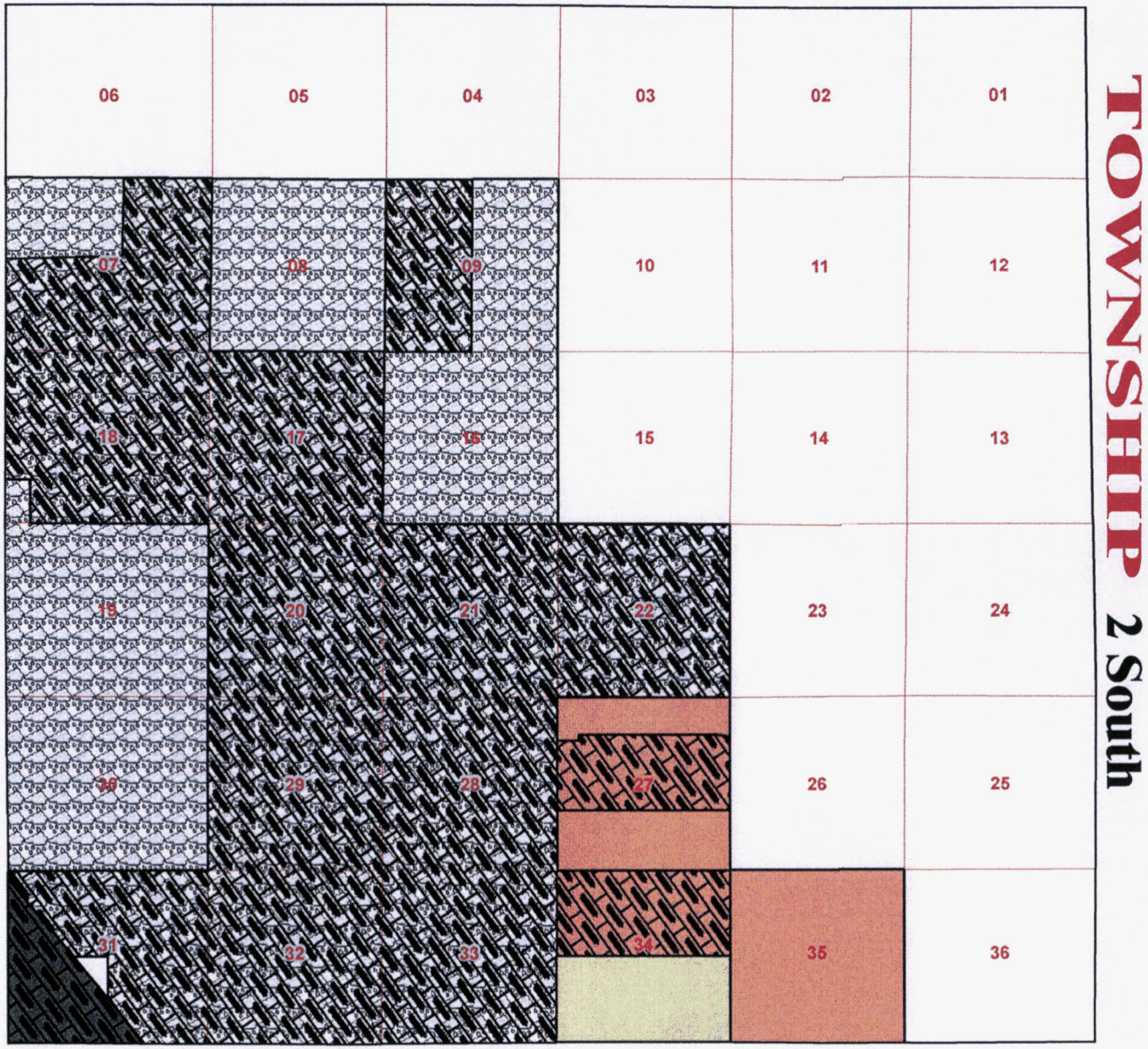
Sewer Providers

- Johnson Utilities, LLC

PINAL COUNTY

Map No. 6

RANGE 8 East



TOWNSHIP 2 South

W-02859A (2)
Diversified Water Utilities, Inc.

WS-02987A (8)
Johnson Utilities, LLC

Sewer

W-02425A (2)
Sun Valley Farms Unit VI Water Company

(2)
Town of Queen Creek (Nonjurisdictional)

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Arizona Corporation Commission
Utilities Division
Engineering Section\GIS Mapping
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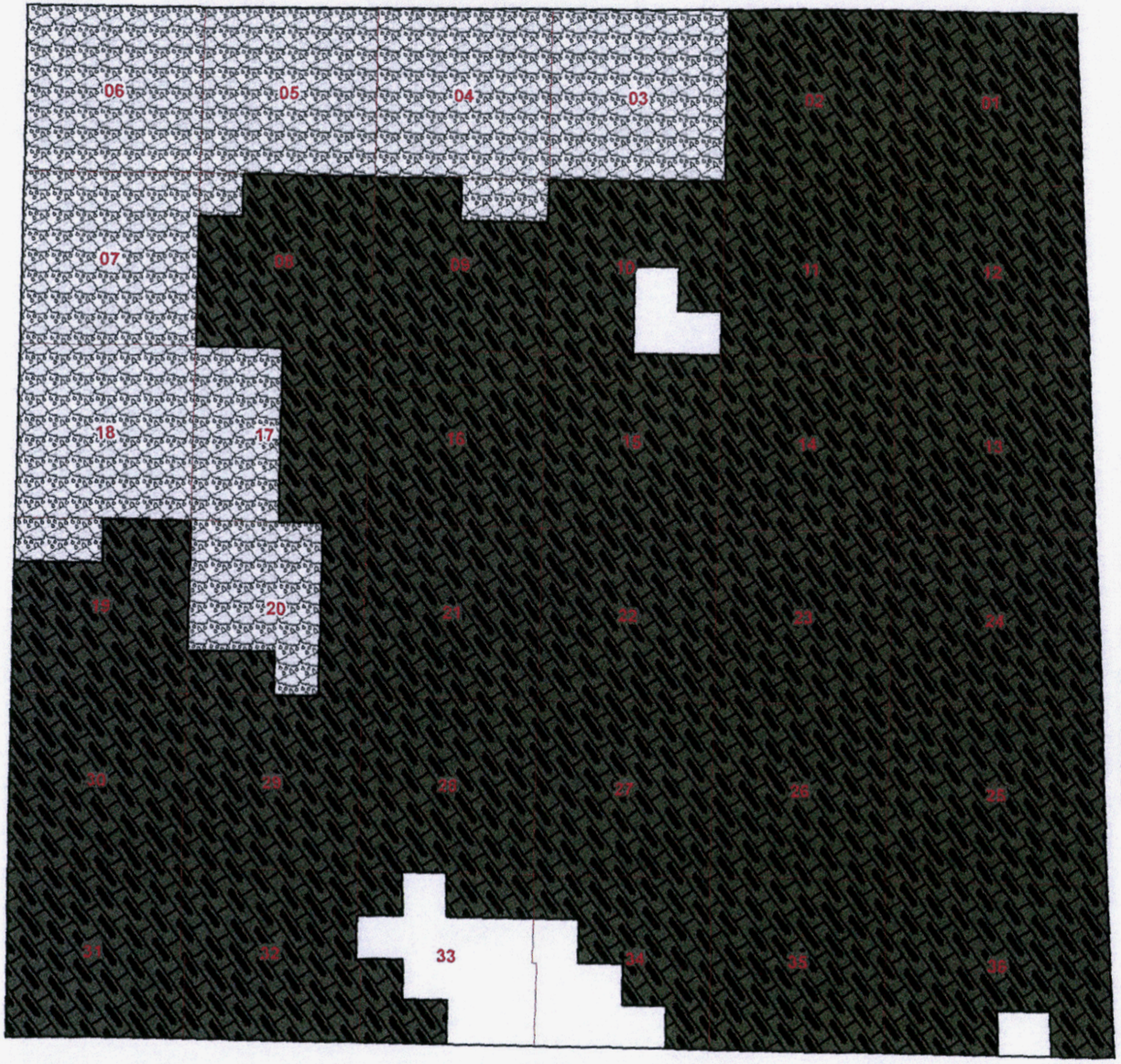
PINAL COUNTY

Map No. 10

RANGE 7 East



TOWNSHIP 3 South

WS-02987A (8)
Johnson Utilities, LLC

Sewer

(2)
Town of Queen Creek (Nonjurisdictional)

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W
E
S

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Utilities Division
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PINAL COUNTY

Map No. 11

RANGE 8 East

TOWNSHIP 3 South

W-02859A (3)
Diversified Water Utilities, Inc.

WS-02987A (8)
Johnson Utilities, LLC

Sewer

W-02425A (2)
Sun Valley Farms Unit VI Water Company

(2)
Town of Queen Creek (Nonjurisdictional)

(2)
Johnson Utilities, LLC
Docket No. WS-02987A-12-0136
2nd Amended Application for Extension for Water Only

(1)
Johnson Utilities, LLC
Docket No. WS-02987A-13-0284
Amended Application for Extension for Water and Sewer

(1)
Johnson Utilities, LLC
Docket No. WS-02987A-13-0310
Application for Extension for Sewer Only

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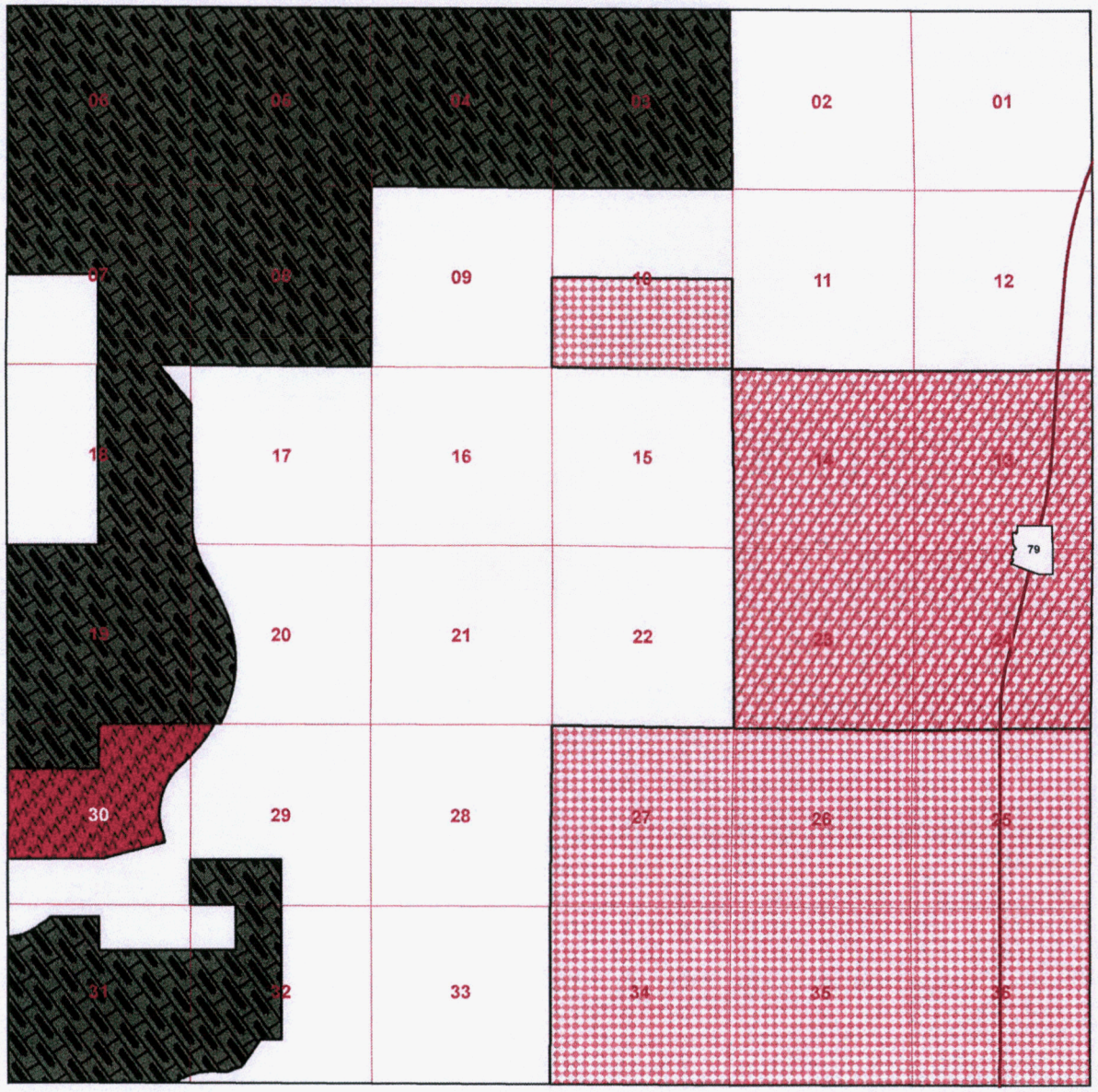
PINAL COUNTY

Map No. 12

RANGE 9 East

TOWNSHIP 4 South



WS-02987A (8) Sewer
Johnson Utilities, LLC

(4) Sewer
City of Florence (Nonjurisdictional)

(2) Sewer
Johnson Utilities, LLC
Docket No. WS-02987A-12-0136
2nd Amended Application for
Extension for Water & Sewer

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Utilities Division
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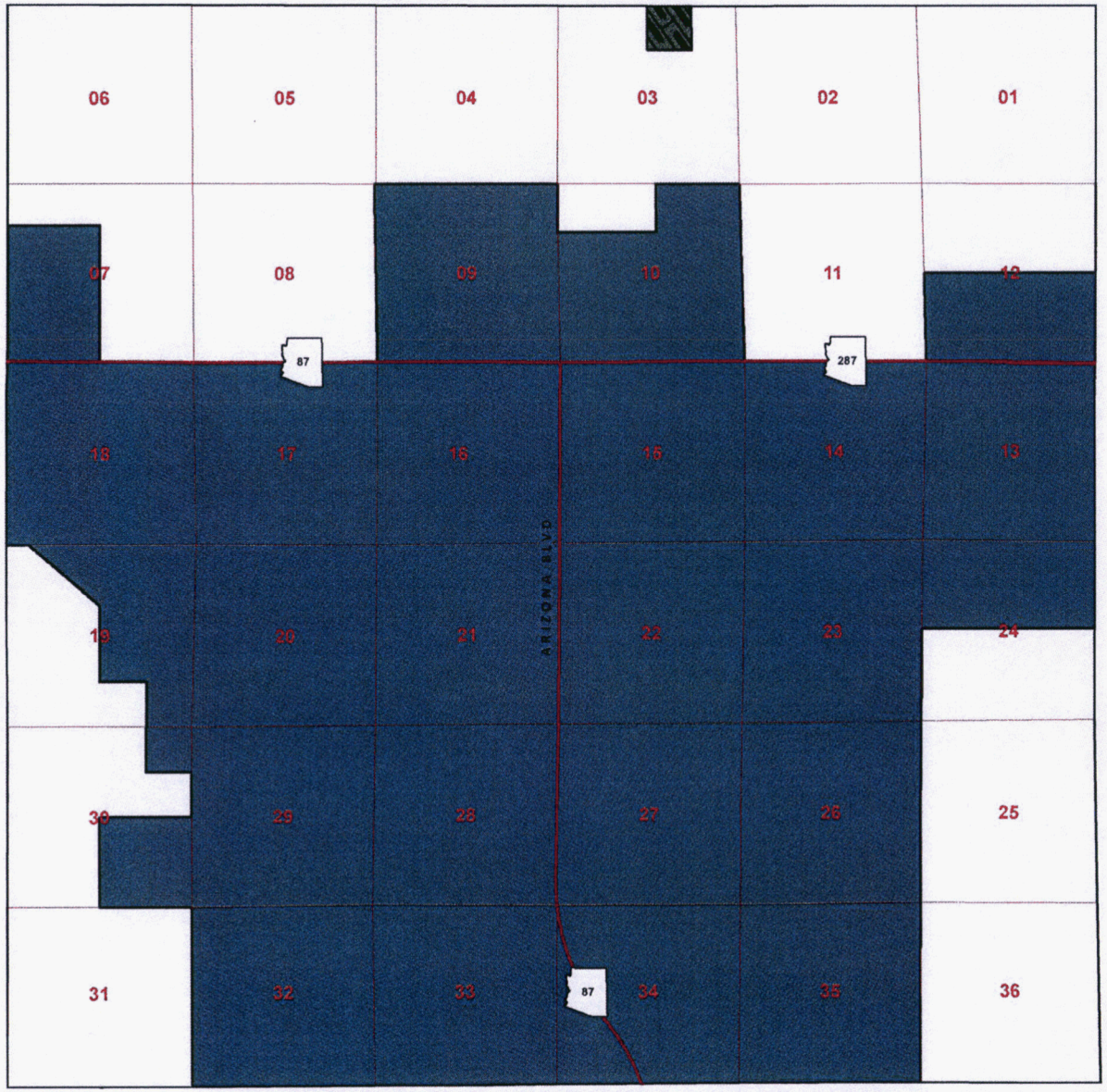
602-542-4251

PINAL COUNTY

Map No. 20

RANGE 8 East



TOWNSHIP 5 South

W-01445A (40)(4)
Arizona Water Company (Coolidge)

WS-02987A (8)
Johnson Utilities, LLC

Sewer

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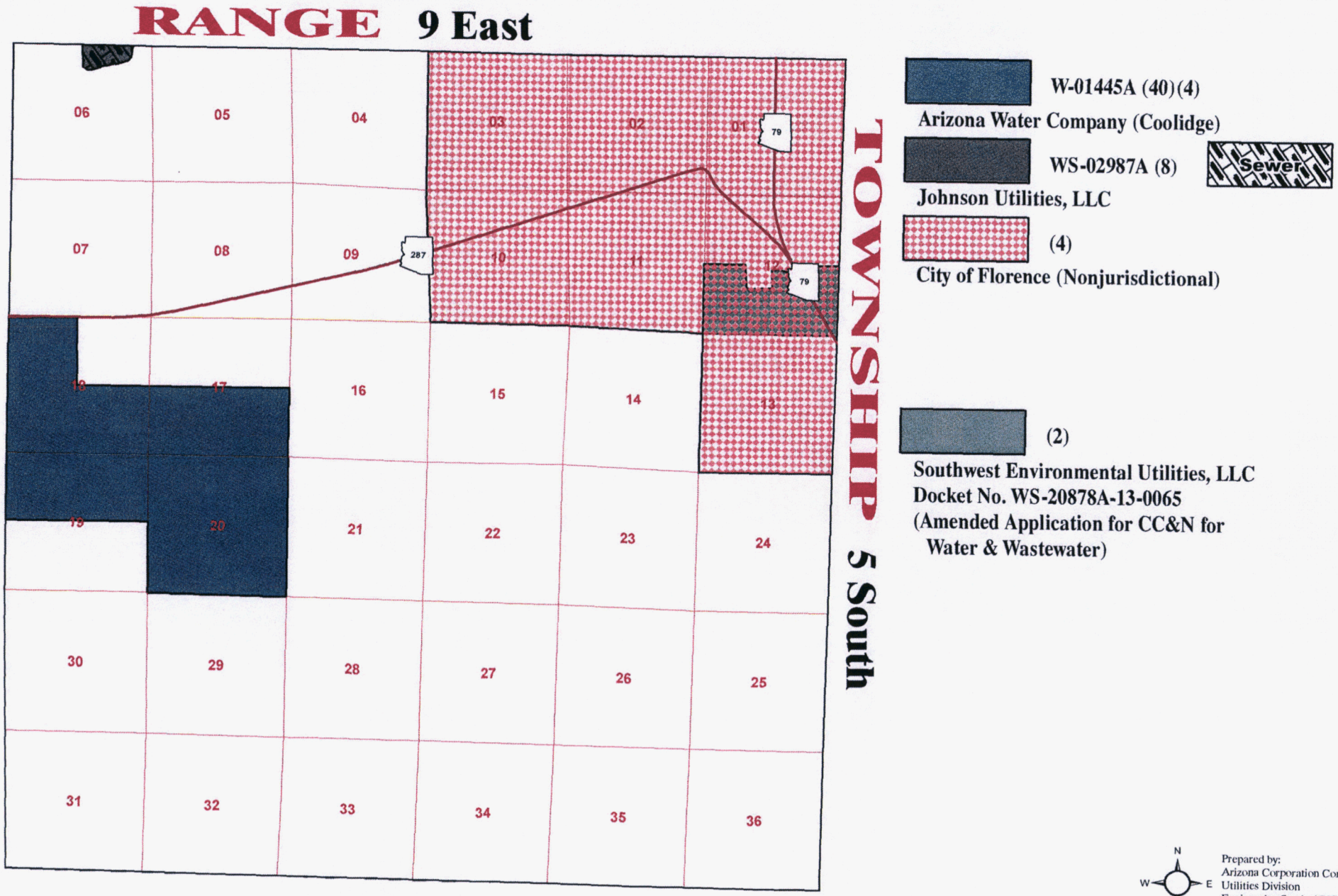
PINAL COUNTY

Map No. 21



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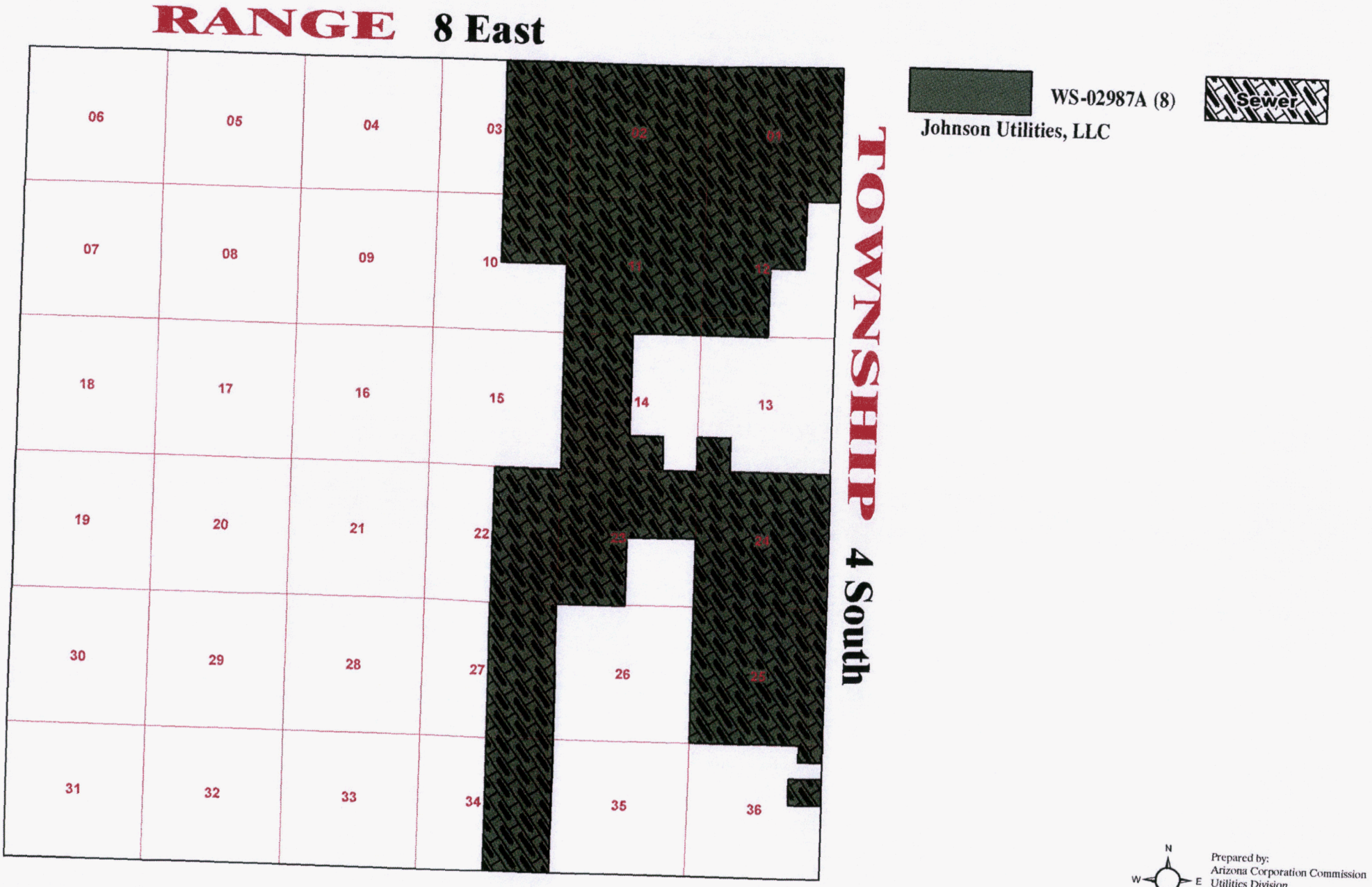
Utilities Division
Engineering Section\GIS Mapping
602-542-4251

Pursuant to ARS § 39-121.03 this map is 'Not for Commercial Use'

PINAL COUNTY

Map No. 51



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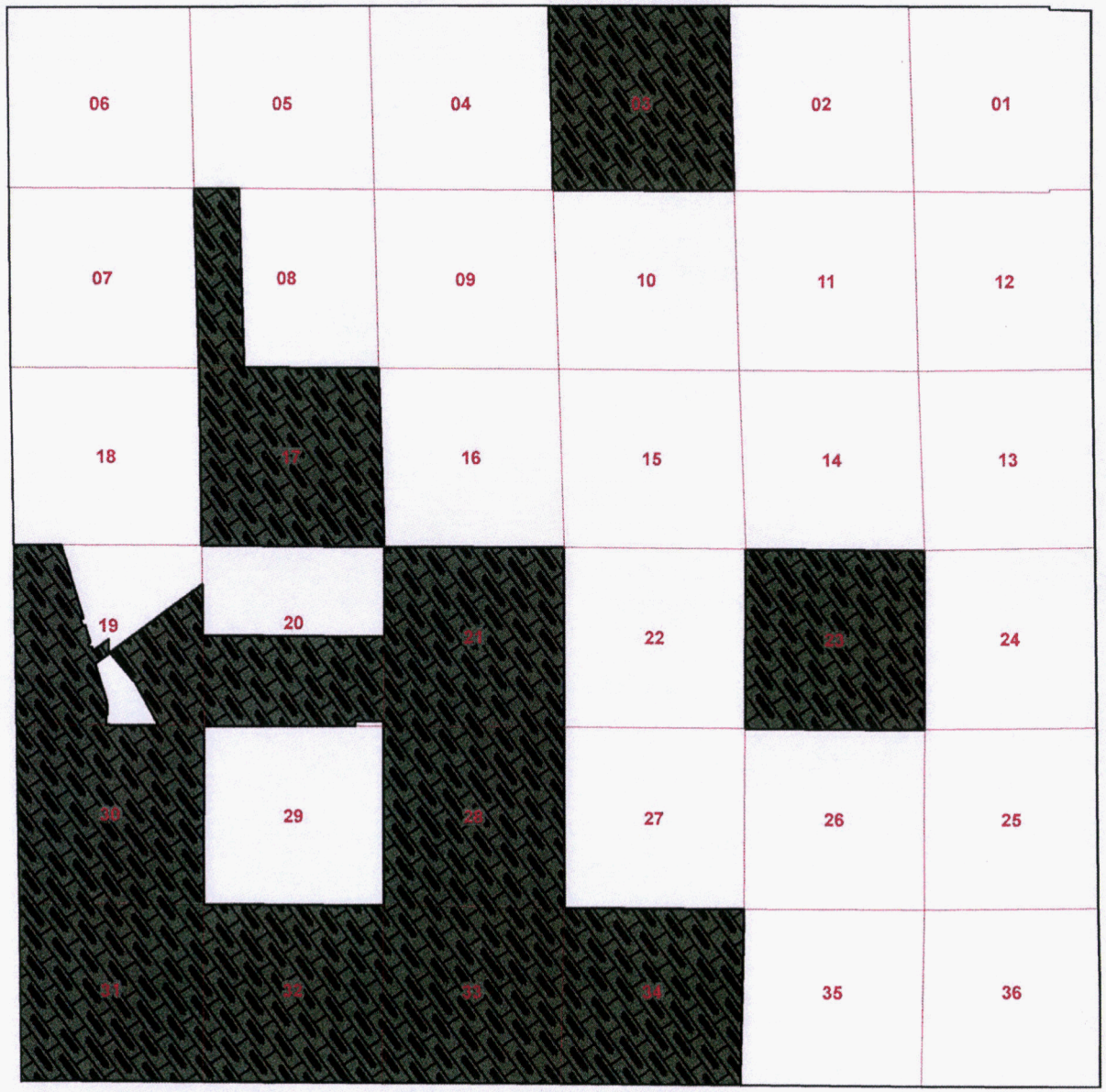
PINAL COUNTY

Map No. 53

RANGE 9 East



TOWNSHIP 3 South

WS-02987A (8)
Johnson Utilities, LLC

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602-542-4251

ATTACHMENT 2

DRAFT

ASSET PURCHASE AND LEASE AGREEMENT

BETWEEN

FLORENCE MUNICIPAL PROPERTY CORPORATION

AND

JOHNSON UTILITIES, L.L.C., AND SOUTHWEST ENVIRONMENTAL UTILITIES, L.L.C.

February , 2014

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ASSET PURCHASE AND LEASE AGREEMENT

This Asset Purchase and Lease Agreement (this "*Agreement*") is entered into as of February __, 2014, by and between Florence Municipal Property Corporation, an Arizona nonprofit corporation (the "*Buyer*") formed on behalf of the Town of Florence, Arizona, an Arizona incorporated municipal entity (the "*Town*") and Johnson Utilities, L.L.C., an Arizona limited liability company (the "*Seller*").

RECITALS

A. Seller operates as a public utility as defined in Article 15, Section 2 of the Arizona Constitution (the "*Business*") providing domestic water and sewer service in the boundaries of the Town and adjacent areas in Pinal County, Arizona (the "*County*"). Seller operates the Business pursuant to a Certificate of Public Convenience and Necessity ("*CC&N*") issued by the Arizona Corporation Commission ("*ACC*") which authorizes Seller to provide water and wastewater treatment utility services within a defined geographic area (the "Certificated Area") as depicted on the diagram attached hereto as Exhibit ___ and as legally described in Exhibit ___, it being understood by and between the parties that if requested by either party or the ACC, either the depiction or the legal description of the Certificated Area as finally attached hereto may be amended to conform to such requests.

B. Seller desires to sell, transfer and assign to Buyer, and Buyer desires to purchase from Seller, substantially all of the assets and properties used in the Business, to assume certain rights and obligations of Seller solely relating to the Business, and to use such assets and properties and operate the Business in its own name and for its own account on the terms and conditions set forth in this Agreement.

AGREEMENT

NOW, THEREFORE, in consideration of the foregoing, and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereby agree as follows:

ARTICLE I

PURCHASE, SALE AND LEASE OF ASSETS

Section 1.01. Purchased Assets. Seller will sell, convey, transfer, assign and deliver to Buyer, free and clear of all liens, mortgages, pledges, encumbrances and charges of every kind (except for Permitted Encumbrances, as hereinafter defined), on the terms and subject to the conditions set forth in this Agreement, all of Seller's right, title and interest in and to the properties, business and assets of Seller of every kind and description, real, personal and mixed, tangible and intangible, wherever located (except those assets which are excluded from this sale by Section 1.02) as they shall exist on the Closing Date (as hereinafter defined) which are useful, available for use or necessary for Seller's operation of the Business (collectively, the "*Purchased*

Assets"). Without limiting the generality of the foregoing, the Purchased Assets shall include the following:

(a) all real property and interests in real property of Seller and all improvements thereon, including without limitation all fee interests, leaseholds, utility easements, licenses and all the tenements, hereditaments and appurtenances, if any, pertaining to the Real Estate, and including all sewer, mineral, water and irrigation rights, if any, running with or otherwise appurtenant or pertaining to the Real Property, all of Seller's interest, if any, in any road or rights-of-way adjoining the Real Property to the center line thereof, together with any buildings, wells, well sites, pumps, lift stations, water storage structures, water treatment facilities, water mains, water lines, distribution facilities and sewer lines located in or on the Real Estate, all as identified or described in Exhibit ____ hereto (collectively, the "*Real Estate*");

(b) all machinery, equipment, tools, supplies, inventory, leasehold improvements, construction in progress, furniture and fixtures, motor vehicles and other tangible personal property owned or purchased by Seller as identified in Exhibit ___ hereto, (collectively, the "Personal Property");

(c) the wells, storage tanks, booster pumps, water mains, service lines, sewer lines, lift stations, water meters, manholes, valves and fire hydrants, wherever located comprising the water and wastewater infrastructure used by the Business (the "Infrastructure") in connection with it provision of water and wastewater treatment utility services to customers residing or otherwise located in Seller's Certificated Area, (the "Customers"), whether owned or leased, all as identified or described in Exhibit ___ hereto. The Infrastructure shall include, but not be limited to, communication antennas and associated equipment, electronic or otherwise, connected with, affixed to or utilized by the Business, including any equipment related to the SCADA system used in the operation of the Business.

(d) all of the rights and benefits accruing to Seller in each of the contracts and agreements that relate to the Personal Property and the Infrastructure (as defined herein), each of which is identified or described in Exhibit ___ hereto, including, without limitation, all customer service agreements, supply contracts, purchase orders and purchase commitments made by Seller in the ordinary course of the Business and all other choses in action, causes of action and other rights of every kind of Seller which are related to the Business (collectively, the " Assigned Contracts"). The Assigned Contracts shall include, but are not limited to, Seller's existing Central Arizona Project ("CAP") contract and any pending applications to CAP, the Central Arizona Water Conservation District or the United States Bureau of Reclamation for new or additional allotments of CAP water, which the parties will, both before and after closing, reasonably cooperate with one another in effecting the assignment thereof from Seller to Buyer.

(e) Seller's interest in the mainline extension agreements ("LXA's) identified or described in Exhibit ___ hereto, including any additional LXA's entered into by Seller prior to the close of escrow, to the extent they are transferable to Buyer. Seller shall

reasonably cooperate with Buyer in obtaining consents of the respective counter-parties to all of said LXA's with regard to the respective assignments contemplated hereby.

(f) Seller's interest in the Master Utility Agreements ("MUA's) identified or described in Exhibit ___ hereto, including any additional MUA's entered into by Seller prior to the close of escrow, to the extent they are transferable to buyer. Seller shall reasonably cooperate with buyer in obtaining consents of the respective counter-parties to all of said MUA's with regard to the respective assignments contemplated hereby.

(g) all books, files, operating data and records (including both paper and electronic data and records) of Seller relating to the Business or the Customers, including without limitation, all customer lists, billing, financial, accounting, credit, regulatory and rate adjustment records, correspondence, budgets and other similar documents and records, and including any books, records, files or data pertaining to the Business which Seller is required to maintain in accordance with any law, rule or regulation of any Governmental Agency, to the extent reasonably determined by Buyer to be in facilitation of, or useful in connection with, the transfer of the Business, the Customer Accounts and future Customer billing (collectively, the "Records"); except that, the Records shall not include proprietary information of Seller unless provided pursuant to any confidentiality agreement between Seller and Buyer, or personal information relating to Seller's natural person principals.

(h) to the extent Seller has any interest in any software licenses, software or data, including radio licenses or communications franchises or licenses, such licenses or franchises, as the case may be, shall be transferred to Seller under such instruments as are customarily utilized for the transfer of such rights, in a form which is commercially reasonable and acceptable to Seller and Buyer.

(i) $2,500,000 cash in the Offsite Facilities Hookup Fee Account, any balance in the Central Arizona Groundwater Replenishment District Account (as reduced by the shortfall from the October 2013 bill advanced by the Seller), and any Customer and

(j) all accounts receivable, excluding accounts receivable for water deliveries made by Seller prior to the close of escrow as reflected in Seller's books and records as of close of escrow, related to Seller's Customers (collectively, "Customer Accounts") reflected on Seller's books and records as of close of escrow.

(k) all licenses, permits, franchises, consents, rights or authorizations issued by, and all registrations and filings with, any Governmental agency, together with any and all other similar intangible property and rights relating to the Business (collectively, the "*Proprietary Rights*");

Section 1.02. Excluded Assets. Notwithstanding anything to the contrary in Section 1.01, the Purchased Assets shall exclude the following assets of Seller:

(a) notes receivable and insurance proceeds receivable existing as of the Closing Date, unless such insurance proceeds receivable relate to damage to the Real Estate or the Personal Property;

(b) all cash and cash equivalents and investments, whether short-term or long-term, of Seller, including without limitation bank accounts, certificates of deposit, treasury bills and securities, except for the items described in Section 1.01(e) above;

(c) any stock, partnership interest, limited liability company interest or other equity ownership interest in any subsidiary or affiliate;

(d) the minute books and records of Seller; and

(e) the assets set forth in Exhibit A.

Section 1.03. Leased Assets. Notwithstanding anything to the contrary in Sections 1.01 or 1.02, the Rancho Sendero Anthem Wastewater 1.1MW plant (the "Anthem Plant") and the Section 11 Solar Plant (the "Section 11 Plant") shall be leased by the Seller to the Buyer for a period of one year with respect to the Anthem Plant and three years with respect to the Section 11 Plant after the Closing Date, at annual lease rate of $1.00 for each asset. At the end of the respective lease terms, the Anthem Plant and the Section 11 Plant shall be transferred to the Buyer as Purchased Assets hereunder in consideration of the purchase price of $1.00.

ARTICLE II

PURCHASE PRICE; ASSUMPTION OF LIABILITIES

Section 2.01. Payment of Purchase Price. As full consideration for the Purchased Assets, Buyer agrees, subject to the terms, conditions and limitations set forth in this Agreement, to deliver to Seller (or its assigns) one or more series of water and sewer revenue bonds (the "*Bonds*") in the aggregate principal amount of $121,000,000 (the "*Purchase Price*"), issued by The Industrial Development Authority of the City of Phoenix, Arizona (the "*Issuer*") pursuant to a Trust Indenture dated as of February 1, 2014 (the "*Indenture*") between the Issuer and Zions First National Bank, as corporate trustee (the "*Trustee*") and a Loan Agreement dated as of February 1, 2014 (the "Loan Agreement") between the Issuer and the Buyer. The Bonds shall be dated as of the date of delivery, mature on February 1, 2044, bear interest at the rate of 6.625% per year for the first five (5) years, and 8.00% per annum thereafter, be payable on August 1, 2014, and semi-annually thereafter on each February 1 and August 1, and having such other terms and provisions as set forth in Exhibit B.

Section 2.02. Assumed Liabilities. On the Closing Date, Buyer will assume and agree to pay, discharge or otherwise perform when lawfully due only those liabilities, contracts, commitments, purchases and other obligations of Seller that are expressly set forth in Exhibit C, if any (the "*Assumed Liabilities*").

Section 2.03. Excluded Liabilities. Anything to the contrary in Section 2.02 notwithstanding, the Assumed Liabilities shall exclude any liabilities not expressly set forth in Exhibit C, if any, as well as the following liabilities, contracts, commitments and other obligations of Seller (the "*Excluded Liabilities*"):

(a) Seller's obligations and any liabilities arising under this Agreement;

(b) any obligation of Seller for federal, state, local or foreign income tax liability (including interest and penalties) arising from the operations of Seller through and including the Closing Date or arising out of the sale by Seller of the Purchased Assets pursuant to this Agreement, including without limitation any amounts shown on the Financial Statements (as defined herein) as "Deferred Income Taxes" or the like;

(c) any property taxes assessed on the Purchased Assets prior to the Closing;

(d) any obligation of the Seller related to any notes payable to members or related parties

(e) customer refunds on closed accounts

(f) any liabilities associated with any violations of ADEQ rules or regulations that occurred prior to Closing

(g) any obligation of Seller for expenses incurred in connection with the sale of the Purchased Assets pursuant hereto, including without limitation the fees and expenses of Seller's legal counsel;

(h) any obligation or liability of Seller related to an alleged breach of contract occurring prior to or on the Closing Date; and

(i) any liability, contract, commitment or other obligation of Seller, known or unknown, fixed or contingent, the existence of which constitutes or will constitute a breach of any representation or warranty of Seller contained in or made pursuant to Article 4 of this Agreement.

Section 2.04. Allocation of the Purchase Price among the Purchased Assets and Pro Rations.

(a) The Purchase Price shall be allocated among each item or class of the Purchased Assets as specifically set forth in or determined pursuant to Exhibit D. Buyer and Seller agree that they will prepare and file their federal and any state or local income tax returns based on such allocation of the Purchase Price. Buyer and Seller agree that they will prepare and file any notices or other filings required pursuant to Section 1060 of the Internal Revenue Code of 1986, as amended, and that any such notices or filings will be prepared based on such allocation of the Purchase Price.

(b) The parties hereto agree on the following pro rations:

(i) Sales Taxes. To the extent Buyer keeps all customer accounts receivable cash collected, it shall be responsible to reimburse Seller for the unpaid sales taxes associated with such receivables.
(ii) Income Taxes. Buyer shall pay Seller an amount equal to 30% of the customer accounts receivable within 120 days of Closing to reimburse

Seller for the associated income tax liability that Seller is required to pay on the receivables balance.
(iii) Property Taxes. Property taxes shall be prorated at Closing based on the pro ration calculation provided by the Seller.
(iv) GRD Taxes. Buyer will charge and collect the rate established by Utility Tariff to pay the GRD tax bill for August 2014. The balance that exists in the account at Closing shall be transferred to the Buyer, less any amount to be reimbursed to the Seller from the October 2013 invoice.
(v) Line Extension Refunds. There shall be a pro ration for refunds due on the line extension agreements for a partial year.

Section 2.05. Loan Agreement. In connection with the issuance of the Bonds by the Issuer, the Buyer will enter into the Loan Agreement with the Issuer, pursuant to which revenues generated by the Business will be used, on a non-recourse basis, to pay debt service on the Bonds.

Section 2.06. Management Agreement. Simultaneous with the execution and delivery of this Agreement, Seller, or its affiliate, will enter into a Management Agreement with Buyer, under which Seller, or its affiliate will operate the Business for a period of five (5) years (the "*Management Agreement*"). Concurrently, with the delivery of the Management Agreement, Buyer and Seller shall deliver such legal opinions, certified instruments and other documents relating to the legality and enforceability of the obligations to be performed under the Management Agreement as the other party may reasonably request. Buyer agrees and acknowledges that the Management Agreement and the obligations of Buyer thereunder are a material inducement for Seller entering into this Agreement and consummating the transactions contemplated herein.

Section 2.07. Procedure Upon Execution of Agreement. In order for this Agreement to become effective, the parties will take the following steps in the order listed below; *provided, however*, that upon their completion all such steps shall be deemed to have occurred simultaneously:

(a) The Town Council of the Town shall have adopted a resolution approving the creation of the Buyer and authorizing this Agreement and the execution and delivery of the Management Agreement and the Loan Agreement.

(b) The Management Agreement and the Loan Agreement shall be fully executed, delivered and in full effect.

ARTICLE III

CLOSING

Section 3.01. Time and Place of the Closing. The closing of the sale of the Purchased Assets shall take place on the date on which the conditions precedent described in this Article 3 are satisfied or waived, provided that the parties shall use their best efforts to cause the closing to occur on or before February 31, 2014, or such other date and time as the parties may mutually

agree in writing (the "*Closing Date*"). Throughout this Agreement, such event is referred to as the "*Closing*." The Closing shall take place at 10:00 a.m., Arizona time, on the Closing Date, at the offices of Kutak Rock LLP, in Scottsdale, Arizona ("*Bond Counsel*").

Section 3.02. Conditions to Obligation of Buyer. The obligations of Buyer to consummate the transactions contemplated hereby shall be subject to the fulfillment (or waiver by Buyer, in its reasonable discretion) on or prior to the Closing Date of the following additional conditions, which Seller agrees to use commercially reasonable efforts in good faith to fulfill or cause to be fulfilled:

(a) The representations and warranties of Seller contained in this Agreement shall have been true and correct as of the date of this Agreement, and they shall be true and correct as of the Closing Date with the same force and effect as though made as of such date. Seller shall have performed and complied with all of its obligations required by this Agreement to be performed or complied with at or prior to the Closing Date. Seller shall have delivered to Buyer a certificate, dated as of the Closing Date and signed by the Manager of Seller, certifying that such representations and warranties are true and correct and that all such obligations have been thus performed and complied with.

(b) All necessary consents or approvals of third parties to the transactions contemplated hereby shall have been obtained and shown by written evidence reasonably satisfactory to Buyer, including without limitation, all required approvals from the ACC. All such required consents or approvals are set forth in Exhibit E.

(c) Seller shall have canceled its CC&N.

(d) There shall not be pending or threatened any action or proceeding by or before any court or other governmental body seeking to restrain, prohibit or invalidate the sale of the Purchased Assets to Buyer or any other transaction contemplated hereby, or that would have a material adverse impact on the right of Buyer to own, operate in their entirety or control the Purchased Assets.

(e) There shall not have been any change in the Business or Purchased Assets since November 1, 2013, other than changes occurring in the ordinary course of business which in the aggregate have not had a material adverse effect on the Purchased Assets or the financial condition, business prospects or operating results of the Business.

(f) Buyer shall have received an opinion of counsel to Seller, dated as of the Closing Date, in form and substance as set forth in Exhibit H attached hereto.

(g) Buyer acknowledges and agrees that there are no conditions to its obligations under this Agreement that are not expressly set forth herein.

Section 3.03. Conditions to Obligation of Seller. The obligations of Seller to consummate the transactions contemplated hereby shall be subject to the fulfillment (or waiver by Seller, in its reasonable discretion) on or prior to the Closing Date of the following additional conditions, which Buyer agrees to use commercially reasonable efforts in good faith to fulfill or cause to be fulfilled:

(a) The representations and warranties of Buyer contained in this Agreement shall have been true and correct as of the date of this Agreement, and they shall be true and correct as of the Closing Date with the same force and effect as though made as of such date. Buyer shall have performed and complied with all of its obligations required by this Agreement to be performed or complied with at or prior to the Closing Date. Buyer shall have delivered to Seller a certificate, dated as of the Closing Date, certifying that such representations and warranties are true and correct and that all such obligations have been thus performed and complied with.

(b) All necessary consents or approvals of third parties to the transactions contemplated hereby shall have been obtained and shown by written evidence reasonably satisfactory to Seller, including without limitation, all required approvals from the ACC. All such required consents or approvals are set forth in Exhibit F.

(c) The Management Agreement and the Loan Agreement shall be in full force and affect.

(d) There shall not be pending or threatened any action or proceeding by or before any court or other governmental body seeking to restrain, prohibit or invalidate the sale by Seller of the Purchased Assets to Buyer or any other transaction contemplated hereby, or that would have a material adverse impact on the right of Seller to sell the Purchased Assets or accept delivery of the Bonds in consideration.

(e) Seller shall have received an opinion of counsel to Buyer, dated as of the Closing Date, in form and substance as set forth in Exhibit G attached hereto.

(f) At the time of the Closing, the Buyer shall have adopted such resolutions as, in the opinion of counsel to Seller, shall be necessary in connection with the transactions contemplated hereby (collectively, the "Authorizing Resolution"), and such Authorizing Resolution will be in full force and effect and will not have been amended, modified or supplemented, except as may have been agreed to in writing by Seller.

(g) At or prior to the Closing, unless otherwise agreed to by Seller in writing, Seller will have received each of the following documents with respect to the Bonds (the "Bond *Deliverables*"):

(i) the approving opinion, dated the date of the Closing and addressed to Seller, of legal counsel to the Buyer, in form and content satisfactory to Seller and its counsel, to the effect that this Agreement and the Management Agreement have been duly authorized, executed and delivered by Buyer and are the legal, valid and binding obligation of the respective parties, enforceable in accordance with their terms, subject to customary exceptions for bankruptcy and judicial discretion;

(ii) the approving opinion, dated the date of the Closing and addressed to Seller, of Bond Counsel, in form and content satisfactory to Seller and its counsel, to the effect that (i) interest on the Bonds is excludable from gross income for purposes of federal and state income tax; (ii) the offer and sale of the Bonds to the Seller is exempt from registration under the Securities Act of 1933, as amended,

and will not result in the Indenture being required to be qualified pursuant to the Trust Indenture Act of 1939, as amended; and (iii) the Indenture and any other document executed by the Issuer with respect to the Bonds (the "Bond Documents") have been duly authorized, executed and delivered by the Issuer and are the legal, valid and binding obligation of the Issuer, enforceable in accordance with their terms, subject to customary exceptions for bankruptcy and judicial discretion;

(iii) a certificate or certificates, dated the date of the Closing and signed on behalf of Buyer to the effect that to the best of their knowledge, information and belief (i) the representations, warranties and covenants contained herein are true and correct in all material respects on and as of the Closing Date with the same effect as if made on the date of the Closing; (ii) no litigation of any nature is now pending seeking to restrain or enjoin the Buyer's ownership or operation of the Business or the collection of revenues or the pledging of net revenues to pay the principal and interest on the Bonds; or contesting the corporate existence or boundaries of Buyer or the title of the present officers to their respective offices; (iii) no authority or proceedings related to the matters described herein have been repealed, revoked or rescinded and no petition or petitions to revoke or alter the authorization to purchase the Business or to repeal or modify the Authorizing Resolution in any manner has been filed with or received by any of the undersigned; and (iv) Buyer has complied with all the agreements and satisfied all the conditions on its part to be performed or satisfied at or prior to the Closing;

(iv) a certificate or certificates, dated the date of the Closing and signed on behalf of Issuer to the effect that to the best of their knowledge, information and belief (i) no litigation of any nature is now pending seeking to restrain or enjoin the issuance of the Bonds, questioning the proceedings and authority by which the Bonds are to be issued, or affecting the validity of the Bonds; and (ii) no authority or proceedings for the issuance of the Bonds have been repealed, revoked or rescinded, and no petition or petitions to revoke or alter the authorization to issue the Bonds has been filed with or received by the Issuer; and

(v) a certified copy of the Indenture, the Management Agreement, and the Loan Agreement;

(vi) a tax (nonarbitrage) certificate of the Issuer, in form and substance satisfactory to Bond Counsel;

(vii) the filing copy of the Information Return Form 8038-G (IRS) for the Bonds; and

(viii) such additional legal opinions, certificates, instruments and other documents as Seller or their counsel may reasonably request to evidence the truth and accuracy, as of the date hereof and as of the date of the Closing, of the representations, warranties and covenants of Buyer contained herein and the due

performance or satisfaction by Buyer at or prior to the Closing of all agreements then to be performed and all conditions then to be satisfied by Buyer.

Section 3.04. Procedure at the Closing. At the Closing, the parties will take the following steps in the order listed below; *provided, however*, that upon their completion all such steps shall be deemed to have occurred simultaneously:

(a) Seller shall deliver to Buyer such bills of sale, endorsements, assignments and other instruments, in such form as in each case is reasonably satisfactory to Buyer and Seller, as shall be sufficient to vest in Buyer good and marketable title to the Purchased Assets, free and clear of all liens, mortgages, pledges, encumbrances, and charges of every kind except those which Buyer has expressly agreed in Section 2.02 hereof to assume.

(b) Buyer shall deliver to Seller instruments, in such form as in each case is reasonably satisfactory to Buyer and Seller, as shall be sufficient to effect Buyer's assumption of the Assumed Liabilities, if any, and the Contracts, together with the written consent of any third parties whose consent is required to Buyer's assumption of the Assumed Liabilities and the Contracts.

(c) Seller shall deliver to Buyer the Bond Deliverables, in such form as in each case is reasonably satisfactory to Buyer and Seller.

ARTICLE IV

REPRESENTATIONS AND WARRANTIES OF SELLER

In order to induce Buyer to enter into this Agreement and to consummate the transactions contemplated hereunder, as of the date hereof and as of the Closing Date, Seller makes the following representations and warranties:

Section 4.01. Organization. Seller is a limited liability company duly organized, validly existing, and in good standing under the laws of Arizona with full corporate power and authority to carry on its business and to own, purchase and operate its properties as and in the places where such business is conducted and such properties are owned, purchased, or operated. Seller is duly qualified or licensed to do business and is in good standing in Arizona, which is the only jurisdiction in which Seller's operations or the character of the properties owned, purchased, or operated by it makes such qualification or licensing necessary. Seller has delivered to Buyer complete and correct copies of Seller's articles of organization and operating agreement, in each case as amended and in effect on the date hereof. Seller is not in violation of any of the provisions of its articles or organization and operating agreement or any other organizational documents.

Section 4.02. Authorization. Seller has duly executed and delivered this Agreement and this Agreement and any agreements executed by Seller in connection herewith constitute (or will constitute on their execution and delivery) the legal, valid, and binding obligations of Seller enforceable against Seller in accordance with their terms, subject to bankruptcy, insolvency, reorganization, fraudulent transfer and conveyance, receivership, moratorium, and similar laws

affecting creditors' rights generally, and to the availability of equitable remedies (whether asserted at law or in equity).

Section 4.03. No Conflicts, etc. The execution, delivery, and performance by Seller of this Agreement and the consummation of the transactions contemplated hereby do not and will not conflict with or result in a violation of or a default under (with or without the giving of notice or the lapse of time or both) (i) any applicable law to Seller, or any of the properties or assets of Seller, (ii) the organizational documents of Seller, or (iii) any Contract of which either Seller has knowledge to which either Seller is a party or by which either Seller or any of their properties or assets, may be bound or affected. Seller reasonably believes, except as expressly provided herein, that no governmental approval or other consent is required to be obtained or made by Seller in connection with the execution and delivery of this Agreement or the consummation of the transactions contemplated hereby.

Section 4.04. Real Estate.

(a) Exhibit I accurately and completely sets forth all real property owned by Seller, and with respect to every parcel of the Real Estate: (i) the owner; (ii) the location, including address, thereof; (iii) the legal description and approximate size thereof; and (iv) a brief description (including function) of the principal improvements and buildings thereon. To the knowledge of Seller, there are no unrecorded or oral leases, arrangements, agreements, understandings, options, contracts, or rights of first refusal, other than that which Seller has contractually promised to Buyer in writing, affecting or relating to any of the Real Estate. Permanent, legal access is available to each parcel of Real Estate from a dedicated right-of-way, easement or license of record.

(b) Seller has good and marketable title to each parcel of the Real Estate, each of which shall be conveyed to Buyer by Special Warranty Deed.

(c) As to any leased property or leasehold interests of Seller, each lease or leasehold is legal, valid, binding, enforceable and in full force and effect. Neither Seller or any other party is in default, violation, or breach in any material respect under any lease, and no event has occurred and is continuing that constitutes or, with notice of lapse of time or both, would constitute a default, violation, or breach in any respect under any lease. The Seller enjoys peaceful and undisturbed possession under its leases. None of the leased property is subject to any sublease, assignment, or license, except as disclosed in Exhibit ___.

(d) The buildings and other improvements located on the Real Estate are each in good operating condition and are sufficient and adequate for the operation of the Business as it is presently conducted.

(e) Seller has not received notice of: (i) any condemnation proceeding with respect to any portion of the Real Estate, and to its knowledge no such proceeding is contemplated by any governmental authority; or (ii) any special assessment which may affect the Real Estate, and to Seller's knowledge no such special assessment is contemplated by any governmental authority.

(f) To the knowledge of Seller, there are no historical or archeological materials or artifacts of any kind, or any Native American or Indian ruins, aboriginal or otherwise of any kind, located on any piece, parcel or part of the Real Estate.

Section 4.05. Personal Property. Exhibit J contains a complete and accurate listing of the Personal Property. Seller has good and marketable title to all of the Personal Property, and the Personal Property is in good operating condition.

Section 4.06. Proprietary Rights. The Proprietary Rights include all proprietary rights, the failure to possess which would have a material adverse effect on the Business. Exhibit K contains a complete list of all of the Proprietary Rights. Except as set forth on Exhibit K, there have been no claims made against Seller for the assertion of the invalidity, abuse, misuse, or enforceability of any of the Proprietary Rights, and there are not grounds for the same; and Seller has not received a notice of conflict with the asserted rights of others within three (3) years prior to the date of this Agreement.

Section 4.07. Contracts. To Seller's knowledge:

(a) Exhibit L contains a complete and accurate description of all agreements, contracts, commitments, and other instruments and arrangements of the types described below by which either Seller or any of its assets, businesses, or operations receive benefits or to which either Seller is a party or by which either Seller is bound, other than insignificant contracts entered into in the ordinary course of business consistent with past practice, including:

(i) purchases, licenses, permits, franchises, insurance policies, warranties, guarantees, governmental approvals, and other contracts concerning or relating to Seller's Real Estate or purchased Real Estate,

(ii) contracts for capital expenditures in excess of $500,000 each;

(iii) performance bonds, completion bonds, bid bonds, suretyship agreements and similar instruments;

(iv) joint venture, partnership, and similar contracts involving a sharing of profits and/or expenses;

(v) agreements providing for the leasing of Seller's Personal Property;

(vi) Line extension agreements;

(vii) agreements or instruments under which Seller has acquired or holds its water rights;

(viii) licenses, licensing arrangements and other contracts providing in whole or in part for the use of, or limiting the use of, any intellectual property;

(ix) loan agreements, indentures, letters of credit, mortgages, security agreements, pledge agreements, deeds of trust, bonds, notes, guarantees, sureties, indemnities and other agreements and instruments relating to the borrowing of money or obtaining of or extension of credit; and

(x) Master utility agreements and all other agreements that provide for the payment of hook-up fees.

(b) Except as disclosed on Exhibit P, to the knowledge of Seller the Contracts are in full force and effect and enforceable against each party thereto, subject to subject to bankruptcy, insolvency, reorganization, fraudulent transfer and conveyance, receivership, moratorium, and similar laws affecting creditors' rights generally, and to the availability of equitable remedies (whether asserted at law or in equity).

(c) Except as disclosed on Exhibit N, there does not exist under any Contract of which either Seller has knowledge any event of default or event or condition that, after notice or lapse of time or both, would constitute a violation, breach, or event of default thereunder on the part of either Seller or any other party. Except as set forth on Exhibit Q, no consent of any third party is required under any Contract of which Seller has knowledge as a result of or in connection with, and the enforceability of any Contract of which either Seller has knowledge will not be affected in any manner by, the execution, delivery and performance of this Agreement or the consummation of the transactions contemplated hereby.

Section 4.08. Taxes. Except as set forth on Exhibit O:

(a) Seller has filed all tax returns required to be filed by them for all periods ending before the Closing Date and have paid all tax liability shown due thereon. All such tax returns were correct and complete in all material respects. All taxes owed by the Seller (whether or not shown on any tax return) with respect to tax returns the due date of which preceded the date hereof have been paid.

(b) To Seller's knowledge: there are no outstanding requests, agreements, consents or waivers to extend the statutory period of limitations applicable to the assessment or collection of any taxes or deficiencies against Seller and there are no pending audits, disputes, or other proceedings that have been served upon Seller concerning Seller's liability for any taxes, and to Seller's knowledge, no such audits, disputes, or other proceedings have been threatened.

(c) To Seller's knowledge, no power of attorney relating to the taxes or tax returns of Seller has been executed or filed with any person including any taxing authority.

(d) Seller has withheld and paid all taxes required to have been withheld and paid in connection with any amounts paid or owing to any employee, independent contractor, creditor, stockholder or other person.

Section 4.09. Litigation. Except as set forth on Exhibit R: (i) there is no action, claim, demand, lawsuit, proceeding, arbitration, grievance, citation, summons, subpoena, inquiry, or

investigation of any nature, civil, criminal, regulatory, or otherwise, in law or in equity, which has been served upon Seller of which Seller has knowledge or, to the knowledge of Seller overtly threatened against Seller which materially affects Seller, the Purchased Assets or Seller's business, or relating to the transactions contemplated by this Agreement, and to the knowledge of Seller there is no valid basis for the same, (ii) to Seller's knowledge, Seller is not a party to, subject to or bound by, any decree, order, injunction, settlement agreement or arbitration decision or award (or agreement entered into in any administrative, judicial or arbitration proceeding with any governmental authority) with respect to or affecting the properties, assets, personnel or business activities of Seller, and (iii) to Seller's knowledge, no citation, fee, or penalty has been levied or asserted against Seller under any environmental law or any other governmental authority.

Section 4.10. Financial Statements. Seller has delivered to Buyer financial statements of Seller as, at and for the periods ended on October 31, 2013 and December 31, 2012 (collectively, the "Financial Statements"), including in each case a balance sheet, a statement of income and retained earnings, and a statement of cash flows. The Financial Statements are complete and correct in all material respects, accurately reflect the assets, liabilities, and results of operations and financial condition of Seller as of their respective dates, and have been prepared in accordance with GAAP. Seller does not owe any obligation and is not subject to any liability to any of Seller's affiliates other than obligations and liabilities.

Section 4.11. Insurance. Exhibit S contains a complete and correct list and summary description of all insurance policies maintained by or for the benefit of Seller. Seller has delivered to Buyer complete and correct copies of all such policies together with all riders and amendments thereto. Such policies are in full force and effect, and all premiums due thereon have been paid. Seller has complied in all material respects with the terms and provisions of such policies. Except as set forth on Exhibit S, such policies shall not continue after the Closing Date for the benefit of Seller, other than in terms of providing continued, post-Closing coverage to Seller in respect of actions, events or circumstances arising or occurring during policy coverage periods up to and including the Closing Date, whether or not claims arising from such actions, events or circumstances are made before, on or after the Closing Date. Exhibit S sets out all claims made by Seller under any policy of insurance during the past two years and, in the opinion of Seller reasonably formed and held, there is no basis on which a claim should or could be made under any such policy and contains a complete and correct list and summary description of all insurance policies maintained by or for the benefit of Seller.

Section 4.12. Environmental Matters.

(a) Seller has complied and is in compliance in all material respects with all applicable environmental laws, whether federal, state or local, pertaining to the Real Estate, any leased real property or the ownership or operation of the Business, and Seller has not received any written communication alleging that Seller is not in compliance with any applicable environmental law, other than as disclosed in Exhibit ____ hereto. To Seller's knowledge, there is no claim pending or threatened against Seller relating to any alleged or actual violation of an environmental law, and none of the Real Estate is currently listed on the National Priorities List or the Comprehensive Environmental Response, Compensation and Liability Information System, both promulgated under the Comprehensive

Environmental Response, Compensation and Liability Act of 1980, as amended (CERCLA) or any comparable state list.

(b) To the knowledge of Seller, neither the Seller nor any other person acting under its direction and control or on behalf of Seller, nor any affiliated entity of Seller, has caused or taken any action or is aware of any action that could reasonably result in, and the Seller is not subject to, any material liability or obligation relating to (i) the environmental conditions on, under, or about any of the Real Estate at the present time or in the past, including the air, soil and ground water conditions of such Real Estate, or (ii) the past or present use, management, handling, transport, treatment, generation, storage, disposal or release of any hazardous substance.

(c) Seller has made available to Buyer all (and not withheld from Buyer any) information, including all studies, analyses, and test results, in the possession, custody, or control of or otherwise known to Seller relating to (i) the environmental conditions on, under, or about any of the Real Estate, (ii) environmental conditions relating to the operation of the Business at the present time or in the past, (iii) any hazardous substances used, managed, handled, transported, treated, generated, stored, disposed of, or released by Seller or any other person on, under, about, or from any of the Real Estate or otherwise in connection with the use or operation of any of the Real Estate or the Business. There are no underground storage tanks located on any of the Real Estate.

Section 4.13. No Changes. Since December 31, 2012, there has not been: (a) any change in the Business or the Purchased Assets, other than changes occurring in the ordinary course of business which in the aggregate have not had a material adverse effect on the Business or the Purchased Assets; or (b) to knowledge of Seller, any threatened or prospective event or condition of any character whatsoever which could materially and adversely affect the Business or the Purchased Assets.

ARTICLE V

REPRESENTATIONS AND WARRANTIES OF BUYER

In order to induce Seller to enter into this Agreement and to consummate the transactions contemplated hereunder, as of the date hereof and as of the Closing Date Buyer makes the following representations and warranties:

Section 5.01. Organization. Buyer is a nonprofit municipal property corporation formed under the laws of the State of Arizona on behalf of the Town of Florence, Arizona, with full power and authority to enter into this Agreement and perform the obligations of Buyer hereunder.

Section 5.02. Authorization. The execution, delivery and performance of this Agreement and the consummation of the transactions contemplated hereby have been duly authorized by all necessary action of Buyer. Buyer has made all required filings with, and has obtained all approvals, consents and orders of, any governmental authority, board, agency or commission having jurisdiction which would constitute a condition precedent to the performance

by Buyer of its obligations hereunder. As of the Closing Date, Buyer will have, full legal right, power and authority (i) to enter into this Agreement, (ii) to adopt the Authorizing Resolution, (iii) to cause the Bonds to be delivered to Seller, (iv) to carry out and consummate the transactions contemplated by this Agreement, the Management Agreement, the Loan Agreement, and the Bond Documents to which it is a party; and (vi) to set utility rates as it deems necessary and appropriate to meet its obligations with respect to the Bonds.

Section 5.03. Enforceability. This Agreement has been duly executed and delivered by Buyer and is a valid and binding obligation of Buyer, enforceable in accordance with its terms, except as may be limited by (a) any applicable bankruptcy, reorganization, moratorium or similar laws, now or hereafter in effect, affecting the enforceability of creditors' rights generally or (b) general principles of equity.

Section 5.04. No Conflicts. Neither the execution and delivery of this Agreement nor the consummation of the transactions contemplated hereby will: (i) conflict with or violate any municipal code or ordinances, or of any decree or order of any court or administrative or other governmental body which is either applicable to, binding upon or enforceable against Buyer; or (ii) result in any breach of or default under any mortgage, contract, agreement, indenture, trust or other instrument which is either binding upon or enforceable against Buyer.

Section 5.05. As-Is Where-Is Condition. BUYER ACKNOWLEDGES THAT SELLER HAS NOT MADE ANY REPRESENTATIONS OR WARRANTIES OR COVENANTS THAT ARE NOT EXPRESSLY SET FORTH IN THIS DOCUMENT. EXCEPT FOR THOSE REPRESENTATIONS, WARRANTIES, AND COVENANTS EXPRESSLY SET FORTH HEREIN: (A) BUYER IS ACQUIRING THE PURCHASED ASSETS AND UNDERTAKING THE ASSUMED LIABILITIES IN THEIR "AS-IS WHERE-IS" CONDITION AND THAT IT IS RELYING UPON ITS OWN INVESTIGATION AND ANALYSIS AND SHALL NOT BE ENTITLED TO ANY REDUCTION TO OR SET-OFF OF THE PURCHASE PRICE FOR ANY REASON. IT IS UNDERSTOOD AND AGREED THAT SELLER IS NOT MAKING AND SPECIFICALLY DISCLAIMS ANY WARRANTIES OR REPRESENTATIONS OF ANY KIND OR CHARACTER, EXPRESS OR IMPLIED, WITH RESPECT TO SELLERS OR ANY TANGIBLE OR INTANGIBLE ASSETS OF SELLER, INCLUDING, BUT NOT LIMITED TO, WARRANTIES OR REPRESENTATIONS AS TO OR ANY OTHER MATTER OR THING RELATING TO OR AFFECTING THE VALUE, CONDITION, MERCHANTABILITY, MARKETABILITY, PROFITABILITY, SUITABILITY OR FITNESS FOR A PARTICULAR USE OR PURPOSE OF PURCHASED ASSETS; (B) BUYER HAS NOT RELIED UPON AND WILL NOT RELY UPON, EITHER DIRECTLY OR INDIRECTLY, ANY REPRESENTATION OR WARRANTY OF SELLER OR ANY AGENT OR EMPLOYEE OF SELLER; (C) BUYER REPRESENTS THAT IT IS A KNOWLEDGEABLE BUYER AND THAT IT IS RELYING SOLELY ON ITS OWN EXPERTISE AND THAT OF ITS CONSULTANTS IN PURCHASING THE PURCHASED ASSETS; AND (D) BUYER WILL CONDUCT SUCH INSPECTIONS AND INVESTIGATIONS REGARDING THE PURCHASED ASSETS AS BUYER DEEMS NECESSARY. NOTWITHSTANDING THE ABOVE, BUYER'S RELIANCE HEREIN IS BASED UPON SELLER'S WARRANTY THAT IT HAS PROVIDED ALL DOCUMENTATION AND INFORMATION KNOWN TO SELLER TO ALLOW BUYER TO MAKE AN INDEPENDENT DETERMINATION OF THE ASSETS BEING ACQUIRED.

SELLER HAS NOT WITHHELD ANY INFORMATION WHICH WOULD PREVENT THE BUYER FROM MAKING AN INFORMED DECISION AS TO THE PURCHASE OF THE ASSETS.

ARTICLE VI

ADDITIONAL COVENANTS

Section 6.01. Conduct of Business. From the date hereof to the Closing Date (and thereafter with respect to any covenant or agreement extending beyond the Closing Date), except as expressly permitted or required by this Agreement or as otherwise consented to by Buyer in writing, Seller will (as applicable):

(a) carry on the Business in, and only in, the ordinary course, in substantially the same manner as heretofore conducted, and use reasonable efforts to preserve intact its present business organization, maintain its properties in good operating condition and repair, keep available the services of its present officers and substantially all of its employees, and preserve its relationship with substantially all of its customers and others having business dealings with it, with the goal and intent that its goodwill and ongoing business shall be in all material respects unimpaired on and following the Closing Date;

(b) pay all accounts payable and other obligations of Seller when they become due and payable in the ordinary course of business consistent with prior practice;

(c) perform in all material respects all of its obligations under all Contracts and other agreements and instruments and comply in all material respects with all applicable laws applicable to it;

(d) not enter into or assume any material agreement, contract, or instrument, or enter into or permit any material amendment, supplement, waiver, or other modification with respect to any Contract;

(e) not make or change any election, change an annual accounting period, adopt or change any accounting method, file any amended tax return, enter into any closing agreement, settle any tax claim or assessment relating to Seller, surrender any right to claim a refund of taxes, consent to any extension or waiver of the limitation period applicable to any tax claim or assessment relating to Seller or take any other similar action relating to the filing of any tax return or the payment of any tax, if such election, adoption, change, amendment, agreement, settlement, surrender, consent or other action would have the effect of increasing the tax liability of Seller for any period ending after the Closing Date or decreasing any tax attribute of Seller existing on the Closing Date; provided that Buyer will make the appropriate accounting changes after the purchase to coincide with the Buyer's required governmental disclosures;

(f) not sell or transfer to any person or otherwise dispose of any material property or asset of Seller, other than dispositions of property or assets made in the ordinary course of business consistent with prior practice;

(g) not cause or permit any lien to be placed on any property or asset of Seller where such lien did not exist on the date hereof; and

(h) not take any action or knowingly omit to take any action, which action or omission would result in a breach of any of the representations and warranties set forth in Article 4.

Section 6.02. No Solicitation. Prior to the Closing Date or the earlier termination of this Agreement, neither Seller nor any affiliate of Seller, shall solicit any inquiries or proposals with respect to, (i) the sale by Seller of all or substantially all of its properties and assets, or (ii) any merger transaction or other transaction involving the acquisition of control of Seller by any person other than Buyer.

Section 6.03. Further Actions.

(a) Seller and Buyer agree to use reasonable efforts to take all actions and to do all things necessary, proper or advisable to consummate the transactions contemplated hereby by the Closing Date.

(b) Seller and Buyer will, as promptly as practicable, file or supply, or cause to be filed or supplied with all relevant governmental authorities and other Persons, all applications, notifications and information required to be filed or supplied by it pursuant to applicable law in connection with this Agreement and the consummation of the transactions contemplated hereby.

(c) Seller and Buyer, as promptly as practicable, will use reasonable efforts to obtain, or cause to be obtained, all consents (including all governmental approvals and any consents required under any contract) necessary to be obtained by it under applicable law or pursuant to any contract or permit in connection with the transactions contemplated thereby.

(d) Seller will cause its affiliates to, coordinate and cooperate with Buyer in exchanging such information and supplying such assistance as may be reasonably requested by Buyer in connection with the filings and other actions contemplated by this Agreement.

(e) Following the Closing Date, Seller and Buyer shall, from time to time and at their own expense, execute and deliver such additional instruments, documents, conveyances, or assurances and take such other actions as shall be necessary, or otherwise reasonably requested by the other party, to render effective the consummation of the transactions contemplated hereby.

ARTICLE VII

TERMINATION

Section 7.01. Termination. This Agreement may be terminated at any time prior to the Closing Date:

(a) By Seller or Buyer by written notice to the other parties if the transactions contemplated hereby shall not have been consummated pursuant hereto by 5:00 p.m., Phoenix, Arizona time on July 1, 2014;

(b) By Buyer by written notice to Seller if (a) the representations and warranties of Seller shall not have been true and correct in all material respects as of the date when made or (b) any of the conditions set forth in Section 3.02 shall not have been, or if it becomes apparent to Buyer in its reasonable discretion that any of such conditions will not be, fulfilled by 5:00 p.m. Phoenix, Arizona time on July 1, 2014, unless such failure shall be due to the failure of Buyer to perform or comply with any of the covenants, agreements or conditions hereof to be performed or complied with by it prior to the Closing Date;

(c) By Seller by written notice to Buyer if (a) the representations and warranties of Buyer shall not have been true and correct in all material respects as of the date when made, or (b) any of the conditions set forth in Section 3.03 shall not have been, or if it becomes apparent to Seller in its reasonable discretion that any such condition will not be, fulfilled by 5:00 p.m. Phoenix, Arizona time on March 31, 2014, unless such failure shall be due to the failure of Seller to perform or comply with any of the covenants, agreements or conditions hereof to be performed or complied with by it prior to the Closing Date; or

(d) By Seller by written notice to Buyer if:

(i) the marketability of the Bonds or the market price thereof, in the reasonable opinion of Seller, has been materially adversely affected by (1) an amendment to the Constitution of the United States or the Constitution of the State or (2) any introduced or enacted federal or State legislation or (3) any decision of any federal or State court or (4) any ruling or regulation (final, temporary or proposed) of the Treasury Department of the United States, the Internal Revenue Service or other federal or State authority or (5) any bill favorably reported out of committee in either house of the Congress of the United States, in any case affecting the tax status of Buyer, its property or income, its securities (including the Bonds) or the interest thereon, or any tax exemption granted or authorized by the Internal Revenue Code of 1986, as amended, or the statutes of the State of Arizona (the "*State*"); or

(ii) a stop order, ruling, regulation, proposed regulation or statement by or on behalf of the Securities and Exchange Commission shall be issued or made having the effect or creating the probability that the issuance, offering or sale of obligations of the general character of the Bonds shall be or shall become a violation of any provisions of the Securities Act of 1933, the Securities and Exchange Act of 1934, or the Trust Indenture Act of 1939; or

(iii) in the Congress of the United States legislation shall be enacted or a bill shall be favorably reported out of committee to either house, or a decision by a court of the United States shall be rendered, or a ruling, regulation, proposed regulation or statement by or on behalf of the Securities and Exchange Commission or other governmental agency having jurisdiction of the subject matter shall be made, to the effect that securities of Buyer or of any similar public body are not exempt from the registration, qualification or other requirements of the Securities Act of 1933, the Securities and Exchange Act of 1934 or the Trust Indenture Act of 1939; provided, however, that the effective date of the events described in (a), (b) and (c) of this Subparagraph 7.01(f) shall be prior to the Closing Date; or

(iv) the United States shall have become engaged in hostilities which have resulted in a declaration of war or a national emergency or there shall have occurred any other outbreak of hostilities or a national or international calamity or crisis, or an escalation thereof, the effect of such outbreak calamity or crisis on the financial markets of the United States being such as, in the opinion of Seller, would affect materially and adversely the ability of Seller to market the Bonds or to enforce contracts for the sale of the Bonds; or

(v) there shall have occurred a general suspension of trading on the New York Stock Exchange or the declaration of a general banking moratorium by the United States, or by the States of Arizona or New York; or

(vi) there shall exist any event which, in the sole judgment of Seller, would materially adversely affect the market for the Bonds.

Section 7.02. Effect of Termination.

(a) In the event of the termination of this Agreement pursuant the provisions in Section 7.01 (i) this Agreement shall become void and have no effect, without any liability to any person in respect hereof or of the transactions contemplated hereby on the part of any party hereto, or any of its officials, directors, officers, employees, agents, consultants, representatives or advisers, except for any liability resulting from such party's material breach of this Agreement and for failing to comply with Section 7.02(b).

(b) Upon such an event, (a) Buyer shall deliver to Seller all materials delivered to or acquired from Seller ("Seller's Materials") and (b) Buyer will maintain the confidentiality of, and not disclose to any third person (other than its attorney and other consultants to the extent reasonably required for the negotiation and processing of the transaction contemplated by this Agreement) any information obtained by Buyer from or

through Seller's Materials except to the extent such information is generally available to the public or required to be disclosed pursuant to legal process or applicable law.

ARTICLE VIII

INDEMNIFICATION

Section 8.01. Indemnification By Seller. To the extent permitted by applicable law, but subject to the limitations set forth in Sections 8.04 and 8.05, Seller covenants and agrees to defend, indemnify and hold harmless Buyer, and its officials and employees, (collectively, the "*Buyer Indemnitees*") from and against, and to pay or reimburse Buyer Indemnitees for, any and all claims, amounts paid in settlement of claims, liabilities, obligations, losses, fines, costs, royalties, proceedings, deficiencies or damages (whether absolute, accrued, conditional, or otherwise and whether or not resulting from third patty claims), including without limitation any out-of-pocket expenses and reasonable attorneys' and accountants' fees incurred in the investigation or defense of any of the same or in asserting any of their respective rights hereunder but excluding any consequential damages (collectively, "*Losses*"), resulting from or arising out of:

(a) any material inaccuracy of any representation or warranty by Seller contained in Article 4; or

(b) any failure of Seller to perform any material covenant or agreement hereunder or to fulfill any other obligation in respect hereof; or

(c) all obligations of the Sellers, including but not limited to regulatory obligations and obligations for Taxes, for periods through and including the Closing Date.

Section 8.02. Indemnification by Buyer. To the extent permitted by Applicable Law, but subject to the limitations set forth in Sections 8.04 and 8.05, Buyer covenants and agrees to defend, indemnify and hold harmless Seller, and its members, officers, employees (collectively, the "*Seller Indemnitees*")from and against, and to pay or reimburse Seller Indemnitees for, any and all Losses resulting from or arising out of:

(a) any material inaccuracy in any representation or warranty by Buyer made or contained Article 5;

(b) any failure of Buyer to perform any material covenant or agreement hereunder or to fulfill any other obligation in respect hereof; or

(c) all obligations of the businesses being acquired, including but not limited to regulatory obligations and obligations for Taxes, for all periods on and after the Closing Date (including any obligations concerning the need for any regulatory approvals or consents to effectuate any of the actions contemplated in this Agreement, regardless of when such obligation accrues).

Section 8.03. Indemnification Procedures. In the case of any claim by a Buyer Indemnitee or a Seller Indemnitee (any of which, an "*Indemnified Party*") for indemnification

under this Article 8, notice shall be given by the Indemnified Party to the party required to provide indemnification (the "*Indemnifying Party*") promptly after such Indemnified Party has actual knowledge of any claim as to which indemnity may be sought. The notice shall specify the factual basis of the claim in reasonable detail to the extent known by the Indemnified Party:

(a) *Third Party Claims.* With regard to third party claims, the Indemnified Party shall permit the Indemnifying Party (at the expense of such Indemnifying Party) to assume the defense of any third party claim or any litigation resulting therefrom; provided that (i) the counsel for the Indemnifying Party who shall conduct the defense of such claim or litigation shall be reasonably satisfactory to the Indemnified Party, (ii) the Indemnified Party may participate in such defense at such Indemnified Party's expense, and (iii) the failure by any Indemnified Party to give notice as provided herein shall not relieve the Indemnifying Party of its indemnification obligation under this Agreement except to the extent that such omission results in a failure of actual notice to the Indemnifying Party and such Indemnifying Party is materially prejudiced as a result of such failure to give notice. Except with the prior written consent of the Indemnified Party, no Indemnifying Party, in the defense of any such claim or litigation, shall consent to entry of any judgment or enter into any settlement that provides for injunctive or other non-monetary relief affecting the Indemnified Party or that does not include as an unconditional term thereof the giving by each claimant or plaintiff to such Indemnified Party of a release from all liability with respect to such claim or litigation. In the event that the Indemnified Party shall in good faith determine that the conduct of the defense of any claim subject to indemnification hereunder or any proposed settlement of any such claim by the Indemnifying Party might be expected to affect adversely the Indemnified Party's tax liability or the ability of the Indemnified Party to conduct its business, or that the Indemnified Party may have available to it one or more defenses or counterclaims that are inconsistent with one or more of those that may be available to the Indemnifying Party in respect of such claim or any litigation relating thereto, the Indemnified Party shall have the right at all times to take over and assume control over the defense, settlement, negotiations or litigation relating to any such claim at the sole cost of the Indemnifying Party, provided that if the Indemnified Party does so take over and assume control, the Indemnified Party shall not settle such claim or litigation without the written consent of the Indemnifying Party, such consent not to be unreasonably withheld. In the event that the Indemnifying Party does not accept the defense of any matter as above provided, the Indemnified Party shall have the full right to defend against any such claim or demand and shall be entitled to settle or agree to pay in full such claim or demand. In any event, the Indemnifying Party and the Indemnified Party shall cooperate in the defense of any claim or litigation subject to this Section 8.03, including tax audits and claims, and the records of each shall be available to the other with respect to such defense.

(b) *Claims for Losses other than Third Party Claims.* With regard to a claim for indemnification for Losses other than a third party claim, the Indemnifying Party shall within thirty (30) days after receiving notice of the claim, give notice to the Indemnified Party of the acceptance or rejection of the claim by the Indemnifying Party. A notice of rejection of a claim will create of Dispute under Article 8.

Section 8.04. Time Limitations. If the Closing occurs, Seller will have liability with respect to Section 8.01 only if on or before the date which is twelve (12) months after the Closing Date, Buyer notifies the Seller from which it is seeking indemnification in writing of the claim, specifying the factual basis of the claim in reasonable detail to the extent then known by Buyer. If the Closing occurs, Buyer will have liability with respect to Section 8.02 only if on or before the date which is twelve (12) months after the Closing Date, Seller notifies Buyer in writing of the claim, specifying the factual basis of the claim in reasonable detail to the extent then known by Seller. Notwithstanding the foregoing, if before 5:00 p.m. (Arizona time) on the date which is twelve (12) months after the Closing Date, any party against which an indemnification claim has been made hereunder has been properly notified in writing of such claim and such claim has not been finally resolved or disposed of as of such date, then such claim shall continue to survive and shall remain a basis for indemnity hereunder until such claim is finally resolved or disposed of in accordance with the terms of this Agreement.

Section 8.05. Limitations on Amount. No claim shall be asserted against Seller under this Article 8 which, individually, is less than $50,000; and no claims shall be asserted against Seller under this Article 8 which, in the aggregate, exceed the sum of $1,000,000. If a particular claim or claims are covered by insurance carried by Seller, such claims may be pursued against Seller for amounts in excess of the limits set forth in the preceding sentence, but Buyer's recourse shall be limited to the proceeds of the applicable insurance coverage. No claim shall be asserted against Buyer under this Article 8 which, individually, is less than $50,000; and no claims shall be asserted against Buyer under Section 8.02 which, in the aggregate, exceed the sum of $1,000,000. If a particular claim or claims are covered by insurance carried by Buyer, such claims may be pursued against Buyer for amounts in excess of the limits set forth in the preceding sentence, but Sellers' recourse shall be limited to the proceeds of the applicable insurance coverage.

Section 8.06. Exclusive Remedy. The right to indemnification provided in this Article 8 is intended to be the sole and exclusive remedy of Buyer or Seller following the Closing. Until the Closing, the parties shall have any other remedies provided herein or available at law or in equity.

Section 8.07. Limitation of Liability. The liability of each party under this Agreement, for any reason whatsoever, whether in contract, tort or statute (including without limitation, negligence), or otherwise, shall be limited to the other party's actual damages. In no event shall either party have any liability to the other party or to third parties for any indirect, incidental, special, consequential or punitive damages, even if such party has been advised of the possibility thereof. The allocations of liability in this Agreement represent the agreed and bargained-for understanding of the parties with respect to allocation of risks inherent in their relationship.

ARTICLE IX

DISPUTE RESOLUTION

Section 9.01. Disputes. In the event of any claim, dispute or other matter in controversy, whether based on contract, tort, statute or other legal theory (including but not limited to any claim of fraud or misrepresentation), arising out of or related to the Agreement or the breach thereof, either party hereto may pursue in court any remedy available to it at law or in equity.

ARTICLE X

MISCELLANEOUS

Section 10.01. Survival. Each of the representations and warranties made by Seller in Article 4 of this Agreement shall survive for a period of two (2) years after the Closing Date, notwithstanding any investigation at any time made by or on behalf of Buyer, and thereafter all such representations and warranties shall be extinguished. No claim for the recovery of Loss (as defined in Section 8.01) may be asserted by Buyer against Seller, or its successors in interest after such representations and warranties shall be thus extinguished; *provided, however*, that claims first asserted in writing within the applicable period shall not thereafter be barred and claims related to an assertion of infringement of intellectual property may be asserted at any time so long as they otherwise are not statutorily or equitably time barred.

Section 10.02. Knowledge. As used throughout this Agreement, the term "knowledge" means the actual awareness of a particular fact or circumstance and the awareness of a fact or circumstance that a prudent individual could reasonably be expected to discover or otherwise become aware of in the course of conducting a reasonable investigation and due inquiry concerning the fact or circumstance.

Section 10.03. Brokers' Commission. Seller will be solely responsible for and will indemnify and hold Buyer harmless from, the payment of any commission, fee or claim of any person, firm or corporation employed or retained or claiming to be employed or retained by Seller to bring about, or to represent Seller in, the transactions contemplated hereby.

Section 10.04. General Provisions regarding Representation and Warranties. The following provisions shall apply to all representations and warranties of any of the parties to this Agreement:

(a) *No Other Representation of Warranties.* Each party to this Agreement hereby expressly acknowledges and agrees that it has not relied on, and no other party has made, any representation or warranty, expressed or implied (all implied warranties being hereby expressly disclaimed), except for those representations and warranties that are expressly set forth in the Agreement,

(b) *Specific Overrules General.* To the extent that any matter is addressed by a specific representation or warranty, any more general representation shall be deemed not to apply to such a matter.

(c) *One Disclosure Suffices.* Anything that is duly disclosed to Buyer pursuant to this Agreement, including on any Exhibit hereto, shall be deemed to have been disclosed on all applicable schedules to this Agreement.

Section 10.05. Binding Effect. This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors, assigns, heirs and legal representatives.

Section 10.06. Entire Agreement. This Agreement (including the exhibits attached hereto) contains the entire agreement of the parties hereto with respect to the purchase of the Purchased Assets and the other transactions contemplated herein, and supersede all prior written and oral understandings and agreements of the parties with respect to the subject matter hereof. Any reference herein to this Agreement shall be deemed to include the exhibits attached hereto.

Section 10.07. Headings. The descriptive headings in this Agreement are inserted for convenience only and do not constitute a part of this Agreement.

Section 10.08. Execution in Counterpart. This Agreement may be executed in any number of counterparts, each of which shall be deemed an original.

Section 10.09. Notices. Any notice, request, information or other document to be given hereunder to any of the parties by any other party shall be in writing and delivered personally or sent by certified mail, overnight courier, facsimile or electronic mail as follows:

If to Buyer, addressed to:

Florence Municipal Property Corporation
c/o Town Manager
775 N. Main Street
P.O. Box 2670
Florence, Arizona
Attn:
Email:

with a copy to:

775 N. Main Street
P.O. Box 2670
Florence, Arizona
Email:

If to Seller, addressed to:

Johnson Utilities, L.L.C.
5230 E. Shea Boulevard, Suite 200
Scottsdale, Arizona 85254
Attention: George H. Johnson
Fax: (480) 483-7908
Email: gjohnson@azvision.net

with a copy to:

Gary A. Drummond, Esq
Sallquist & Drummond, P.C.
1430 E. Missouri Avenue, Suite B-125

Phoenix, Arizona 85014
Email: gary@sd-law.com

Any party may change the address to which notices hereunder are to be sent to it by giving written notice of such change of address in the manner herein provided for giving notice. Any notice delivered personally shall be deemed to have been given on the date it is so delivered, and any notice delivered by registered or certified mail shall be deemed to have been given on the date it is received.

Section 10.10. Amendment. This Agreement may be amended only with the written approval of all of the parties hereto.

Section 10.11. Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Arizona applicable to contracts made and to be performed therein.

Section 10.12. Notice of A.R.S. Section 38-511 - Cancellation. Notice is hereby given of the provisions of Arizona Revised Statutes Section 38-511, as amended. By this reference, the provisions of said statute are incorporated herein to the extent of their applicability to contracts of the nature of this Agreement under the law of the State.

Section 10.13. Time is of the Essence. Time is hereby declared to be of the essence for the purposes of the performance of all conditions and obligations under this Agreement.

Section 10.14. Threat of Condemnation. The parties hereto expressly acknowledge that the sale of the Business from Seller to Buyer under the terms described herein has been negotiated under the threat of condemnation action.

* * *

SIGNATURES FOLLOW

IN WITNESS WHEREOF, the parties hereto have caused this Asset Purchase and Lease Agreement to be duly executed as of the date first above written.

BUYER:

FLORENCE MUNICIPAL PROPERTY CORPORATION

By: _____
Name: _____
Title: _____

SELLER:

JOHNSON UTILITIES, L.L.C.

By: _____
Name: _____
Title: _____

EXHIBIT A

EXCLUDED ASSETS

- RENEWABLE ENERGY CREDITS ASSOCIATED WITH THE SOLAR FACILITY LOCATED AT THE ANTHEM WASTEWATER TREATMENT PLANT
- RENEWABLE ENERGY CREDITS ASSOCIATED WITH THE SOLAR FACILITY LOCATED AT THE SECTION 11 WASTEWATER TREATMENT PLANT
- RENEWABLE ENERGY CREDIT ASSOCIATED WITH THE SOLAR FACILITY LOCATED AT THE RANCHO SENDERO WATER PLANT
- JOHNSON RANCH WELL #2
- RESIDENCE LOCATED AT 7320 EAST SONOMA WAY, FLORENCE, AZ 85132
- 250 ACRE-FEET OF RECHARGE CREDITS WITH THE ARIZONA DEPARTMENT OF WATER RESOURCES

EXHIBIT B

TERMS OF WATER AND SEWER REVENUE BONDS

Issuer:	The Industrial Development Authority of the City of Phoenix
Borrower:	Florence Municipal Property Corporation, an Arizona non-profit corporation formed for the benefit of the Town of Florence, Arizona
Par Amount:	$121,000,000
Bond Closing:	On or about March 1, 2014
Maturity:	30 years, with sinking fund principal redemptions beginning in Y6
Tax Status:	Interest on the Bonds will be excluded from gross income for purposes of federal and state income taxation and will not be subject to the alternative minimum tax
Town of Florence:	No recourse to Town of Florence. Net revenues from the Purchased Assets will be paid to the Town. Once the Bonds are fully paid, the Purchased Assets will be gifted to the Town free of charge
Bond Counsel	Kutak Rock LLP in Scottsdale, Arizona
Project Seller/Bond Purchaser	Johnson Utilities, L.L.C. will sell the Purchased Assets to the Borrower in exchange for the Bonds
Bond Terms:	The Bonds will bear interest at the rate of 6.625% (interest only) for the first 5 years and at the rate of 8.00% per annum for years 6-30, mature in 2044, and will not be subject to optional redemption All major financing documents, including the offering document and the bond form will contain substantially the following disclaimer: THE BONDS AND THE INTEREST THEREON ARE SPECIAL LIMITED OBLIGATIONS OF THE ISSUER PAYABLE EXCLUSIVELY FROM REVENUES AND RECEIPTS UNDER THE LOAN AGREEMENT. THE BONDS DO NOT CONSTITUTE A DEBT OR A LOAN OF CREDIT OR A PLEDGE OF THE FULL FAITH AND CREDIT OR TAXING POWER OF THE ISSUER OR THE TOWN OF FLORENCE, OR OF THE STATE OF ARIZONA, OR OF ANY POLITICAL SUBDIVISION THEREOF, WITHIN THE MEANING OF ANY STATE CONSTITUTIONAL PROVISION OR STATUTORY LIMITATION AND SHALL NEVER CONSTITUTE NOR GIVE RISE TO A PECUNIARY LIABILITY OF THE STATE OF ARIZONA, OR ANY POLITICAL SUBDIVISION THEREOF. THE

BONDS SHALL NOT CONSTITUTE, DIRECTLY OR INDIRECTLY, OR CONTINGENTLY OBLIGATE OR OTHERWISE CONSTITUTE A GENERAL OBLIGATION OF OR A CHARGE AGAINST THE GENERAL CREDIT OF THE TOWN OF FLORENCE, BUT SHALL BE SPECIAL LIMITED OBLIGATIONS OF THE ISSUER PAYABLE SOLELY FROM THE SOURCES DESCRIBED HEREIN AND IN THE INDENTURE, BUT NOT OTHERWISE. THE ISSUER HAS NO TAXING POWER.

Defeasance: The Indenture will provide that the Borrower and/or the Town may defease the lien of Indenture at any time by depositing with the Trustee for the benefit of the Bondholders government obligations sufficient to pay principal and interest on the Bonds to the maturity date

Management: The Purchased Assets will be managed by the Seller (or its affiliate) for a period of 5 years on a fixed fee contract that pays $500,000 annually in full compliance with federal qualified management contract rules (Rev Ruling 97-13). Town will assume management (on its own or by contract) after Y5

Bond Purchase Price: Purchaser will purchase the Bonds at a price of par in exchange for the Purchased Assets

Cost of Issuance All closing costs related to the Bonds, including the fees and expenses of Seller's Counsel, Issuer, Issuer's Counsel, Bond Counsel, Borrower, Borrower's Counsel, and Trustee will be paid by the Seller at closing

Town Costs: All costs incurred by the Town will be paid by the Town

Denominations: The Bonds will be issued in minimum denominations of $1,000,000 and will only be transferable to parties related to Seller

Flow of Funds: From cash flow generated by the Purchased Assets, the Manager will pay operating expenses, replenish reserve funds, and forward the balance to the Trustee, who will make payments in the following order of priority:

first, interest on the Bonds;

second, principal on the Bonds;

third, ongoing fees of the Borrower, Issuer and Trustee;

fourth, management fees;

fifth, required arbitrage rebate amounts, if any;

sixth, replenishment of reserve funds; and

seventh, remainder to Town.

Security: The Bonds will be issued pursuant to the Indenture as special obligations of the Issuer and shall be secured by a first priority security interest in all amounts held pursuant to the Indenture, and the pledged revenues which consist of the following:

(1) Revenues received by the Issuer under the Loan Agreement

(2) To the extent permitted by law, airst mortgage on all assets of Borrower

(3) A debt service/operating reserve fund will be established under the Indenture and be funded from cash deposits currently held by Seller, in an amount to be determined, subject to federal tax rule limitations

EXHIBIT C

ASSUMED LIABILITIES

- **CUSTOMER ACCOUNT SECURITY DEPOSITS (ADVANCE DEPOSITS MADE BY CUSTOMERS TO SECURE PAYMENT OF FUTURE CHARGES) WHICH COME DUE AFTER CLOSING**

- **METER ADVANCE REFUNDS DUE AFTER CLOSING**

- **ANNUAL AMOUNTS DUE ON THE LINE EXTENSION AGREEMENTS (LXAs) ATTACHED HERETO. SELLER SHALL BE RESPONSIBLE FOR THE PRO RATA SHARE OF AMOUNTS DUE UNDER THE LXAs FOR THE PERIOD ENDING ON THE CLOSING DATE**

EXHIBIT D

ALLOCATION OF PURCHASE PRICE

EXHIBIT E

CONSENTS AND APPROVALS REQUIRED OF SELLER

- **APPROVAL FROM THE ARIZONA CORPORATION COMMISSION TO TRANSFER THE ASSETS AND DELETE THE CERTIFICATE OF CONVENIENCE AND NECESSITY (CC&N)**

EXHIBIT F

GOVERNMENTAL APPROVALS REQUIRED OF BUYER

- APPROVAL FROM THE ARIZONA CORPORATION COMMISSION TO TRANSFER THE ASSETS AND DELETE THE CERTIFICATE OF CONVENIENCE AND NECESSITY (CC&N)

DRAFT

EXHIBIT G

FORM OF OPINION OF COUNSEL TO BUYER

[DATE]

Johnson Utilities, L.L.C.
Florence, AZ

$[_____]
The Industrial Development Authority of the City of Phoenix, Arizona
Water and Sewer Revenue Bonds
(Florence Water Company Project)
Series 2014

Ladies and Gentlemen:

We have acted as counsel to Florence Municipal Property Corporation (the "Buyer), an Arizona non-profit public benefit corporation formed on behalf of the Town of Florence, Arizona (the "Town") in connection with (a) the Asset Purchase and Lease Agreement, dated as of [____], 2014 (the "Sale Agreement") by and between the Buyer and Johnson Utilities, L.L.C., an Arizona limited liability company (the "Seller"), and (b) the Management Agreement (the "Management Agreement"), dated as of [_____], 2014 between the Buyer and Southwest Environmental Utilities, L.L.C., an Arizona corporation (the "Manager"). This opinion is delivered to you pursuant to Section 3.03(e) of the Sale Agreement.

In rendering this opinion, we have reviewed an executed copy of each of the following documents (collectively, the "Organizational Documents"):

(a) Articles of Organization of the Buyer dated [_____], as certified by the Arizona Secretary of State, and the Bylaws of the Buyer, certified by an authorized officer of the Buyer, dated [_____];

(b) Certificate of Good Standing issued [_____], by the Arizona Secretary of State for Buyer.

We have also reviewed an executed copy of each of the following documents (collectively, the "Transaction Documents"):

(a) the Sale Agreement executed by the Buyer;

(b) the Management Agreement executed by the Buyer;

(c) the Officer's Certificate of the appropriate officers or authorized representatives of the Buyer, certifying that (i) each covenant and agreement of the Buyer to be performed prior to or as of the Closing pursuant to the Sale Agreement and the Management Agreement has been performed, (ii) each representation and warranty of the Buyer is true and correct on the Closing Date, as if made on and as of the Closing, and (iii) the resolution of the Buyer attached thereto authorizing and approving execution of the Sale Agreement and the Management Agreement and performance of the transactions contemplated thereby;

(d) the Incumbency Certificate of the appropriate officers or authorized representatives of the Buyer; and

In addition, we have reviewed such matters of law as we have deemed necessary for the rendering of the opinions contained herein.

In rendering the following opinions, we have assumed and relied upon (i) the genuineness of all signatures (other than the Buyer); (ii) the authenticity and completeness of all documents submitted to us as originals and the conformity to original documents of all documents submitted to us as PDF, electronic, certified or photostatic copies; (iii) the accuracy and completeness of all the Organizational Documents of the Buyer made available to us; (iv) there has not been any mutual mistake of fact or misunderstanding, fraud, duress, criminal activity or undue influence; (v) the conduct of all the parties and their respective agents has complied with any requirement of good faith and fair dealing; (vi) there are no agreements or understandings among the parties to the Transaction Documents, written or oral, and there is no usage of trade or course of prior dealings among the parties that would, in either case, define, supplement or otherwise qualify the terms and conditions of the Transaction Documents; (vii) the constitutionality or validity of a relevant statute, rule, regulation or agency action is not at issue unless a reported decision in the State of Arizona has specifically addressed, but not resolved, or has established, its unconstitutionality or invalidity; (viii) all parties (other than the Buyer) have the power, authority and capacity to execute, deliver and perform the Transaction Documents and that there are no facts or circumstances relating to you that might prevent you from enforcing any of the rights to which our opinion relates; (ix) the enforceability of the Transaction Documents against all parties other than the Buyer; (x) each party to the Transaction Documents (other than the Buyer) has satisfied the legal requirements which are applicable to it to the extent necessary to make the Transaction Documents enforceable against it; (xi) no party to the Transaction Documents will in the future take any discretionary action (including any decision not to act) permitted under the Transaction Documents which would result in a violation of law or constitute a breach or default under any agreements, other than the Transaction Documents, to which any party to the Transaction Documents is a party or by which its property is bound, or under any court, arbitrator or administrative order, writ, judgment, or decree that names any party to the Transaction Documents and is specifically directed to its property; (xii) all parties will act in accordance with, and refrain from taking any action which is forbidden by, the terms and conditions of the Transaction Documents and that you will perform all of your obligations under the Transaction Documents; and (xiii) adequate consideration at law has been paid under the Transaction Documents.

We have not conducted any other investigation to confirm any facts set forth in the Organizational Documents and in the Transaction Documents and the other documents called

forth therein, and we have not conducted any independent investigation to confirm the facts upon which the opinions set forth herein are based.

Based solely upon the foregoing and subject to the assumptions, qualifications and limitations herein stated, we are of the opinion that:

1. The Buyer is an Arizona non-profit public benefit corporation formed on behalf of the Town and is organized, validly existing and in good standing under the laws of the State of Arizona.

2. The Buyer has the power and authority to execute and deliver the Transaction Documents to which it is a party, to consummate the transactions contemplated thereby and to perform its obligations thereunder.

3. The execution and delivery by the Buyer of the Transaction Documents to which the Buyer is a party, the consummation by the Buyer of the transactions contemplated by such Transaction Documents and the performance of the Buyer's obligations therein have been duly authorized and/or ratified by all necessary corporation action of the Buyer.

4. The Transaction Documents to which the Buyer is a party have been duly executed and delivered by the Buyer and constitute the valid and legally binding obligations of the Buyer, enforceable against the Buyer in accordance with their respective terms.

5. No consent or action of, or filing or registration with, any governmental or public regulatory body or authority is required to authorize, or is otherwise required in connection with either the execution and delivery by the Buyer of the Transaction Documents to which it is a party or the incurrence by the Buyer of its obligations under the Transaction Documents to which it is a party, except as may be have been obtained, made or taken prior to the date hereof.

6. The execution and delivery of the Transaction Documents by the Buyer do not, and the compliance with the terms of the Transaction Documents to which it is a party will not (A) result in a violation of the Buyer's Organizational Documents, (B) result in a breach of or default under any agreements or instruments (other than the Transaction Documents) to which the Buyer is a party, except for those agreements with respect to which any breach, default or violation thereof in the aggregate would not have a material adverse effect on the Buyer or the ability of the Buyer to perform its obligations under the Transaction Documents to which it is a party; or (C) result in any violation of any applicable Federal or State of Arizona law or statute, rule or regulation to which the Buyer is subject, or any judgment, order, writ, injunction or decree of any court or other tribunal located in the State of Arizona directed against and naming the Buyer, except where any such violations in the aggregate would not have a material adverse effect on the Buyer, or the ability of the Buyer to perform its obligations under the Transaction Documents.

7. There is no action, suit, proceeding, inquiry or investigation at law or in equity or by or before any governmental instrumentality or other agency pending or, to our knowledge, now threatened against or affecting the Buyer or to which the Buyer are or may be a party or to which the property of the Buyer is or may be subject, wherein an unfavorable decision, ruling or finding would adversely affect: (i) the existence or organization of the Buyer or the title to office

of any officer of the Buyer or any power of the Buyer; (ii) the validity or enforceability of the proceedings taken by the Buyer for the authorization, execution and delivery by the Transaction Documents; (iii) the validity or enforceability of the Transaction Documents; or (iv) the transactions contemplated by the Transaction Documents.

Our opinions are based on the assumptions (upon which we have relied with your consent) and subject to the qualifications and limitations, set forth in this letter, including the following:

1. For purposes of rendering the opinions set forth herein, we have assumed that the Transaction Documents are governed and interpreted by the laws of the State of Arizona. We express no opinion whatsoever with respect to any rules of choice or conflicts of laws.

2. We have assumed for purposes of this opinion that: (a) the parties to the Transaction Documents other than the Buyer (the "Other Parties") are duly organized, validly existing and in good standing with full power and authority to enter into, execute, deliver and perform the Transaction Documents and their respective obligations thereunder; (b) the Transaction Documents have been duly authorized by the Other Parties and the Other Parties have duly executed and delivered the Transaction Documents to which they are signatories; (c) the Other Parties have satisfied those legal requirements that are applicable to each of them to the extent necessary to make the Transaction Documents enforceable against each of them; (d) any contracts, agreements, or instruments to which the Other Parties are a party or by which its or their property is bound, other than the Transaction Documents, will be enforced as written (e) the Other Parties have complied with all legal requirements pertaining to each of their status as such status relates to their rights to enforce the Transaction Documents against the Buyer; (f) each natural person executing any of the Transaction Documents is legally competent; (g) all signatures are genuine, the Transaction Documents submitted to us as originals are authentic and the Transaction Documents submitted to us as copies conform to the originals; (h) all Transaction Documents are complete or will be appropriately completed (including, without limitation, all amendments and exhibits thereto); (i) any certifications dated prior to Closing remain true as of Closing; (j) there has not been any mutual mistake of fact or misunderstanding, fraud, duress or undue influence; (k) the conduct of the parties to the Transaction Documents has complied with any requirement of good faith, fair dealing and conscionability; (l) the Other Parties and any agent acting for the Other Parties in connection with the Transaction have acted in good faith and without notice of any defense against the enforcement of any rights created by, or adverse claim to any property or security interest transferred or created as part of, the Transaction Documents; (m) there are no agreements or understandings among the parties, written or oral, and there is no usage of trade or course of prior dealing among the parties that would, in either case, define, supplement or qualify the terms of the Transaction Documents; (n) the Buyer hold the requisite title and rights to any property involved in the transactions contemplated by the Transaction Documents; and (o) the Buyer will obtain all permits and governmental approvals required, and take all actions similarly required, relevant to consummation of the Transaction Documents or performance of the Transaction Documents.

3. We also assume that if the consent of any other person or entity is required to the assignment of any contract, agreement, instrument, lease, license, permit, warranty or approval, that such consent has been received and such consent was given by the person or entity required

and properly authorized to grant such consent. We note that we have no actual knowledge of the occurrence of any of the matters described in clauses (j) or (m), above, nor do we have any actual knowledge that any of the parties to the Transaction Documents have not complied with the requirement of good faith, fair dealing, and conscionability as assumed by clauses (k) or (l), above. We have not made any independent investigation or inquiry concerning the business or financial condition of the Buyer or concerning the operation, management, use or other dealings with the property of the Buyer.

4. Our opinions are subject to: (i) the effect of applicable bankruptcy, insolvency, reorganization, arrangement, moratorium, fraudulent transfer or fraudulent conveyance and other similar laws affecting creditor's rights generally; and (ii) limitations imposed by equitable doctrines, including without limitation, limitations upon the specific enforceability of provisions of the Transaction Documents, concepts of materiality, reasonableness (including commercial reasonableness of the sale or disposition of collateral), good faith and fair dealing, and the availability of injunctive relief or other equitable remedies (regardless whether considered in a proceeding in equity or at law).

5. We do not express any opinion on any matter not expressly addressed in this letter, and no other opinions should be implied therefrom. The opinions set forth herein are delivered based solely upon the facts, examinations, assumptions and other matters described herein as they exist as of the date hereof, and we have no obligation and disclaim any obligation to modify, supplement or update this opinion letter or otherwise to communicate with you with respect to events, changes in facts, law or matters which occur or come to our attention after the date hereof. This letter expresses our legal opinions as to matters set forth herein based on our professional judgment on the date hereof and is not to be construed as a guaranty or a warranty as to any legal or factual matter or that a court considering such matters would not rule in a manner contrary to the opinions expressed herein.

This opinion is delivered only to you in connection with the transactions referred to above and is solely for your benefit, and may be relied upon only by you. This opinion may not be relied upon by, nor copies delivered to, any other person without our express prior written consent; provided, however, that copies may be delivered to your counsel. This opinion letter is provided as a legal opinion only and not as a guarantee or warranty of the matters discussed herein. This opinion letter is given as of the date hereof and we undertake no obligation, and hereby disclaim any obligation, to update or supplement this opinion in response to a subsequent change in the law or future events affecting the Buyer or the transactions contemplated by the Transaction Documents.

Respectfully Submitted,

EXHIBIT H

FORM OF OPINION OF COUNSEL TO SELLER

[DATE]

Florence Municipal Property Corporation
Florence, AZ

$[_____]
The Industrial Development Authority of the City of Phoenix, Arizona
Water and Sewer Revenue Bonds
(Florence Water Company Project)
Series 2014

Ladies and Gentlemen:

We have acted as counsel to Johnson Utilities, L.L.C., an Arizona limited liability company (the "Seller") and Southwest Environmental Utilities, L.L.C., an Arizona limited liability company (the "Manager") in connection with (a) the Asset Purchase and Lease Agreement, dated as of [____], 2014 (the "Sale Agreement") by and between the Seller and Florence Municipal Property Corporation (the "Buyer"), an Arizona non-profit public benefit corporation formed on behalf of the Town of Florence, Arizona (the "Town"), and (b) the Management Agreement, dated as of [_____], 2014 between the Buyer and the Manager. This opinion is delivered to you pursuant to Section 3.02(f) of the Sale Agreement.

In rendering this opinion, we have reviewed an executed copy of each of the following documents (collectively, the "Organizational Documents"):

(a) Articles of Organization of the Seller dated [_____], as certified by the Arizona Secretary of State, and the Bylaws of the Seller, certified by an authorized officer of Seller, dated [_____];

(b) Articles of Organization of the Manager dated [_____], as certified by the Arizona Secretary of State, and the Bylaws of the Manager, certified by an authorized officer of the Manager, dated [_____];

(c) Certificates of Existence issued [_____], by the Arizona Secretary of State for Seller and Manager.

We have also reviewed an executed copy of each of the following documents (collectively, the "Transaction Documents"):

(a) the Sale Agreement executed by the Seller;

(b) the Management Agreement executed by the Manager;

(c) the Officer's Certificates of the appropriate officers or authorized representatives of the Seller and the Manager, certifying that (i) each covenant and agreement of the Seller and the Manager to be performed prior to or as of the Closing pursuant to the Sale Agreement and the Management Agreement has been performed, (ii) each representation and warranty of the Seller and the Manager is true and correct on the Closing Date, as if made on and as of the Closing, and (iii) the resolutions of the Seller and the Manager attached thereto authorizing and approving execution of the Sale Agreement and the Management Agreement and performance of the transactions contemplated thereby;

(d) the Incumbency Certificate of the appropriate officers or authorized representatives of the Seller and the Manager; and

In addition, we have reviewed such matters of law as we have deemed necessary for the rendering of the opinions contained herein.

In rendering the following opinions, we have assumed and relied upon (i) the genuineness of all signatures (other than the Seller and the Manager); (ii) the authenticity and completeness of all documents submitted to us as originals and the conformity to original documents of all documents submitted to us as PDF, electronic, certified or photostatic copies; (iii) the accuracy and completeness of all the Organizational Documents of the Seller and the Manager made available to us; (iv) there has not been any mutual mistake of fact or misunderstanding, fraud, duress, criminal activity or undue influence; (v) the conduct of all the parties and their respective agents has complied with any requirement of good faith and fair dealing; (vi) there are no agreements or understandings among the parties to the Transaction Documents, written or oral, and there is no usage of trade or course of prior dealings among the parties that would, in either case, define, supplement or otherwise qualify the terms and conditions of the Transaction Documents; (vii) the constitutionality or validity of a relevant statute, rule, regulation or agency action is not at issue unless a reported decision in the State of Arizona has specifically addressed, but not resolved, or has established, its unconstitutionality or invalidity; (viii) all parties (other than the Seller and the Manager) have the power, authority and capacity to execute, deliver and perform the Transaction Documents and that there are no facts or circumstances relating to you that might prevent you from enforcing any of the rights to which our opinion relates; (ix) the enforceability of the Transaction Documents against all parties other than the Seller and the Manager; (x) each party to the Transaction Documents (other than the Seller and the Manager) has satisfied the legal requirements which are applicable to it to the extent necessary to make the Transaction Documents enforceable against it; (xi) no party to the Transaction Documents will in the future take any discretionary action (including any decision not to act) permitted under the Transaction Documents which would result in a violation of law or constitute a breach or default under any agreements, other than the Transaction Documents, to which any party to the Transaction Documents is a party or by which its property is bound, or under any court, arbitrator or administrative order, writ, judgment, or decree that names any party to the Transaction Documents and is specifically directed to its property; (xii) all parties will act in accordance with, and refrain from taking any action which is forbidden by, the terms and conditions of the Transaction Documents and that you will perform all of your obligations under

the Transaction Documents; and (xiii) adequate consideration at law has been paid under the Transaction Documents.

We have not conducted any other investigation to confirm any facts set forth in the Organizational Documents and in the Transaction Documents and the other documents called forth therein, and we have not conducted any independent investigation to confirm the facts upon which the opinions set forth herein are based.

Based solely upon the foregoing and subject to the assumptions, qualifications and limitations herein stated, we are of the opinion that:

1. The Seller is a limited liability company organized, validly existing and in good standing under the laws of the State of Arizona.

2. The Manager is a limited liability company organized, validly existing and in good standing under the laws of the State of Arizona.

3. The Seller has the power and authority to execute and deliver the Transaction Documents to which it is a party, to consummate the transactions contemplated thereby and to perform its obligations thereunder.

4. The Manager has the power and authority to execute and deliver the Transaction Documents to which it is a party, to consummate the transactions contemplated thereby and to perform its obligations thereunder.

5. The execution and delivery by the Seller of the Transaction Documents to which the Seller is a party, the consummation by the Seller of the transactions contemplated by such Transaction Documents and the performance of the Seller's obligations therein have been duly authorized and/or ratified by all necessary limited liability company action of the Seller.

6. The execution and delivery by the Manager of the Transaction Documents to which the Manager is a party, the consummation by the Manager of the transactions contemplated by such Transaction Documents and the performance of the Manager's obligations therein have been duly authorized and/or ratified by all necessary limited liability company action of the Manager.

7. The Transaction Documents to which the Seller is a party have been duly executed and delivered by the Seller and constitute the valid and legally binding obligations of the Seller, enforceable against the Seller in accordance with their respective terms.

8. The Transaction Documents to which the Manager is a party have been duly executed and delivered by the Manager and constitute the valid and legally binding obligations of the Manager, enforceable against the Manager in accordance with their respective terms.

9. No consent or action of, or filing or registration with, any governmental or public regulatory body or authority is required to authorize, or is otherwise required in connection with either the execution and delivery by the Seller of the Transaction Documents to which it is a

party or the incurrence by the Seller of its obligations under the Transaction Documents to which it is a party, except as may be have been obtained, made or taken prior to the date hereof.

10. No consent or action of, or filing or registration with, any governmental or public regulatory body or authority is required to authorize, or is otherwise required in connection with either the execution and delivery by the Manager of the Transaction Documents to which it is a party or the incurrence by the Manager of its obligations under the Transaction Documents to which it is a party, except as may be have been obtained, made or taken prior to the date hereof.

11. The execution and delivery of the Transaction Documents by the Seller to which it is a party do not, and the compliance with the terms of the Transaction Documents to which it is a party will not (A) result in a violation of the Seller's Organizational Documents, (B) result in a breach of or default under any agreements or instruments (other than the Transaction Documents) to which the Seller is a party, except for those agreements with respect to which any breach, default or violation thereof in the aggregate would not have a material adverse effect on the Seller or the ability of the Seller to perform its obligations under the Transaction Documents to which it is a party; or (C) result in any violation of any applicable Federal or State of Arizona law or statute, rule or regulation to which the Seller is subject, or any judgment, order, writ, injunction or decree of any court or other tribunal located in the State of Arizona directed against and naming the Seller, except where any such violations in the aggregate would not have a material adverse effect on the Seller, or the ability of the Seller to perform its obligations under the Transaction Documents to which it is a party.

12. The execution and delivery of the Transaction Documents by the Manager to which it is a party do not, and the compliance with the terms of the Transaction Documents to which it is a party will not (A) result in a violation of the Manager's Organizational Documents, (B) result in a breach of or default under any agreements or instruments (other than the Transaction Documents) to which the Manager is a party, except for those agreements with respect to which any breach, default or violation thereof in the aggregate would not have a material adverse effect on the Manager or the ability of the Manager to perform its obligations under the Transaction Documents to which it is a party; or (C) result in any violation of any applicable Federal or State of Arizona law or statute, rule or regulation to which the Manager is subject, or any judgment, order, writ, injunction or decree of any court or other tribunal located in the State of Arizona directed against and naming the Manager, except where any such violations in the aggregate would not have a material adverse effect on the Manager, or the ability of the Manager to perform its obligations under the Transaction Documents to which it is a party.

13. There is no action, suit, proceeding, inquiry or investigation at law or in equity or by or before any governmental instrumentality or other agency pending or, to our knowledge, now threatened against or affecting the Seller or the Manager or to which the Seller or the Manager are or may be a party or to which the property of the Seller or the Manager is or may be subject, wherein an unfavorable decision, ruling or finding would adversely affect: (i) the existence or organization of the Seller or Manager or the title to office of any officer of the Seller or the Manager or any power of the Seller or Manager; (ii) the validity or enforceability of the proceedings taken by the Seller and the Manager for the authorization, execution and delivery by

the Transaction Documents to which each is a party; (iii) the validity or enforceability of the Transaction Documents; or (iv) the transactions contemplated by the Transaction Documents.

Our opinions are based on the assumptions (upon which we have relied with your consent) and subject to the qualifications and limitations, set forth in this letter, including the following:

1. For purposes of rendering the opinions set forth herein, we have assumed that the Transaction Documents are governed and interpreted by the laws of the State of Arizona. We express no opinion whatsoever with respect to any rules of choice or conflicts of laws.

2. We have assumed for purposes of this opinion that: (a) the parties to the Transaction Documents other than the Seller or the Manager (the "Other Parties") are duly organized, validly existing and in good standing with full power and authority to enter into, execute, deliver and perform the Transaction Documents and their respective obligations thereunder; (b) the Transaction Documents have been duly authorized by the Other Parties and the Other Parties have duly executed and delivered the Transaction Documents to which they are signatories; (c) the Other Parties have satisfied those legal requirements that are applicable to each of them to the extent necessary to make the Transaction Documents enforceable against each of them; (d) any contracts, agreements, or instruments to which the Other Parties are a party or by which its or their property is bound, other than the Transaction Documents, will be enforced as written (e) the Other Parties have complied with all legal requirements pertaining to each of their status as such status relates to their rights to enforce the Transaction Documents against the Seller or the Manager; (f) each natural person executing any of the Transaction Documents is legally competent; (g) all signatures are genuine, the Transaction Documents submitted to us as originals are authentic and the Transaction Documents submitted to us as copies conform to the originals; (h) all Transaction Documents are complete or will be appropriately completed (including, without limitation, all amendments and exhibits thereto); (i) any certifications dated prior to Closing remain true as of Closing; (j) there has not been any mutual mistake of fact or misunderstanding, fraud, duress or undue influence; (k) the conduct of the parties to the Transaction Documents has complied with any requirement of good faith, fair dealing and conscionability; (l) the Other Parties and any agent acting for the Other Parties in connection with the Transaction have acted in good faith and without notice of any defense against the enforcement of any rights created by, or adverse claim to any property or security interest transferred or created as part of, the Transaction Documents; (m) there are no agreements or understandings among the parties, written or oral, and there is no usage of trade or course of prior dealing among the parties that would, in either case, define, supplement or qualify the terms of the Transaction Documents; (n) the Seller and the Manager hold the requisite title and rights to any property involved in the transactions contemplated by the Transaction Documents; and (o) the Seller will obtain all permits and governmental approvals required, and take all actions similarly required, relevant to consummation of the Transaction Documents or performance of the Transaction Documents.

3. We also assume that if the consent of any other person or entity is required to the assignment of any contract, agreement, instrument, lease, license, permit, warranty or approval, that such consent has been received and such consent was given by the person or entity required and properly authorized to grant such consent. We note that we have no actual knowledge of the

occurrence of any of the matters described in clauses (j) or (m), above, nor do we have any actual knowledge that any of the parties to the Transaction Documents have not complied with the requirement of good faith, fair dealing, and conscionability as assumed by clauses (k) or (l), above. We have not made any independent investigation or inquiry concerning the business or financial condition of the Seller or concerning the operation, management, use or other dealings with the property of the Seller or the Manager.

4. Our opinions are subject to: (i) the effect of applicable bankruptcy, insolvency, reorganization, arrangement, moratorium, fraudulent transfer or fraudulent conveyance and other similar laws affecting creditor's rights generally; and (ii) limitations imposed by equitable doctrines, including without limitation, limitations upon the specific enforceability of provisions of the Transaction Documents, concepts of materiality, reasonableness (including commercial reasonableness of the sale or disposition of collateral), good faith and fair dealing, and the availability of injunctive relief or other equitable remedies (regardless whether considered in a proceeding in equity or at law).

5. We do not express any opinion on any matter not expressly addressed in this letter, and no other opinions should be implied therefrom. The opinions set forth herein are delivered based solely upon the facts, examinations, assumptions and other matters described herein as they exist as of the date hereof, and we have no obligation and disclaim any obligation to modify, supplement or update this opinion letter or otherwise to communicate with you with respect to events, changes in facts, law or matters which occur or come to our attention after the date hereof. This letter expresses our legal opinions as to matters set forth herein based on our professional judgment on the date hereof and is not to be construed as a guaranty or a warranty as to any legal or factual matter or that a court considering such matters would not rule in a manner contrary to the opinions expressed herein.

This opinion is delivered only to you in connection with the transactions referred to above and is solely for your benefit, and may be relied upon only by you. This opinion may not be relied upon by, nor copies delivered to, any other person without our express prior written consent; provided, however, that copies may be delivered to your counsel. This opinion letter is provided as a legal opinion only and not as a guarantee or warranty of the matters discussed herein. This opinion letter is given as of the date hereof and we undertake no obligation, and hereby disclaim any obligation, to update or supplement this opinion in response to a subsequent change in the law or future events affecting the Seller, the Manager or the transactions contemplated by the Transaction Documents.

Respectfully Submitted,

EXHIBIT I

SCHEDULE OF REAL ESTATE

Wells	
Name	Assessor Parcel No.
Silverado Well No. 1	210-34-022C
Anthem No 3	211-01-003
Johnson Ranch 5	210-20-005
Circle Cross 1	210-07-001H2
Morning Sun Farms Well 1	509-02-002L
Pecan WRP Monitor Well	104-22-008D
Pecan WRP Monitor Well 2	104-22-008D
Oasis 1	200-75-2590
Oasis 2	200-24-089B
Oasis 3	200-24-089B
San Tan Number 1	509-02-214A
San Tan Number 2	509-02-214A
Rancho Sendero No. 2	211-02-006
Johnson Ranch 7*	210-20-001H
Skyline 1	509-02-028D6
Johnson Ranch 3 *	210-21-004BI
Johnson Ranch 4	210-20-0040
Crestfield Manor 1 - Future	200-13-666A
Crestfield Manor 2 - Future	200-13-666C
Ricke 1	210-36-002D
Ricke 3	210-36-002B
Morning Sun Farms Well 2	509-03-002H
Hardison Well No 1	210-21-002D
Magma well NO. 1	210-40-019C
Magma Well No 2	210-40-019B
Attaway Well, Section 13	210-12-001D
Rancho Sendero No. 1	211-02-004B
Anthem No. 2	211-01-0080
Anthem No. 4	211-01-0040
Sec11WWTP Mon Well*	200-24-091
Edwards Road 2	210-28-018
Wild Horse 1	200-74-0850
San Tan WRP Monitor Well	509-02-062D3
Anthem No. 1	211-01-0070
Bella Vista Well No. 1	210-23-001J
Ellsworth Well	In Progress
Monterra Wells	In Progress

Water Plants	
Name	Assessor Parcel No.
Silverado Water plant	210-34-022C
San Tan Water Storage	509-02-057B
Circle Cross Water Plant	210-07-001H
Oasis Water Plant	200-24-089A
CAP Pump Station No, 1	210-20-003R
Rancho Sendero Water Plant	211-02-0060
Wild Horse Water Plant	200-74-0850
Edwards Road Water Plant	210-28-001B
Ricke Water Plant	210-36-002D
Morning Sun Farms W. P.	509-03-002H
Bella Vista Water Plant	210-23-001J
Anthem Water Plant	211-01-0070
Johnson Ranch Water Plant	210-20-001J
RO system	210-20-001J

Lift Stations	
Name	**Assessor Parcel No.**
Superstition Views	210-64-061B
Circle Cross #1	210-07-005H
Circle Cross #2	509-03-001D
Magma Lift Station	210-38-003B
4D/4F	210-66-951B
Crestfield Manor Lift Station	200-13-666B
Quail Run Lift Station	210-24-452B
Ocotillo Crossing	104-87-152B
Copper Basin #1	210-67-499B
Pecan Station	104-22-008D
Oasis Sunrise	200-24-089B
Rancho Bella Vista North Phase 1	210-71-937D
Laredo Ranch Lift Station	109-27-310B
Cambria Lift Station (the Links)	104-87-073E
Cambria L.S. Upgrade	104-22-040G
Station 4A	210-66-951C
Station Unit 6	210-54-0410
Copper Basin #2	210-73-007B
Morning Sun Farms	509-03-003M
JR Unit 29	210-76-337A
14-52B Lift Station	210-66-951C
Meadow Vista Lift Station	109-21-5050
Magic Ranch Phase III	200-03-5310
Rancho Bella Vista North Phase 2	210-71-937E
Magic Ranch	210-75-516A
Joy Drive Lift Station	109-26-820A
The Parks Lift Station	104-98-1140
Johnson Farms Lift Station	104-22-012L
Archer Meadows Lift Station	104-22-028Y
Ironwood Crossing Lift Station	104-25-002E
Coolidge High School	509-19-7000
Combs School	104-22-7120
San Tan Station	509-02-062D3
Reuse Station	200-24-003D5
Main Station	210-20-0001J
Whitewing	In Process
Belcara	In Process
Mitchell Trail	In Process

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Wastewater Reclamation Plants	
Name	**Assessor Parcel No.**
Pecan Water Reclamation Plant	104-22-008M
Section 11 WWTP	200-24-0910
Precision	210-20-003J
San Tan Water Reclamation Plant	509-02-062D
Anthem WRP	211-02-0050
Copper Basin	210-25-002B
Oasis Golf Course	
Name	**Assessor Parcel No.**
Oasis Golf Course	200-24-090
Oasis Golf Course	200-24-089B

EXHIBIT J

PERSONAL PROPERTY

Vehicles		
YEAR	MODEL	VIN #
2013	Chevy Silv 4X4	1GCNKPEAXDZ163542
2013	Chevy Sil	1GCNCPEX7DZ139829
2013	Chevy Sil	1GCNKPEA6DZ122373
2013	Chevy Sil	1GCNCPEXXDZ137699
2012	Chevy Tahoe	1GNSCCE03CR151206
2012	Chevy Silv 4X2	1GCNCPEX8CZ351248
2004	Ford (Explorer) 4DSW	1FMZU64K34ZB34167
2003	INT'L 430 TK	1HTMMAAL53H594937
2001	Chevy Van	1GCHG35R111138049
1997	Ford FT8000/ Crane	1FDZU82EXVVA28834
1999	Dodge 1 TN P/U (RAM)	1B7MC3361XJ649823
2003	Chevy S-10	1GCCS14H038243181
2011	Chevy Colorado	1GCCCSBF91B8131208
2011	Chevy Colorado	1GCCCSBF98B2131156
2003	Chevy Colorado	1GCEC14V43Z350479
2004	Chevy Silverado	1GCEK14V54Z179844
2005	Chevy Colorado	1GCCS148958171593
2005	Chevy Colorado	1GCCS148158171801
2005	Chevy Colorado	1GCEC14XX5Z30110
2005	Chevy Colorado	1GCEC14X15Z300630
2006	Chevy Tahoe	1GNEK13ZX6J124092
2006	Chevy Tahoe Z71	1GNEK13T56R125051
2007	Ford Ranger	1FTYR10U77PA49120
2011	Chevy Colorado	1GCCSBF99B8131733
2008	Ford F150	1FTRF12268KB81941

Equipment List	
Item Description	ID No.
Safety Tripod Winch and Cable	04922W
TL-6035 Forklift	60467-CVC
6" Trash Pump	O6HJ100911
Massey Ferguson Tractor 263 (0000HO6131)	268740
Godwin 6" Dri-Prime Pump Model DC150M	0332772-17
Auger Post Hole Digger	GCABT-2077980
Honda Generator	EG 3500
Ramset Gun/ Powder activated	F467136
Saw Drill	A1__604501949
Drill	D091402479
Concrete Vibrator	0310-0067/WSD1
Nail Gun	132740__033
Auger & Bit	140C8
Cement Drill	316090
Topcon Rotating Laser	RT-SSA
Theodolite Surveying Equip	N/A
Magnum Power Piston (paint spayer)	BA114003
Trailer Jet unit	
Spectra Presision Laser LL300	S/N # 10035435
Sokkia B20 Automatic Level	N/A

Club at Oasis Equipment	
Item Description	Serial Number
Toro groundmaster 4500-D	30856-27000088
Toro Ground 3500-D	80839-270000816
John Deere 3235C # 29D0049	TC3235CO20653
John Deere 3235C # 2XD034	TC3235CO30323
John Deere 2500 Green Mower 11 Blade	TC2500D030521
John Deere 2500 Green Mower 11 Blade	TC2500D020124
John Deere 2500 Green Mower 8 Blade	TC250AD020630
Toro Workman 3300	07212-230000670
Club Car	RG0240-209521
Club Car	RG0431-412650
Express Dual 3000 reel Grinder	13252
Angmaster 3000 Bedknife Grinder	13253
Toro Sand Pro 5020	0886-210000255
John Deere RC2072 Rotary Deck Mower	
Massey Ferguson Tractor 263	5726E37454
EZ-Go Work Horse Utility Cart	1168708
John Deere Gator	M00TURF00844
John Deere Gator	
Lely Fertilizer Spreader	10Z13-134
Ryan Vert-cutter	507798
Ryan Vert-cutter	508450
Ryan Vert-cutter	508095
Hover Mower	GJAFE4164957
Hover Mower	GJAFE4164985
Air Compressor	101048
Welder	9227-704
Lawn Mower	5B5XG / 158VG
Slit Seeder	82120 / 2366
Edger	CAN006662862
Sod Cutter	5448448210
Hedge Trimmer	286900327
Chain Saw	290880369
Weedeater	T42512005560
Weedeater	T42512017164
Weedeater	T42512005572
Weedeater	T42512005541
400 Gallon Sprayer	No s/n
Cold Water Pressure Washer # EP-30115A	11060270-100367
Hot Water Pressure Washer # 11090330	11090330-169806
Yamaha 48 Volt & Charger	1073129
Yamaha 48 Volt & Charger	1194384
Yamaha 48 Volt & Charger	1386894
Yamaha 48 Volt & Charger	1489156
Yamaha 48 Volt & Charger	1073136
Yamaha 48 Volt & Charger	1194388

Yamaha 48 Volt & Charger	1489155
Yamaha 48 Volt & Charger	1012863
Yamaha 48 Volt & Charger	1386893
Yamaha 48 Volt & Charger	1104375
Yamaha 48 Volt & Charger	1194387
Yamaha 48 Volt & Charger	1073137
Yamaha 48 Volt & Charger	1194371
Yamaha 48 Volt & Charger	1386890
Yamaha 48 Volt & Charger	1489157
Yamaha 48 Volt & Charger	1073128
Yamaha 48 Volt & Charger	1489160
Yamaha 48 Volt & Charger	1073132
Yamaha 48 Volt & Charger	1194378
Yamaha 48 Volt & Charger	1194372
Yamaha 48 Volt & Charger	1194374
Yamaha 48 Volt & Charger	1194383
Yamaha 48 Volt & Charger	1194370
Yamaha 48 Volt & Charger	1489163
Yamaha 48 Volt & Charger	1194386
Yamaha 48 Volt & Charger	1194367
Yamaha 48 Volt & Charger	1489154
Yamaha 48 Volt & Charger	1386892
Yamaha 48 Volt & Charger	1073134
Yamaha 48 Volt & Charger	1194381
Yamaha 48 Volt & Charger	1194373
Yamaha 48 Volt & Charger	1238576
Yamaha 48 Volt & Charger	1194380
Yamaha 48 Volt & Charger	1238573
Yamaha 48 Volt & Charger	1194369
Yamaha 48 Volt & Charger	1386891
EZ Go Carts & Charges	122-9290
EZ Go Carts & Charges	122-9293
EZ Go Carts & Charges	122-9288
EZ Go Carts & Charges	122-9296
EZ Go Carts & Charges	122-9287
EZ Go Carts & Charges	122-9289
EZ Go Carts & Charges	122-9295
Club Cars	PH0910-007334
Club Cars	PH0910-007331
Club Cars	PH0910-007373
Club Cars	PH0910-007480
Club Cars	PH0910-007330

EXHIBIT K

PROPRIETARY RIGHTS

- **ARIZONA DEPARTMENT OF ENVIRONMENTAL QUALITY AQUIFER PROTECTION PERMITS FOR THE PECAN, SAN TAN, ANTHEM, AND SECTION 11 WASTEWATER TREATMENT PLANTS**
- **ARIZONA DEPARTMENT OF WATER RESOURCES DESIGNATION OF ASSURED WATER SUPPLY FOR THE PHOENIX AND PINAL ACTIVE MANAGEMENT AREAS**
- **CENTRAL ARIZONA GROUNDWATER REPLENISHMENT AGREEMENT**
- **CENTRAL ARIZONA GOVERMENTS 208 PLAN**
- **PINAL COUNTY FRANCHISE AGREEMENTS**
- **TOWN OF FLORENCE OPERATING AGREEMENTS**

EXHIBIT L

LISTING OF CONTRACTS

- **PINAL COUNTY FRANCHISE AGREEMENT**
- **TOWN OF FLORENCE OPERATING AGREEMENT**
- **CENTRAL ARIZONA GROUNDWATER REPLENISHMENT DISTRICT REPLENISHMENT AGREEMENT**
- **ARIZONA STATE LAND DEPARTMENT SPECIAL LAND USE PERMIT**
- **CENTRAL ARIZONA SOLID WASTE BILLING AGREEMENT**
- **STATE LAND DEPARTMENT RIGHT OF WAY AGREEMENTS**
- **CENTRAL ARIZONA WATER CONSERVATION DISTRICT LAND USE LICENSES**

JOHNSON UTILITIES POLICIES 2013-2014

Policy coverage	Policy Number	Term Dates	Insurance Company
Package: GL /Property/Auto	PHPK1016444	05/06/13 to 06/01/14	Philadelphia Insurance
Umbrella	PHPK643317	05/06/13 to 06/01/14	Philadelphia Insurance
Pollution	PHPK643317	11/09/10 to 06/01/14	Philadelphia Insurance
Solar	59MSKM4948	04/30/14 to 04/30/14	Hartford Insurance
Work Comp	N50890	01/16/14 to 01/16/15	SCF Indemnity
Group Medical	30106	06/01/13to 06/01/14	Blue cross / Blue Shield
Group Dental	01H5760GDEN	06/01/13 to 06/01/14	United Health Care
Group Life	C3981404	05/01/13 to 05/01/14	Colonial Life & Acc
Group Vision	9787748	05/01/13 to 05/01/14	Fidelity Security Life

THE CLUB AT OASIS LLC POLICIES 2013-2014

Policy coverage	Policy Number	Term Dates	Insurance Company
Package: GL/Property	CLP958867410	12/16/13 to 12/16/14	Central Mutual
Umbrella	CXS958867510	12/16!3 to 12/16/14	Central Mutual

Master Utility/Offsite Facilities Hookup Fee Agreements

Date	Subdivision
4/12/2005	Anthem at Merrill Ranch
11/1/2007	Arizona Farms
2/28/2007	Bella Villagio
11/1/2007	Bella Vista Section 23
10/30/2009	Borgata at Hunt Highway
10/26/2009	Borgata Professional Plaza
12/19/2006	Caballero
6/7/2002	Circle Cross Ranch I
10/14/2004	Circle Cross Ranch II
6/27/2005	Circle Cross Ranch IIB
3/10/2002	Copper Basin
3/22/2005	Crestfield Manor @ Arizona Farms Village
2/8/2005	Felix Farms
5/20/2005	Heritage Estates
9/17/1999	Johnson Ranch
10/21/2004	Laredo Ranch
8/15/2005	Magic Ranch, Parcel G and Portions of K & F and Unit 2
11/1/2004	Magic Ranch, Parcels B & C
11/18/2005	Magma Ranch I
8/11/2005	Magma Ranch II
4/13/2004	Sonoran Villages
2/2/2009	Merrill Ranch
3/10/2006	Mesquite Trails
5/22/2003	Morning Sun Farms
11/1/2007	Paloroso Aspen Farms
6/12/2013	Quail Ranch
4/21/2005	Quail Run
4/8/2003	Rancho Bella Vista
4/12/2006	Salita del Sol @ San Tan
5/10/2001	San Tan Heights
5/31/2007	San Tan Shadows
8/20/2013	Sherwood Park
9/7/2006	SILVERADO RANCH
2/9/2004	Skyline Ranch
1/25/2007	Skyview Farms
2/1/2003	Superstition Views
9/31/2005	The Palms at Magic Ranch
2/21/2012	The Village at Magic Ranch
5/25/2005	Trailside Village aka Ocotillo Trails
2/1/2001	Wildhorse Estates
4/30/2006	Belcara at Pima Road
9/11/2006	Borgata Village Phase 1
1/20/2006	Ironwood Crossing
12/28/2006	Johnson Farms
1/26/2005	Milagro
10/17/2002	Pecan Estates
1/26/2005	Taylor Ranch
11/3/2004	Vineyard Estates
11/11/2004	Wayne Ranch
3/3/2014	Johnson Ranch Estates
3/7/2014	Ironwood 80

Water Line Extension Agreements

Date	Subdivision
08/12/13	American Leadership Academy Charter School - Florence
02/23/07	Anthem Market Place at Merrill Ranch
07/31/06	Unit 2 Anthem at Merrill Ranch
10/27/06	Unit 3 Anthem at Merrill Ranch
07/31/06	Unit 4 Anthem at Merrill Ranch
10/27/06	Unit 5 Anthem at Merrill Ranch
07/31/06	Unit 6 Anthem at Merrill Ranch
10/27/06	Unit 7 Anthem at Merrill Ranch
07/31/06	Unit 8 Anthem at Merrill Ranch
10/27/06	Unit 9 Anthem at Merrill Ranch
07/31/06	Unit 10 Anthem at Merrill Ranch
07/31/06	Unit 11 Anthem at Merrill Ranch
07/31/06	Unit 12 Anthem at Merrill Ranch
07/31/06	Unit 13 Anthem at Merrill Ranch
12/08/06	Unit 14 Anthem at Merrill Ranch
07/31/06	Unit 15 Anthem at Merrill Ranch
07/28/08	Unit 17 Anthem at Merrill Ranch
12/28/09	Unit 18 Anthem at Merrill Ranch
07/31/06	Unit 19 Anthem at Merrill Ranch
01/09/09	Unit 20 Anthem at Merrill Ranch
07/31/06	Unit 21 Anthem at Merrill Ranch
07/31/06	Unit 23 Anthem at Merrill Ranch
07/31/06	Unit 25 Anthem at Merrill Ranch
09/12/06	Unit 27 Anthem at Merrill Ranch
09/01/06	Unit 29 Anthem at Merrill Ranch
01/09/09	Unit 35A Anthem at Merrill Ranch
01/09/09	Unit 37 Anthem at Merrill Ranch
09/12/06	Unit 39 Anthem at Merrill Ranch
01/09/09	Unit 40 Anthem at Merrill Ranch
04/29/08	Unit 50 Anthem at Merrill Ranch
05/29/08	Unit 54 Anthem at Merrill Ranch
02/28/07	Bella Villagio
10/30/09	Borgata at Hunt Highway (Retail)
08/24/07	Borgata at San Tan; Unit 1
10/26/09	Borgata Professional Plaza
10/22/12	Central AZ College (San Tan Campus) and Bella Vista Farms Offsite Agreement
08/28/12	Central AZ College (San Tan Campus), Phase 1
06/07/02	Circle Cross Ranch; Phase 1; Parcels 1 & 4; portions of 2 & 5 (Laramie)
06/07/02	Circle Cross Ranch; Phase 1; Parcels 3 & 6; portions of 2 & 5 (2 & 5 = Laramie; 3 = Silverado
10/18/04	Circle Cross Ranch; Phase 2; Parcel 6-B
10/18/04	Circle Cross Ranch; Phase 2; Parcel 7
10/18/04	Circle Cross Ranch; Phase 2; Parcel 8
10/18/04	Circle Cross Ranch; Phase 2; Parcel 9
10/18/04	Circle Cross Ranch; Phase 2; Parcel 10
10/18/04	Circle Cross Ranch; Phase 2; Parcel 11

10/18/04	Circle Cross Ranch; Phase 2; Parcel 14
10/18/04	Circle Cross Ranch; Phase 2; Parcel 15
06/28/05	Circle Cross Ranch; Phase 2B; Parcel 12
06/28/05	Circle Cross Ranch; Phase 2B; Parcel 13
06/28/05	Circle Cross Ranch; Phase 2B; Parcel 16
06/28/05	Circle Cross Ranch; Phase 2B; Parcel 17
06/28/05	Circle Cross Ranch; Phase 2B; Parcel 18
06/28/05	Circle Cross Ranch; Phase 2B; Parcel 19
06/28/05	Circle Cross Ranch; Phase 2B; Parcel 20
06/28/05	Circle Cross Ranch; Phase 2B; Parcel 21
04/28/06	Copper Basin; Phase 1, Parcels A, B, C, D
10/01/02	Copper Basin; Phase 2
01/13/04	Copper Basin (Villages at); Phase 3A (split 4/28/06 from Unit 3)
01/13/04	Copper Basin (Villages at); Phase 3B (split 4/28/06 from Unit 3)
12/22/04	Copper Basin (Villages at); Phase 4
02/01/06	Copper Basin (Villages at); Phase 5A
04/10/08	Copper Basin, Village - Unit 5B
03/21/05	Crestfield Manor @ AZ Farms Village
09/06/05	Felix Farms
03/04/08	Florence High School
12/08/05	Heritage Estates
10/01/00	Mutschler, J. Jay (Mutschler 5 acres)
01/31/99	Rose Ross - See Contract # 2017
07/01/99	Ellis, David & Nancy J.
04/10/03	Rimrock Financial, Inc.
10/31/02	Montana Resources LLC
03/17/04	Kimpel, Robert & Lynn
05/04/04	Legler, Justin
05/18/04	Chamberlin, Randy (KEM Homes, Inc)
06/03/04	Maurer, Mark
07/27/04	Brennan, Lupita
06/18/04	Turcotte, David
06/23/04	Diamante Homes, Inc.
08/02/04	Call Builders
09/29/04	CBC Incorporated
09/30/04	Kent, Joel and Pat
12/13/04	Schamac Custom Homes (W. Todd Schafer)
08/18/05	WJB Construction
03/10/05	Grant, Kelly & Mary
03/14/05	Turcotte, David (These 3 in one file)
04/04/05	Bell, Mark and Jody
04/19/05	Taylor, Scott (Astoria Homes Inc)
05/03/05	Quintana Hill Estates
09/08/05	Neilson, Pat
09/09/05	Cannon, Tom
09/19/05	Turcotte, David
09/26/05	Davis, Greg

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09/20/05	Fortuna, Dawn & David
01/31/06	Hundley, Sterling
12/15/05	Rounds, Rob
07/20/06	Kempton, Mitch
06/14/06	Gary 1, LLC
06/29/06	Whiting, Ken
08/24/06	Call Builders L.L.C. - Lots 46 & 47
10/20/06	Flores, Javier
11/17/06	Mendoza, Luis & Rosie
12/20/06	Cotone, Cris
12/20/06	Plote, Larry
03/14/07	CDLM Properties, L.L.C.
08/15/07	MacPhail, Scott
07/26/07	Cascade Scottsdale at Gilbert
06/25/07	Lee, Tart Sing
07/17/07	Eduprize School
10/23/07	Jones, Spencer & Lindsay
10/23/07	Sundance Development, LLC - (20 acres)
05/08/08	Pierce, Brandon
11/27/07	San Tan Homes, LLC
12/19/07	Kelley Construction
12/04/07	King, David
01/16/08	Kastle Homes
06/05/08	Calvario, Victor
10/09/09	Mullen, Steve
06/18/10	Farnworth, Martin
01/10/12	Augusta Investments, LLC
03/06/14	ELM (Jarel Morrow)
02/24/14	ELM (Jarel Morrow)
12/31/98	Johnson Ranch Golf Course
04/15/04	Johnson Ranch Indigo Sky Blvd. - Construct Utility Plant
03/15/00	Johnson Ranch Unit 1 (24/83= 107) $750.00
12/22/98	Johnson Ranch Unit 2
12/22/98	Johnson Ranch Unit 3A
12/22/98	Johnson Ranch Unit 3B (Fairways)
12/22/98	Johnson Ranch Unit 4A
03/28/00	Johnson Ranch Unit 4B (The Greens)
09/06/01	Johnson Ranch Unit 4D & 04F (2)
03/01/00	Johnson Ranch Unit 5 (Lakeview Gardens)
12/01/99	Johnson Ranch Unit 6 (Equestrian Manor)
03/15/00	Johnson Ranch Unit 7
03/15/00	Johnson Ranch Unit 8
03/15/00	Johnson Ranch Unit 12 (A & B)
03/15/00	Johnson Ranch Unit 13
11/13/03	Johnson Ranch Unit 14/52 Phase 1 (Richmond American)
11/13/03	Johnson Ranch Unit 14/52 Phase 2 (Richmond American)
09/06/01	Johnson Ranch Unit 15

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02/27/03	Johnson Ranch Unit 16 Phase 1
02/27/03	Johnson Ranch Unit 16 Phase 2
02/27/03	Johnson Ranch Unit 16 Phase 3
02/27/03	Johnson Ranch Unit 17 Phase 1
02/27/03	Johnson Ranch Unit 17 Phase 2 & 3
02/27/03	Johnson Ranch Unit 18 Phase 1
02/27/03	Johnson Ranch Unit 18 Phases 2 & 3
04/28/04	Johnson Ranch Unit 19, 43, 44 & 45 (Solera, Phs III)
08/14/02	Johnson Ranch Unit 20 / 21
08/12/03	Johnson Ranch Unit 22A
09/10/03	Johnson Ranch Unit 22B
09/10/03	Johnson Ranch Unit 23A
04/15/04	Johnson Ranch Unit 23B
04/28/04	Johnson Ranch Unit 24
04/28/04	Johnson Ranch Unit 25
06/20/06	Johnson Ranch Unit 26B
04/15/04	Johnson Ranch Unit 27, Phase 1
04/15/04	Johnson Ranch Unit 27, Phase 2
04/15/04	Johnson Ranch Unit 28
08/13/04	Johnson Ranch Unit 29 Phase 2
08/12/03	Johnson Ranch Unit 29, Phase 1
06/20/06	Johnson Ranch Unit 30B
06/20/06	Johnson Ranch Unit 32
07/12/02	Johnson Ranch Unit 34
08/20/03	Johnson Ranch Unit 35 & 36
09/06/01	Rural Metro / Tosco / Unit 36 (Circle "K")
03/31/06	Johnson Ranch Unit 37 & 38
04/15/04	Johnson Ranch Unit 39, 40B, 50; Phase 1
10/02/03	Johnson Ranch Unit 40A, 48 & 49 (Solera, Phs I)
10/02/03	Johnson Ranch Unit 41 & 47 (Solera, Phs I)
04/15/04	Johnson Ranch Unit 42; Phase 2 (Solera)
04/15/04	Johnson Ranch Unit 46; Phase I
04/28/04	Johnson Ranch Unit 51
09/17/04	Magic Ranch Estates; Phase 1
01/22/99	Magic Ranch (Oasis Golf Course)
10/30/06	Magic Ranch (Oasis) - Parcels B and C
04/28/06	Magic Ranch (Oasis) - Parcel CC
06/01/02	Magic Ranch (Oasis) - Phase 3
10/15/01	Magic Ranch (Oasis) - Phase 1, Unit I (Lots 1-137 = 137 lots)
02/20/03	Magic Ranch (Oasis) - Phase 1, Unit 2 (Lots 138-258 = 121 lots)
04/01/04	Magic Ranch (Oasis) - Phase 2, Units 3 & 4
12/08/05	Magic Ranch (Oasis) - Phases 5 & 6
06/01/02	Magic Ranch (Oasis Sunrise) - Phase 1 (Mirage)
07/28/03	Magic Ranch (Oasis Sunrise) - Phase 2 (Mirage)
11/15/05	Magic Ranch Parcel G portions of K and F (Ironhorse at MR)
11/15/05	Magic Ranch Parcel G portions of K and F (Ironhorse at MR)
03/27/06	Magic Ranch - Unit 2

01/09/06	Magic Ranch (The Palms) - Unit 1
01/09/06	Magic Ranch (The Palms) - Unit 2
10/22/12	Magic Ranch (The Village)
11/18/04	Magma Ranch; Phases 1-10
08/23/05	Magma Ranch II; Unit 1
08/23/05	Magma Ranch II; Unit 2 - Parcel 4
08/23/05	Magma Ranch II; Unit 2, Parcel 5
08/23/05	Magma Ranch II; Unit 03
08/23/05	Magma Ranch II; Unit 04
04/13/05	Magma Ranch III AKA Sonoran Villages
05/22/03	Morning Sun Farms & South (Model Lots)
07/19/04	Morning Sun Farms; Phase 1
07/19/04	Morning Sun Farms; Phase 2
08/05/05	Morning Sun Farms; Phase 3
04/13/06	Morning Sun Farms; Phase 4
04/21/05	Quail Run
04/08/03	Rancho Bella Vista; Parcel A
07/26/06	Rancho Bella Vista - Units 2a 2b 2c 3a 3b
10/07/04	Rancho Bella Vista South; Phase 1
10/01/04	Rancho Bella Vista South; Phase 1 (Ryland)
05/01/05	Rancho Bella Vista South; Phase 2 (Ryland)
10/31/05	Rancho Bella Vista Southl Phase 3A
02/28/06	Rancho Bella Vista South; Phase 3B
09/24/04	San Tan Heights; Phase 3; Parcel A-1
09/24/04	San Tan Heights; Phase 3; Parcel A-2
09/24/04	San Tan Heights; Phase 3; Parcel A-3
09/24/04	San Tan Heights; Phase 3; Parcel A-4
09/24/04	San Tan Heights; Phase 3; Parcel A-5
09/24/04	San Tan Heights; Phase 3; Parcel A-6
09/24/04	San Tan Heights; Phase 3; Parcel A-7
09/24/04	San Tan Heights; Phase 3; Parcel A-8
09/24/04	San Tan Heights; Phase 3; Parcel A-9 & Infrastructure
10/21/05	San Tan Heights; Phase 4; Parcel C-6
10/21/05	San Tan Heights; Phase 4; Parcel C-7
10/21/05	San Tan Heights; Phase 4; Parcel C-8
10/21/05	San Tan Heights; Phase 4; Parcel C-9
10/21/05	San Tan Heights; Phase 4; Parcel C-10
10/21/05	San Tan Heights; Phase 4; Parcel C-11
10/21/05	San Tan Heights; Phase 4; Parcel C-12
10/21/05	San Tan Heights; Phase 4; Parcel C-13
07/21/03	San Tan Heights; Phs 2; Parcel A
07/22/03	San Tan Heights; Phs 2; Parcel B
07/23/03	San Tan Heights; Phs 2; Parcel C
07/21/03	San Tan Heights; Phs 2; Parcel D
07/24/03	San Tan Heights; Phs 2; Parcel E
07/25/03	San Tan Heights; Phs 2; Parcel F
07/21/03	San Tan Heights; Phs 2; Parcel I

07/26/03	San Tan Heights; Phs 2; Parcel J
07/27/03	San Tan Heights; Phs 2; Parcel K
10/21/03	San Tan Heights; Phs 2; Parcel L
08/01/02	San Tan Villages Parcel 01
08/01/02	San Tan Villages Parcel 02
08/01/02	San Tan Villages Parcel 03
08/01/02	San Tan Villages Parcel 04
04/09/02	San Tan Villages Parcel 05
04/09/02	San Tan Villages Parcel 06
04/09/02	San Tan Villages Parcel 07
02/07/02	San Tan Villages Parcel 08
02/07/02	San Tan Villages Parcel 09
09/07/06	Silverado Ranch; Unit 1A
09/07/06	Silverado Ranch; Unit 1B
09/07/06	Silverado Ranch; Unit 1C
09/07/06	Silverado Ranch; Unit 1D
09/07/06	Silverado Ranch; Unit 1E
09/07/06	Silverado Ranch; Unit 1F
09/07/06	Silverado Ranch; Unit 1G
09/07/06	Silverado Ranch, Unit 1H
10/01/07	Skyline Ranch Market Place
08/18/04	Skyline Ranch; Phase 1, Parcel A
08/18/04	Skyline Ranch; Phase 1, Parcel B
08/18/04	Skyline Ranch; Phase 1, Parcel C
08/18/04	Skyline Ranch; Phase 1, Parcel D
08/11/04	Skyline Ranch; Phase 2, Parcel A
08/11/04	Skyline Ranch; Phase 2, Parcel B
08/11/04	Skyline Ranch; Phase 2, Parcel C
08/11/04	Skyline Ranch; Phase 2, Parcel D
08/11/04	Skyline Ranch; Phase 2, Parcel E
08/11/04	Skyline Ranch; Phase 2, Parcel F
08/11/04	Skyline Ranch; Phase 2, Parcel G
08/11/04	Skyline Ranch; Phase 2, Parcel H
08/11/04	Skyline Ranch; Phase 2, Parcel I
07/22/13	St. Michael the Archangel Parish Hall
02/01/03	Superstition Views Phase I
08/12/03	Superstition Views Phase II
08/29/08	Superstition Views Phase III
06/05/06	Whitewing at San Tan Magma
12/29/98	Wild Horse Estates Phase 1
04/17/06	Wild Horse Estates Phase 2

Sewer Line Extension Agreement

Date	Subdivision
02/23/07	Anthem Market Place at Merrill Ranch
07/31/06	Unit 2 Anthem at Merrill Ranch
10/27/06	Unit 3 Anthem at Merrill Ranch
07/31/06	Unit 4 Anthem at Merrill Ranch
10/27/06	Unit 5 Anthem at Merrill Ranch
07/31/06	Unit 6 Anthem at Merrill Ranch
10/27/06	Unit 7 Anthem at Merrill Ranch
07/31/06	Unit 8 Anthem at Merrill Ranch
10/27/06	Unit 9 Anthem at Merrill Ranch
07/31/06	Unit 10 Anthem at Merrill Ranch
07/31/06	Unit 11 Anthem at Merrill Ranch
07/31/06	Unit 12 Anthem at Merrill Ranch
07/31/06	Unit 13 Anthem at Merrill Ranch
12/08/06	Unit 14 Anthem at Merrill Ranch
07/31/06	Unit 15 Anthem at Merrill Ranch
07/28/08	Unit 17 Anthem at Merrill Ranch
12/28/09	Unit 18 Anthem at Merrill Ranch
07/31/06	Unit 19 Anthem at Merrill Ranch
01/09/09	Unit 20 Anthem at Merrill Ranch
07/31/06	Unit 21 Anthem at Merrill Ranch
In process	Unit 22A Anthem at Merrill Ranch
in process	Unit 22B Anthem at Merrill Ranch
07/31/06	Unit 23 Anthem at Merrill Ranch
07/31/06	Unit 25 Anthem at Merrill Ranch
09/12/06	Unit 27 Anthem at Merrill Ranch
10/01/06	Unit 29 Anthem at Merrill Ranch
01/09/09	Unit 35A Anthem at Merrill Ranch
01/09/09	Unit 37 Anthem at Merrill Ranch
09/12/06	Unit 39 Anthem at Merrill Ranch
01/09/09	Unit 40 Anthem at Merrill Ranch
04/29/08	Unit 50 Anthem at Merrill Ranch
05/28/08	Unit 54 Anthem at Merrill Ranch
05/14/07	Banner Ironwood Medical Center, Phase I
04/30/06	Belcara at Pima Road
02/28/07	Bella Villagio
08/24/07	Borgata at San Tan Unit 1
10/02/07	Bulk Wastewater Treatment Agreement - ONLY
07/03/07	Castlegate Ward Meeting House
10/22/12	Central AZ College & Bella Vista Farms Comm. Property Offsites
08/28/12	Central AZ College (San Tan Campus)
06/07/02	Circle Cross Parcels 01,02,04,05 - Phase I
06/07/02	Circle Cross Parcels 2,3,5,6 - Phase I
10/18/04	Circle Cross Ranch - Phase II Parcel 06B
10/18/04	Circle Cross Ranch - Phase II Parcel 07
10/18/04	Circle Cross Ranch - Phase II Parcel 08

10/18/04	Circle Cross Ranch - Phase II Parcel 09
10/18/04	Circle Cross Ranch - Phase II Parcel 10
10/18/04	Circle Cross Ranch - Phase II Parcel 11
10/18/04	Circle Cross Ranch - Phase II Parcel 14
10/18/04	Circle Cross Ranch - Phase II Parcel 15
06/28/05	Circle Cross Ranch - Phase IIB Parcel 12
06/28/05	Circle Cross Ranch - Phase IIB Parcel 13
06/28/05	Circle Cross Ranch - Phase IIB Parcel 16
06/28/05	Circle Cross Ranch - Phase IIB Parcel 17
06/28/05	Circle Cross Ranch - Phase IIB Parcel 18
06/28/05	Circle Cross Ranch - Phase IIB Parcel 19
06/28/05	Circle Cross Ranch - Phase IIB Parcel 20
06/28/05	Circle Cross Ranch - Phase IIB Parcel 21
01/23/08	Coolidge High School No. 2 - LS & FM
04/28/06	Copper Basin Unit 1, Parcels A, B, C, D
10/01/02	Copper Basin Unit 2
01/13/04	Copper Basin Unit 3A, Village (split 4/28/06 from 3)
01/13/04	Copper Basin Unit 3B, Village (split 4/28/06 from 3)
12/22/04	Copper Basin, Village - Unit 4
02/01/06	Copper Basin, Village - Unit 5A
04/10/06	Copper Basin, Village - Unit 5B
03/21/05	Crestfield Manor@AZ Farms Village
09/06/05	Felix Farms
03/04/08	Florence High School
11/14/12	Happy Valley East Campus LS/FM
12/08/05	Heritage Estates
12/15/06	Ironwood Crossing Unit 1
12/15/06	Ironwood Crossing Unit 2 (Parcels 1, 2, & 3)
11/17/10	Ironwood Crossing Unit 3A (Parcel 15)
07/26/12	Ironwood Crossing Unit 3B (Parcels 11 & 12)
07/26/12	Ironwood Crossing Unit 3C (Parcels 13 & 14)
10/02/07	J.O. Combs Educational Village
04/15/04	Johnson Ranch Indigo Sky Blvd. - Construct Utility Plant
03/15/00	Johnson Ranch Unit 1 (24/ 83 = 107)
12/22/98	Johnson Ranch Unit 2
12/22/98	Johnson Ranch Unit 3A
12/22/98	Johnson Ranch Unit 3B (Fairways)
12/22/98	Johnson Ranch Unit 4A
03/28/00	Johnson Ranch Unit 4B (The Greens)
09/06/01	Johnson Ranch Units 4D & 4F (2)
03/28/00	Johnson Ranch Unit 5 (Lakeview Gardens)
12/0/99	Johnson Ranch Unit 6 (Equistrian Manor)
03/15/00	Johnson Ranch Unit 7
03/15/00	Johnson Ranch Unit 8
03/15/00	Johnson Ranch Unit 12 (A & B)
03/15/00	Johnson Ranch Unit 13
11/13/03	Johnson Ranch Unit 14/52 Phase 1

11/13/03	Johnson Ranch Unit 14/52 Phase 2
09/06/01	Johnson Ranch Unit 15
02/27/03	Johnson Ranch Unit 16 Phase 1
02/27/03	Johnson Ranch Unit 16 Phase 2
02/27/03	Johnson Ranch Unit 16 Phase 3
02/27/03	Johnson Ranch Unit 17 Phase 1
02/27/03	Johnson Ranch Unit 17 Phase 2 and 3
02/27/03	Johnson Ranch Unit 18 Phase 1
02/27/03	Johnson Ranch Unit 18 Phases 2 & 3
04/28/04	Johnson Ranch Unit 19, 43, 44 & 45
08/14/02	Johnson Ranch Units 20 / 21
08/12/03	Johnson Ranch Unit 22A
09/10/03	Johnson Ranch Unit 22B
09/10/03	Johnson Ranch Unit 23A
04/15/04	Johnson Ranch Unit 23B
04/28/04	Johnson Ranch Unit 24
04/28/04	Johnson Ranch Unit 25
06/20/06	Johnson Ranch Unit 26B
04/15/04	Johnson Ranch Unit 27, Phase 1
04/15/04	Johnson Ranch Unit 27, Phase 2
04/15/04	Johnson Ranch Unit 28
08/12/03	Johnson Ranch Unit 29, Phase 1
08/13/04	Johnson Ranch Unit 29, Phase 2
06/20/06	Johnson Ranch Unit 30B
06/20/06	Johnson Ranch Unit 32
07/12/02	Johnson Ranch Unit 34
08/20/03	Johnson Ranch Units 35 & 36
09/06/01	Johnson Ranch Rural Metro/Tosco Unit 36
03/31/06	Johnson Ranch Unit 37 & 38
04/15/04	Johnson Ranch Unit 39, 40B, 50
10/02/03	Johnson Ranch Unit 40A, 48 & 49
10/02/03	Johnson Ranch Units 41 & 47
04/15/04	Johnson Ranch Unit 42, (Solera, Phs II)
04/15/04	Johnson Ranch Unit 46, Phase 1
04/28/04	Johnson Ranch Unit 51
10/21/04	Laredo Ranch Phase I
10/21/04	Laredo Ranch Phase II
10/21/04	Laredo Ranch Lift Station
01/22/99	Magic Ranch (Oasis Golf Course)
04/28/06	Magic Ranch (Oasis) Parcel CC
06/01/02	Magic Ranch (Oasis Sunrise) - Phase I (Mirage)
07/28/03	Magic Ranch (Oasis Sunrise) - Phase II (Mirage)
02/18/03	Magic Ranch (Oasis) - Phase 1, Unit I (Lots 1-137)
02/18/03	Magic Ranch (Oasis) - Phase 1, Unit 2 (Lots 138-258)
04/01/04	Magic Ranch (Oasis) - Phase 2, Units 3 and 4
12/08/05	Magic Ranch (Oasis) - Phases 5 and 6
11/01/06	Magic Ranch Parcels B and C

09/17/04	Magic Ranch Estates - Unit 1
11/15/05	Magic Ranch Parcel G portions of K and F (Ironhorse)
11/15/05	Magic Ranch Parcel G portions of K and F (Ironhorse)
03/28/06	Magic Ranch - Unit 2
01/09/06	Magic Ranch (The Palms) - Unit 1
01/09/06	Magic Ranch (The Palms) - Unit 2
10/22/12	Magic Ranch (The Village)
11/18/04	Magma Ranch I
08/23/05	Magma Ranch II Unit 1
08/23/05	Magma Ranch II Unit 2, Phase 4
08/23/05	Magma Ranch II Unit 2, Phase 5
08/23/05	Magma Ranch II Unit 3
08/23/05	Magma Ranch II Unit 4
01/26/05	Milagro - Sewer Only
05/22/03	Morning Sun Farms & South (Model Lots)
07/19/04	Morning Sun Farms Phase 1
07/19/04	Morning Sun Farms Phase 2
08/05/05	Morning Sun Farms Phase 3
04/13/06	Morning Sun Farms Unit 4
03/31/08	Ocotillo Crossing
05/25/05	Ocotillo Trails (Trailside Village)
01/02/07	Parks, The (Parcels A & B)
	Parks, The: Offsite Gravity Line (Parcels A & B)
05/15/12	Pecan Creek 1st Meeting House
06/30/06	Pecan Creek South Unit 1
06/30/06	Pecan Creek South Unit 2
06/30/06	Pecan Creek South Unit 3
06/30/06	Pecan Creek South Unit 4
06/30/06	Pecan Creek South Unit 5
06/30/06	Pecan Creek South Unit 6
11/15/02	Pecan Estates - Parcel 1
11/15/02	Pecan Estates - Parcel 2
11/15/02	Pecan Estates - Parcel 3
11/15/02	Pecan Estates - Parcel 4 - SHEA
11/15/02	Pecan Estates - Parcel 5 - SHEA
11/15/02	Pecan Estates - Parcel 6 - FULTON
11/15/02	Pecan Estates - Parcel 7 - SHEA
11/15/02	Pecan Estates - Parcel 8 - TAYLOR
09/19/07	Pinal Professional Village
04/21/05	Quail Run
07/26/06	Rancho Bella Vista - Units 2a 2b 2c 3a 3b
04/08/03	Rancho Bella Vista Phase 01
02/28/06	Rancho Bella Vista South Phase 3B (Lots 632-756)
04/08/03	Rancho Bella Vista South Phase 01
10/01/04	Rancho Bella Vista South Phase 01
05/01/05	Rancho Bella Vista South Phase 02
10/31/05	Rancho Bella Vista South Phase 03A

09/24/04	San Tan Heights Parcel A 01
09/24/04	San Tan Heights Parcel A 02
09/24/04	San Tan Heights Parcel A 03
09/24/04	San Tan Heights Parcel A 04
09/24/04	San Tan Heights Parcel A 05
09/24/04	San Tan Heights Parcel A 06
09/24/04	San Tan Heights Parcel A 07
09/24/04	San Tan Heights Parcel A 08
09/24/04	San Tan Heights Parcel A 09
07/21/03	San Tan Heights Parcel A
07/22/03	San Tan Heights Parcel B
07/23/03	San Tan Heights Parcel C
07/21/03	San Tan Heights Parcel D
07/24/03	San Tan Heights Parcel E
07/25/03	San Tan Heights Parcel F
07/21/03	San Tan Heights Parcel I
07/26/03	San Tan Heights Parcel J
07/27/03	San Tan Heights Parcel K
10/21/03	San Tan Heights Parcel L
10/21/05	San Tan Heights Parcel C 06
10/21/05	San Tan Heights Parcel C 07
10/21/05	San Tan Heights Parcel C 08
10/21/05	San Tan Heights Parcel C 09
10/21/05	San Tan Heights Parcel C 10
10/21/05	San Tan Heights Parcel C 11
10/21/05	San Tan Heights Parcel C 12
10/21/05	San Tan Heights Parcel C 13
08/01/02	San Tan Villages Parcel 01
08/01/02	San Tan Villages Parcel 02
08/01/02	San Tan Villages Parcel 03
08/01/02	San Tan Villages Parcel 04
04/09/02	San Tan Villages Parcel 05
04/09/02	San Tan Villages Parcel 06
04/09/02	San Tan Villages Parcel 07
02/07/02	San Tan Villages Parcel 08
02/07/02	San Tan Villages Parcel 09
01/23/08	Shea Homes at Johnson Farms (Neighborhood 1)
01/23/08	Shea Homes at Johnson Farms (Neighborhood 2)
04/01/12	Shea Homes at Johnson Farms (Neighborhood 3: Phases 3A, 3B, 3C)
04/19/12	Shea Homes at Johnson Farms (Neighborhood 7A: Phases 1 and 2)
10/21/10	Shea Homes at Johnson Farms (Neighborhood 7B)
01/23/08	Shoppes at Pecan Ranch, The
09/07/06	SILVERADO UNIT 01A
09/07/06	SILVERADO UNIT 01B
09/07/06	SILVERADO UNIT 01C
09/07/06	SILVERADO UNIT 01D
09/07/06	SILVERADO UNIT 01E

09/07/06	SILVERADO UNIT 01F
09/07/06	SILVERADO UNIT 01G
09/07/06	SILVERADO UNIT 01H
10/01/07	Skyline Ranch Marketplace
08/18/04	Skyline Ranch Phase 01
08/18/04	Skyline Ranch Phase 01, Parcel A
08/18/04	Skyline Ranch Phase 01, Parcel B
08/18/04	Skyline Ranch Phase 01, Parcel C
08/18/04	Skyline Ranch Phase 01, Parcel D
08/11/04	Skyline Ranch Phase 02, Parcel A
08/11/04	Skyline Ranch Phase 02, Parcel B
08/11/04	Skyline Ranch Phase 02, Parcel C
08/11/04	Skyline Ranch Phase 02, Parcel D
08/11/04	Skyline Ranch Phase 02, Parcel E
08/11/04	Skyline Ranch Phase 02, Parcel F
08/11/04	Skyline Ranch Phase 02, Parcel G
08/11/04	Skyline Ranch Phase 02, Parcel H
08/11/04	Skyline Ranch Phase 02, Parcel I
07/22/13	St. Michael the Archangel Parish Hall
02/01/03	Superstition Views Phase I
08/11/03	Superstition Views Phase II
08/29/08	Superstition Views Phase III
01/31/06	Taylor Ranch
11/03/04	Vineyard Estates
10/27/04	Wayne Ranch
11/11/04	Wayne Ranch
06/05/06	Whitewing at San Tan Magma

EXHIBIT M

EXCEPTIONS TO ENFORCEABILITY

EXHIBIT N

EVENTS OF DEFAULT

NOT APPLICABLE

EXHIBIT O

EXCEPTIONS TO TAX REPRESENTATION

NOT APPLICABLE

EXHIBIT P

[RESERVED]

EXHIBIT Q

REQUIRED CONSENTS

NOT APPLICABLE

EXHIBIT R

EXCEPTIONS TO LITIGATION REPRESENTATIONS

***Johnson Utilities LLC dba Johnson Utilities Company v. Swing First Golf, LLC*;**
In the Court of Appeals, State of Arizona, Division One, Case No. 1 CA-CV 13-0625
(Maricopa County Superior Court Case No. CV2008-000141)

ADEQ NOTICE OF VIOLATION NUMBERS 92021,97512,102722,102257,103956,

EXHIBIT S

INSURANCE POLICIES

JOHNSON UTILITIES POLICIES 2013-2014

Policy coverage	Policy Number	Term Dates	Insurance Company
Package: GL /Property/Auto	PHPK1016444	05/06/13 to 06/01/14	Philadelphia Insurance
Umbrella	PHPK643317	05/06/13 to 06/01/14	Philadelphia Insurance
Pollution	PHPK643317	11/09/10 to 06/01/14	Philadelphia Insurance
Solar	59MSKM4948	04/30/14 to 04/30/14	Hartford Insurance
Work Comp	N50890	01/16/14 to 01/16/15	SCF Indemnity
Group Medical	30106	06/01/13to 06/01/14	Blue cross / Blue Shield
Group Dental	01H5760GDEN	06/01/13 to 06/01/14	United Health Care
Group Life	C3981404	05/01/13 to 05/01/14	Colonial Life & Acc
Group Vision	9787748	05/01/13 to 05/01/14	Fidelity Security Life

THE CLUB AT OASIS LLC POLICIES 2013-2014

Policy coverage	Policy Number	Term Dates	Insurance Company
Package: GL/Property	CLP958867410	12/16/13 to 12/16/14	Central Mutual
Umbrella	CXS958867510	12/16l3 to 12/16/14	Central Mutual

ATTACHMENT 3

	Town Of Florence Water Rates	Johnson Utilities Water Rates
	Current	Current
	$32.68	$31.51
	Town of Florence Wastewater Rates	**Johnson Utilities Wastewater Rates**
	Current	Current
	$39.09	$42.00
Total Water & Sewer	**$71.77**	**$73.51**

• Comparison based on 7,500 Gals of usage per month with a 3/4" Meter

ATTACHMENT 4

PUBLIC NOTICE OF THE APPLICATION OF JOHNSON UTILITIES, LLC, FOR APPROVAL OF THE SALE AND TRANSFER OF ASSETS AND CONDITIONAL CANCELLATION OF ITS CERTIFICATE OF CONVENIENCE AND NECESSITY (Docket No. WS-02987A-13-0477)

On December 31, 2013, Johnson Utilities, LLC (the "Company") filed with the Arizona Corporation Commission ("Commission") an application ("Application") for approval to sell and transfer all of its utility assets to the Town of Florence ("Town") and to cancel its Certificate of Convenience and Necessity ("CC&N') upon consummation of the sale and transfer of the assets to the Town. The Commission's Utilities Division Staff ("Staff') has not yet made a recommendation regarding the Application and the Commission is not bound by the proposals made by the Company, Staff or any intervenors in the docket. The Commission will issue a decision regarding the Application following consideration of the matter and, if applicable, testimony and evidence. Copies of the Application are available at the Company's offices at 968 East Hunt Hwy, San Tan Valley, Arizona, 85143 and at the Commission's offices at 1200 West Washington, Phoenix, Arizona, 85007 for public inspection during regular business hours and on the internet via the Commission's website (www.azcc.gov) using the e-docket function.

The Company has requested that the Commission consider its Application as soon as practicable at a regularly scheduled Open Meeting at the Commission's offices, 1200 West Washington, Phoenix, Arizona, 85007. Public comments will be taken at such Open Meeting. Please check http://www.azcc.gov/Divisions/Administration/Meetings/ for the schedule and agendas for the Commission's upcoming Open Meetings. Written public comments may be submitted via email (http://www.azcc.gov/Divisions/Utilities/Forms/PublicCommentForm1.pdf), or by mailing a letter referencing Docket No. WS-02987A-13-0477 to: Arizona Corporation Commission, Consumer Services Section, 1200 West Washington, Phoenix, Arizona, 85007.

The law provides for an open public hearing at which, under appropriate circumstances, interested parties may intervene. Any person or entity entitled by law to intervene and having a direct and substantial interest in the matter will be permitted to intervene. If you would like to intervene, you must file a written motion to intervene with the Commission, and you must send copies of the motion to the Company or its legal counsel, and to all parties of record in the case. Your motion to intervene must contain the following:

1. Your name, address, and telephone number, and the name, address, and telephone number of any party upon whom documents are to be served in your place, if desired;

2. A short statement of your interest in the proceeding (e.g., a customer of the Company, a shareholder of the Company, etc.); and

3. A statement certifying that a copy of your motion to intervene has been mailed to the Company or its counsel and to all parties of record in the case.

The granting of motions to intervene shall be governed by A.A.C. R14-3-105. If representation by legal counsel is required by Rule 31 of the Rules of the Arizona Supreme Court, intervention will be conditioned upon the intervenor obtaining legal counsel to represent the intervenor. For information about requesting intervention, visit the Commission's webpage at http://www.azcc.gov/divisions/utilities/forms/interven.pdf. The granting of intervention, among other things, entitles a party to present sworn evidence at hearing if a hearing is held and to cross-examine other witnesses. However, failure to intervene will not preclude any customer from appearing at the hearing, if a hearing is held, and making a statement on such customer's own behalf.

If you have any question about the Application, you may contact the Company at 480-987-9870. If you wish to file written comments on the Application or want further information on intervention you may contact the Consumer Services Section of the Commission at 1200 West Washington, Phoenix, Arizona 85007, or call 602-542-4251 or 1-800-222-7000 if outside the metro Phoenix area.

The Commission does not discriminate on the basis of disability in admission to its public meetings. Persons with a disability may request a reasonable accommodation such as a sign language interpreter, as well as request this document in an alternative format, by contacting the ADA Coordinator Shaylin Bernal, e-mail sabernal@azcc.gov, voice phone number 602-542-3931. Requests should be made as early as possible to allow time to arrange the accommodation.

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

BOB STUMP – Chairman
GARY PIERCE
BRENDA BURNS
ROBERT BURNS
SUSAN BITTER SMITH

IN THE MATTER OF THE APPLICATION OF JOHNSON UTILITIES, LLC DOING BUSINESS AS JOHNSON UTILITIES COMPANY, FOR APPROVAL OF THE SALE AND TRANSFER OF ASSETS AND CONDITIONAL CANCELLATION OF ITS CERTIFICATE OF CONVENIENCE AND NECESSITY.	**DOCKET NO. WS-02987A-13-0477**

REBUTTAL TESTIMONY OF DANIEL HODGES

MAY 13, 2014

EXHIBIT
A-3
ADMITTED

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I. INTRODUCTION.

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Daniel Hodges. My business address is 5230 East Shea Boulevard, Suite 200, Scottsdale, Arizona 85254.

Q. HAVE YOU PREVIOUSLY PROVIDED PRE-FILED TESTIMONY IN THIS DOCKET?

A. Yes. I previously provided Direct Testimony dated March 28, 2014, on behalf of Johnson Utilities, LLC ("Johnson Utilities" or the "Company").

II. PURPOSE OF REBUTTAL TESTIMONY.

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

A. On May 9, 2014, Utilities Division Staff ("Staff") filed the Direct Testimony of Robert G. Gray, the Residential Utility Consumer Office ("RUCO") filed the Direct Testimony of Robert B. Mease, Pulte Home Corporation ("Pulte") filed the Direct Testimony of Daniel Bonow, the San Tan Heights Homeowners Association ("Association") filed the Direct Testimony of Karl Gehring, and Steve Pratt filed Direct Testimony on behalf of himself and intevenors Todd Hubbard, Alden Weight and Karen Christian. The purpose of my rebuttal testimony is to address certain statements of the witnesses for RUCO, Pulte and the Association, and of Mr. Pratt.

III. RUCO—ROBERT B. MEASE.

Q. HAVE YOU READ THE DIRECT TESTIMONY OF ROBERT B. MEASE ON BEHALF OF RUCO IN THIS DOCKET?

A. Yes.

Q. AT PAGE 3, LINES 1-3, OF HIS DIRECT TESTIMONY, MR. MEASE STATES THAT "THE REVIEW AND FINAL APPROVAL OF THE CONTRACT DOCUMENTS HAS BEEN DELAYED DUE TO THE TOWN'S FAILURE TO RECEIVE REQUESTED DOCUMENTS FROM JOHNSON UTILITIES IN A TIMELY MANNER." HAS JOHNSON

UTILITIES PROVIDED DOCUMENTS TO THE TOWN IN A TIMELY MANNER?

A. Yes. In his direct testimony, Mr. Mease attaches an article from www.trivalleycentral.com which reports that Johnson Utilities has not provided some 450 line extension agreements and master utility agreements to the Town. However, while the Town did request those documents and the Company agreed to provide the documents, providing the documents was never a precondition of finalizing and executing the Asset Purchase and Lease Agreement. Rather, in meetings with representatives of the Town, the parties agreed to finalize and execute the Asset Purchase and Lease Agreement. Thereafter, the obligations of the Town under the Asset Purchase and Lease Agreement would be subject to the Town's review and reasonable approval of the line extension agreements and master utility agreements.

Q. HAS JOHNSON UTILITIES WORKED DILIGENTLY TO MEET THE TOWN'S TIMETABLE FOR COMPLETING THE ACQUISITION OF THE COMPANY'S WATER AND WASTEWATER SYSTEMS?

A. Absolutely. In 2013 Johnson Utilities offered for sale to the Town its operations and facilities which are reflected in the draft Asset Purchase and Lease Agreement attached to my Direct Testimony and to the Direct Testimony of Town Manager Charles Montoya dated April 9, 2014. Discussions between the Town and Johnson Utilities resulted in agreement on the price and other key terms sufficient to cause the Company to file the application in this docket in order to meet the Town's desired schedule. The Town then decided to call an election to obtain voter approval of the proposed transaction on May 20, 2014, the earliest date allowed pursuant to state law concerning election dates.

Johnson Utilities has fully cooperated with experts and consultants hired by the Town, as described in my testimony below. Additionally, Johnson Utilities

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sought an expedited hearing schedule in this docket, and the matter is scheduled for a hearing on May 19, 2014. The Florence Town Council is scheduled to take up the Asset Purchase Agreement at a council meeting on May 27, 2014. The City of Phoenix Industrial Development Authority has pending before it an application concerning this transaction which will be processed upon the Town's signing the Asset Purchase and Lease Agreement.

Johnson Utilities has offered for sale to the Town its assets and the Company believes that the Town has agreed to purchase those assets, subject to the voter approval, approval by the Commission, and approval of the transaction documents and the conclusion of due diligence. All of these parallel paths and actions were agreed to by Johnson Utilities in order to meet the Town's expressed desire to close the transaction in June 2014. Much of the filed testimony that I am addressing in this rebuttal testimony is concerned with the process necessitated by the Town's desired schedule and, therefore, raises no substantive concerns as detailed below. The fact is that the Town wanted the first opportunity to purchase the Johnson Utilities assets and the Company gave deference to the Town and the first opportunity to the Town. The fact that this docket was opened demonstrates the fundamental agreement of Johnson Utilities and the Town. For all of these reasons, it is simply not accurate to assert that Johnson Utilities has not provided documents in a timely manner to the Town.

Q. WHEN DO YOU ANTICIPATE THAT THE ASSET PURCHASE AND LEASE AGREEMENT WILL BE SIGNED?

A. The Town has advised me that the final Asset Purchase and Lease Agreement will be presented to the Town Council for a vote on May 27, 2014, assuming that the vote at the special election is positive.

Q. AT PAGE 5, LINES 2-4, OF HIS DIRECT TESTIMONY, MR. MEASE NOTES THAT JOHNSON UTILITIES SERVES APPROXIMATELY

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22,954 WATER CUSTOMERS AND 30,901 WASTEWATER CUSTOMERS WHILE THE TOWN OF FLORENCE SERVES APPROXIMATELY 3,526 WATER CUSTOMERS AND 2,905 WASTEWATER CUSTOMERS. SHOULD THE COMMISSION WORRY ABOUT THE TOWN'S ABILITY TO PROVIDE UTILITY SERVICE TO THE JOHNSON UTILITIES CUSTOMERS?

A. No. In his Direct Testimony dated April 9, 2014, Town Manager Charles Montoya notes that the Town of Florence built its second wastewater treatment facility in 1953 as a joint project with the Arizona Department of Corrections and that the Town has water facilities which pre-date World War II. He explains that the Town has significant experience in the operation of water and wastewater systems, including knowledge of the regulatory requirements of the Arizona Department of Environmental Quality and the Arizona Department of Water Resources. Thus, the Town has the requisite experience and expertise to operate the utility systems that will be acquired from Johnson Utilities.

Additionally, as I have previously testified, Johnson Utilities and the Town will work hard to ensure that the transaction is smooth and seamless to customers. Johnson Utilities and the Town will enter into the Management Agreement described in Section 2.06 of the Asset Purchase and Lease Agreement whereby Johnson Utilities will operate the transferred water and wastewater assets for a period of five years. At the end of five years, the Town will assume management of the water and wastewater systems unless the Town elects to extend the term of the Management Agreement. Given the Town's operational experience and solid track record of providing water and wastewater services to its residents, the existing customers of Johnson Utilities will continue to receive a high level of service throughout the transition.

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Q. AT PAGE 7, LINES 3-4, OF HIS DIRECT TESTIMONY, MR. MEASE STATES THAT "A CITIZENS ADVISORY COMMITTEE COULD BE APPOINTED THAT WOULD PROVIDE THE NON-RESIDENT CUSTOMERS A VOICE TO PROMOTE AND ADDRESS THE CONCERNS OF THE NON-RESIDENT RATEPAYER." DO YOU BELIEVE THAT THE COMMISSION SHOULD REQUIRE SUCH A COMMITTEE IN THIS CASE?

A. No. While I am not an attorney, it is my understanding that the Commission lacks the authority to impose a requirement upon the Town of Florence to establish a citizens' advisory committee as a condition of approving the sale and transfer of assets of Johnson Utilities to the Town. And, even if the Commission were to require a customer advisory committee in its order, I do not believe that the Commission would be able to enforce compliance with the requirement by the Town. More importantly, as I discussed in my direct testimony, there are existing statutes in place under Title 9 of the Arizona Revised Statutes which ensure that the Town treats customers residing outside its municipal boundaries on an equal footing with those residing inside the municipal boundaries. These statutes require that rate increases be justified, that prior notice of rate increases be provided to all customers, and that a public hearing be held before any rate increase is implemented. Additionally, the statutes prohibit as unlawful any rate increase that is not just and reasonable. Thus, the statutes in place provide protections for non-resident customers and there is no need for a citizen's advisory committee.

Q. AT PAGE 7, LINES 15-19, OF HIS DIRECT TESTIMONY, MR. MEASE ASSERTS THAT THERE ARE MANY RESIDENTS IN THE AFFECTED SERVICE AREAS WHO HAVE QUESTIONED WHETHER THE TRANSACTION BETWEEN THE TOWN AND JOHNSON UTILITIES IS

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AN "ARMS-LENGTH TRANSACTION." HOW DO YOU RESPOND TO THIS ASSERTION?

A. To begin, I would note that Mr. Mease does not identify a single "resident" in his testimony who raised the alleged concern regarding the lack of an arms-length transaction. Rather, as support for his testimony, Mr. Mease cites a December 2013 *Phoenix New Times* article attacking Mayor Tom Rankin.[1] However, the cited article does not even mention the transaction between the Town and Johnson Utilities, nor does it discuss the customers of Johnson Utilities at all. Additionally, Mr. Mease cites as support for his testimony something from the website www.santanvalley.com which appears to be an opinion by an unidentified person who opposes the Town's acquisition of Johnson Utilities' assets.[2] Other than citing these two questionable documents, Mr. Mease provides no evidence that the transaction between Johnson Utilities and the Town is anything other than an arms-length transaction. In fact, Mr. Mease states in his Direct Testimony that "RUCO does not have reason to believe that the transaction is not arms-length."[3]

Q. IS THE TRANSACTION BETWEEN JOHNSON UTILITIES AND THE TOWN "ARMS-LENGTH"?

A. Absolutely. Black's Law Dictionary defines "arm's-length" as follows:

> Of or relating to dealings between two parties who are not related or not on close terms and who are presumed to have roughly equal bargaining power; not involving a confidential relationship.[4]

Based upon this definition, as well as any other definition of which I am aware, the sale of utility assets by Johnson Utilities to the Town of Florence is an arm's-length transaction. There is no legal relationship or confidential relationship between Johnson Utilities and the Town. The Town is represented in this

[1] The Phoenix New Times article was attached as Exhibit "C" to the Mease Direct Testimony.
[2] The opinion piece from www.santanvalley.com was attached as Exhibit "D" to the Mease Direct Testimony.
[3] Direct Testimony of Robert B. Mease at 7, lines 17-18.
[4] Black's Law Dictionary, Abridged Seventh Edition, at 82 (West Group, 2000).

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transaction by the Town Attorney, James Mannato, as well as outside legal counsel at the national law firms of Greenberg Traurig LLP and Dickinson Wright PLLC. The two parties have roughly equal bargaining power. In addition, the proposed Asset Purchase and Lease Agreement must be approved by the Town Council, which is comprised of seven publicly elected officials, before it is effective. Further, the Town's acquisition of Johnson Utilities' assets must also be approved by a majority of the voters in a special election.

Further, the Town of Florence sought out two separate independent consultants to provide evaluation and analysis regarding the valuation of the water and wastewater systems being acquired from Johnson Utilities. The Town retained Water Works Engineers to prepare a replacement cost new ("RCN") analysis and a replacement cost new less depreciation ("RCNLD") analysis of the water and wastewater systems. According to its company website, Water Works Engineers, with offices in Arizona, California, Texas and Utah, provides engineering products and services to the municipal water and wastewater community. The results of the Water Works Engineers analyses were as follows:

Asset	RCN	RCNLD
Water	$168,794,986	$123,811,246
Wastewater	$356,795,644	$254,647,160
Total	**$525,590,630**	**$378,458,406**

Thus, the Town is paying $121 million for assets that have been valued at more than $378 million using an RCNLD analysis.

Additionally, the Town retained Economists.com to analyze the purchase of the Johnson Utilities water and wastewater systems. Economists.com has served as the Town's water and wastewater rate consultants for the past decade, having performed numerous rate studies and financial forecasts for the Town. Further,

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Economists.com assisted the Town in 2007 during previous discussions with Johnson Utilities over the possible acquisition of the water and wastewater systems. One of the tasks requested of Economists.com was to analyze and provide an opinion regarding the reasonableness of the proposed purchase price for the Johnson Utilities assets. The work included an analysis of the overall cost of the transaction as well as the cost per active connection, and a comparison of these costs to other similar transactions in the State of Arizona. In a PowerPoint presentation to the Town Council in March 2014, a copy of which is attached to my Rebuttal Testimony as Exhibit A, Economists.com determined a price-per-account for Johnson Utilities of $2,162 based upon a purchase price of $121,000,000 and 55,964 water and wastewater accounts.[5] The price-per-account of $2,162 compares to a price-per-account of $4,000 for the Town of Queen Creek's acquisition of Queen Creek Water Company and a price-per-account of $4,539 for the Town of Queen Creek's acquisition of H2O Water Company.[6] Additionally, Economists.com provided an exhibit showing a range of prices-per-account of $1,077 at the low end to $7,845 at the high end, with an average price-per-account of $3,209, for purchases between 2004 and 2013.[7] Economists.com concluded that the "[a]cquisition price [for the Johnson Utilities water and wastewater systems] is reasonable and affordable compared to other utilities."[8]

All of these facts evidence a transaction between the Town and Johnson Utilities which is arms-length, and there is no credible evidence in this case to the contrary.

Q. AT PAGE 8, LINES 5-10, OF HIS DIRECT TESTIMONY, MR. MEASE OPPOSES THE CANCELLATION OF JOHNSON UTILITIES' CERTIFICATE OF CONVENIENCE AND NECESSITY AT THE TIME

[5] Econonmists.com March 2014 PowerPoint presentation at 3.
[6] *Id.* at 4.
[7] *Id.* at 5.
[8] *Id.* at 12.

OF CLOSING. DOES JOHNSON UTILITIES SUPPORT RUCO'S POSITION ON THE CANCELLATION OF ITS CC&N?

A. No. In its application, Johnson Utilities requested the cancellation of its Certificate of Convenience and Necessity at the time of closing of the transfer and sale of utility assets to the Town of Florence. Likewise, Staff has recommended that the Company's CC&N be cancelled effective upon the closing of the sale and transfer of assets to the Town. Johnson Utilities supports Staff's recommendation regarding the cancellation of the Company's CC&N.

IV. PULTE HOME CORPORATION—DANIEL BONOW.

Q. HAVE YOU READ THE DIRECT TESTIMONY OF DANIEL BONOW ON BEHALF OF PULTE HOME CORPORATION IN THIS DOCKET?

A. Yes.

Q. AT PAGES 7-8 OF HIS DIRECT TESTIMONY, MR. BONOW STATES THAT "THE DRAFTS ATTACHED TO MR. MONTOYA'S TESTIMONY IDENTIFY ONLY ONE OF THE TWO ANTHEM MASTER UTILITY AGREEMENTS IN THE ATTACHED LIST OF MASTER AGREEMENTS TO BE ASSIGNED TO THE TOWN" AND THAT "BOTH AGREEMENTS WILL NEED TO BE ASSIGNED AND ASSUMED BY THE TOWN." DOES JOHNSON UTILITIES AGREE WITH MR. BONOW ON THIS POINT?

A. Yes. Pulte has two master agreements with Johnson Utilities applicable to the Anthem at Merrill Ranch master planned development. The Master Utility Agreement for Water and Wastewater Facilities between Johnson Utilities and Pulte for Rancho Sendero, Pinal County, Arizona, dated August 4, 2004, was inadvertently left off of the schedule of master utility agreements being assigned to the Town pursuant to the Asset Purchase and Lease Agreement. Johnson Utilities will make certain that both Pulte master utility agreements are referenced

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in the final draft of the Asset Purchase and Lease Agreement and assigned to the Town.

V. <u>SAN TAN HEIGHTS HOMEOWNERS ASSOCIATION—KARL GEHRING</u>.

Q. HAVE YOU READ THE DIRECT TESTIMONY OF KARL GEHRING ON BEHALF OF THE SAN TAN HEIGHTS HOMEOWNERS ASSOCIATION IN THIS DOCKET?

A. Yes.

Q. IN HIS DIRECT TESTIMONY, MR. GEHRING DISCUSSES AN UNRESOLVED CLAIM BY THE ASSOCIATION AGAINST JOHNSON UTILITIES PERTAINING TO DAMAGE TO THE LINER IN THE ASSOCIATION'S SOUTHERN LAKE ALLEGEDLY CAUSED BY THE COMPANY'S CONTRACTOR, AS WELL AS ALLEGED DAMAGE TO LAKE EQUIPMENT AND LANDSCAPING. ARE YOU AWARE OF THESE CLAIMS?

A. Yes. As described in Mr. Gehring's testimony, Johnson Utilities discharged effluent high in turbidity into the Association's southern lake in May 2013. In response to the discharge, Johnson Utilities drained and cleaned the lake. In connection with this work, it was discovered that the liner to the lake was damaged. While the Association alleges that the damage was caused by Johnson Utilities and/or its contractor, the contractor has determined that the damaged liner was a result of improper installation and not the discharge of effluent high in turbidity or the subsequent draining and cleaning of the lake. Both Johnson Utilities and its contractor have notified their respective insurance carriers of the claims of the Association and the matter is being addressed.

Q. MR. GEHRING ASSERTS AT PAGE 4, LINES 10-11, OF HIS DIRECT TESTIMONY THAT THE REPAIRS TO THE SOUTHERN LAKE COST THE ASSOCIATION $296,769.67. DO YOU BELIEVE THAT JOHNSON

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UTILITIES IS OBLIGATED TO REIMBURSE THE ASSOCIATION FOR THIS AMOUNT?

A. No. If it is ultimately determined that Johnson Utilities and/or its contractor damaged the liner of the southern lake, the cost of repairing that liner is certainly far less than $300,000. It is my understanding that the Association replaced the existing liner with a much better liner than the one that was originally installed, and Johnson Utilities should not be responsible under any circumstances for an upgrade to the liner.

Q. AT PAGE 4, LINES 18-21, OF HIS DIRECT TESTIMONY, MR. GEHRING REQUESTS THAT THE COMMISSION "REQUIRE JOHNSON UTILITIES TO ESTABLISH A RESERVE ACCOUNT IN AN AMOUNT SUFFICIENT TO COVER THE ASSOCIATION'S CLAIMS RELATING TO THE DIRECT AND CONSEQUENTIAL DAMAGES TO THE SOUTHERN LAKE RESULTING FROM THE DISCHARGE OF NON-CONFORMING EFFLUENT INTO THE SOUTHERN LAKE." DO YOU BELIEVE THAT THE COMMISSION SHOULD IMPOSE SUCH A REQUIREMENT?

A. No. As I testified above, Johnson Utilities and its contractor have each notified their respective insurance carriers of the claims asserted by the Association. In the event that it is determined that Johnson Utilities is responsible for all or any portion of the amounts claimed by the Association, then there is sufficient money available through insurance and/or the cash reserves of the Company to reimburse the Association. There is no need to impose a reserve account requirement when the Association has not established a compensable claim.

VI. <u>STEVE PRATT</u>.

Q. HAVE YOU READ THE DIRECT TESTIMONY OF STEVE PRATT ON BEHALF OF HIMSELF AND INTERVENORS TODD HUBBARD, ALDEN WEIGHT AND KAREN CHRISTIAN?

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A. Yes.

Q. WHAT IS YOUR GENERAL RESPONSE TO THE PRATT TESTIMONY?

A. Much of what is included in Mr. Pratt's testimony is outside the scope of this proceeding. For example, Mr. Pratt spends a great deal of time discussing the rate-setting process following the close of the transaction. As I have discussed in my direct testimony and in my testimony above, Title 9 of the Arizona Revised Statutes imposes statutory requirements on the Town which ensure that the rates set by the Town are just and reasonable for residents and non-residents alike.

Q. DO YOU HAVE SPECIFIC COMMENTS REGARDING MR. PRATT'S DIRECT TESTIMONY?

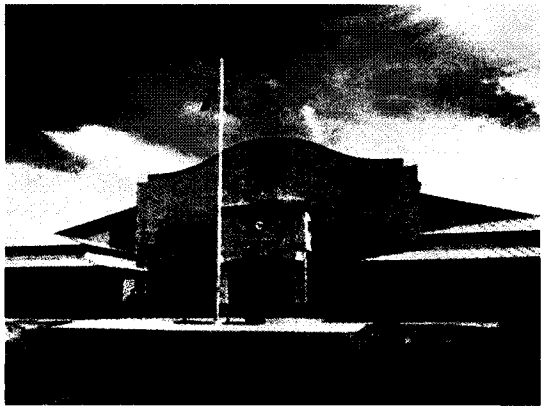
A. Given that substantially all of Mr. Pratt's testimony focuses on matters that are outside the scope of the Commission's jurisdiction in this proceeding, I will not comment on specific statements in Mr. Pratt's testimony. However, I would note that Johnson Utilities strongly disagrees with much of Mr. Pratt's testimony, and the fact that I am not addressing specific statements in his testimony should not be construed as Johnson Utilities' agreement with anything contained in his testimony.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.

BROWNSTEIN HYATT FARBER SCHRECK, LLP
One East Washington Street, Suite 2400
Phoenix, AZ 85004
602.382.4040

EXHIBIT A



Town of Florence

JU Acquisition -- Financial Feasibility Analysis

Council Briefing

economists com

March 2014

Preliminary – Subject to Change

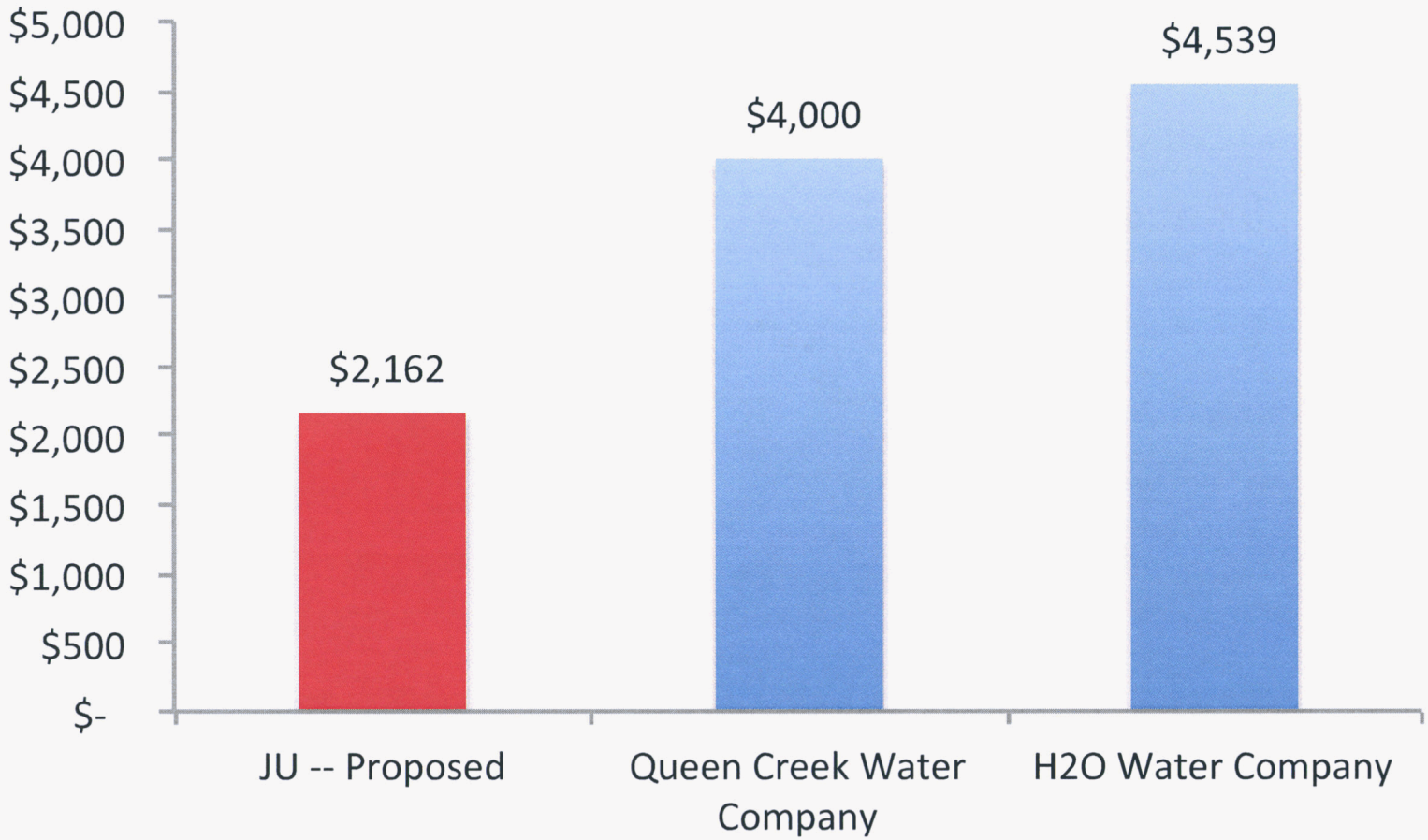
Johnson Utilities
Basic Terms of Deal

- Purchase Price: $121,000,000
- Funded by bonds purchased from seller
- Closing: mid to late 2014
- 5 year management agreement after acquisition

JU Original and Revised Proposal
2007 vs. 2014

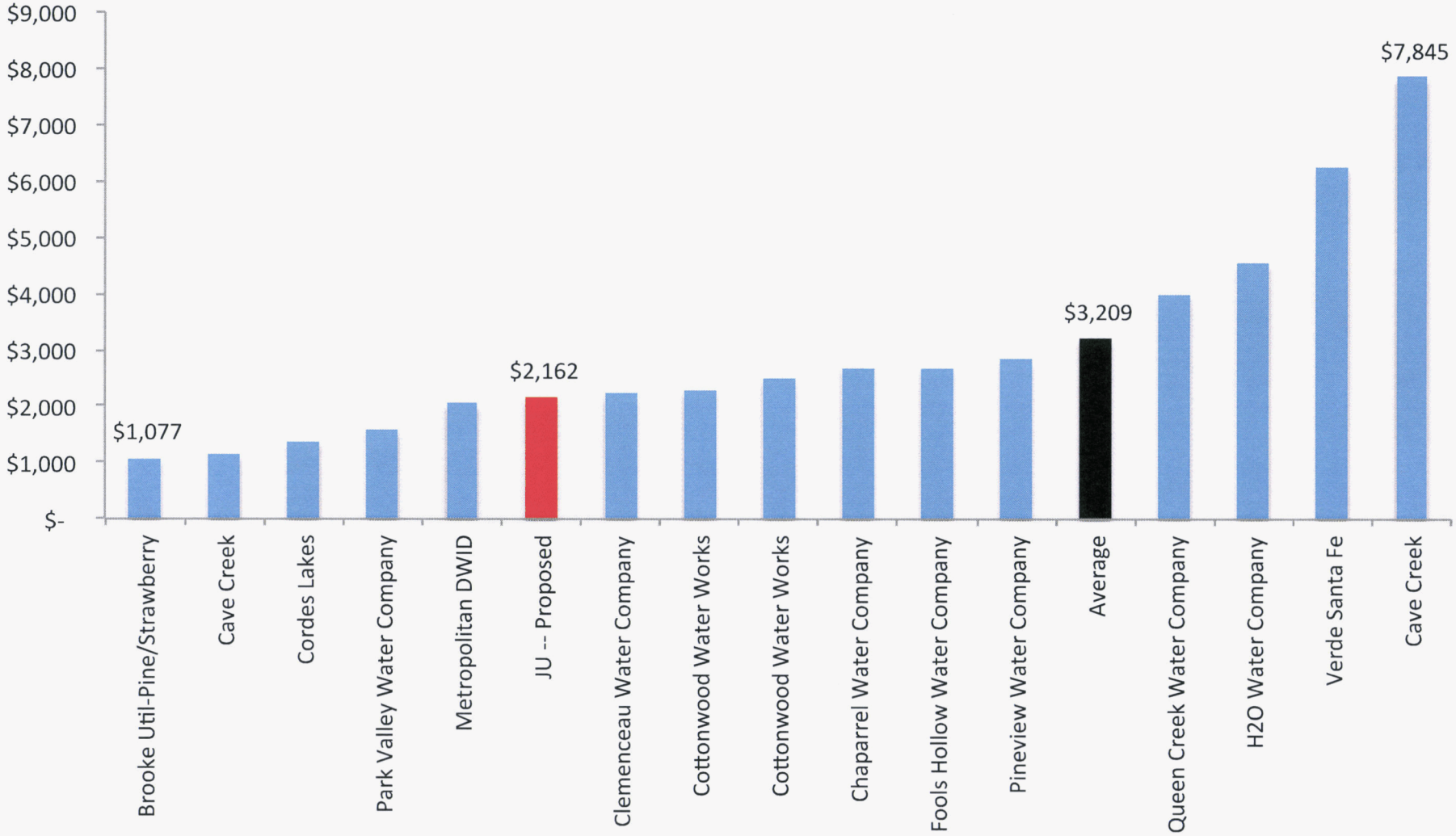
	2014
Offering Price	$121,000,000
Current Accounts	
Water	24,129
Wastewater	31,835
Total	55,964
Price per Account	**$ 2,162**

Comparison of Water Company Purchases Value per Connection, 2004-2013



Preliminary – Subject to Change

Comparison of Water Company Purchases Value per Connection, 2004-2013



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Preliminary – Subject to Change

Forecast of Future Revenues and Expenses under Town Ownership

- Town staff and consultants developed a long-term forecast of future revenues and expenses under ownership and operation by the Town of Florence

- Forecast was based on a series of very conservative assumptions about future events:

  - Only modest annual account growth

  - Many expenses continue to increase

  - Annual 3.0% rate adjustments (less than industry avg of 5-6%)

- Key was to determine whether the Town could operate the acquired utility at a reasonable cost to ratepayers while still deriving a financial benefit to the Town

Town of Florence
Notes on Financial Forecast

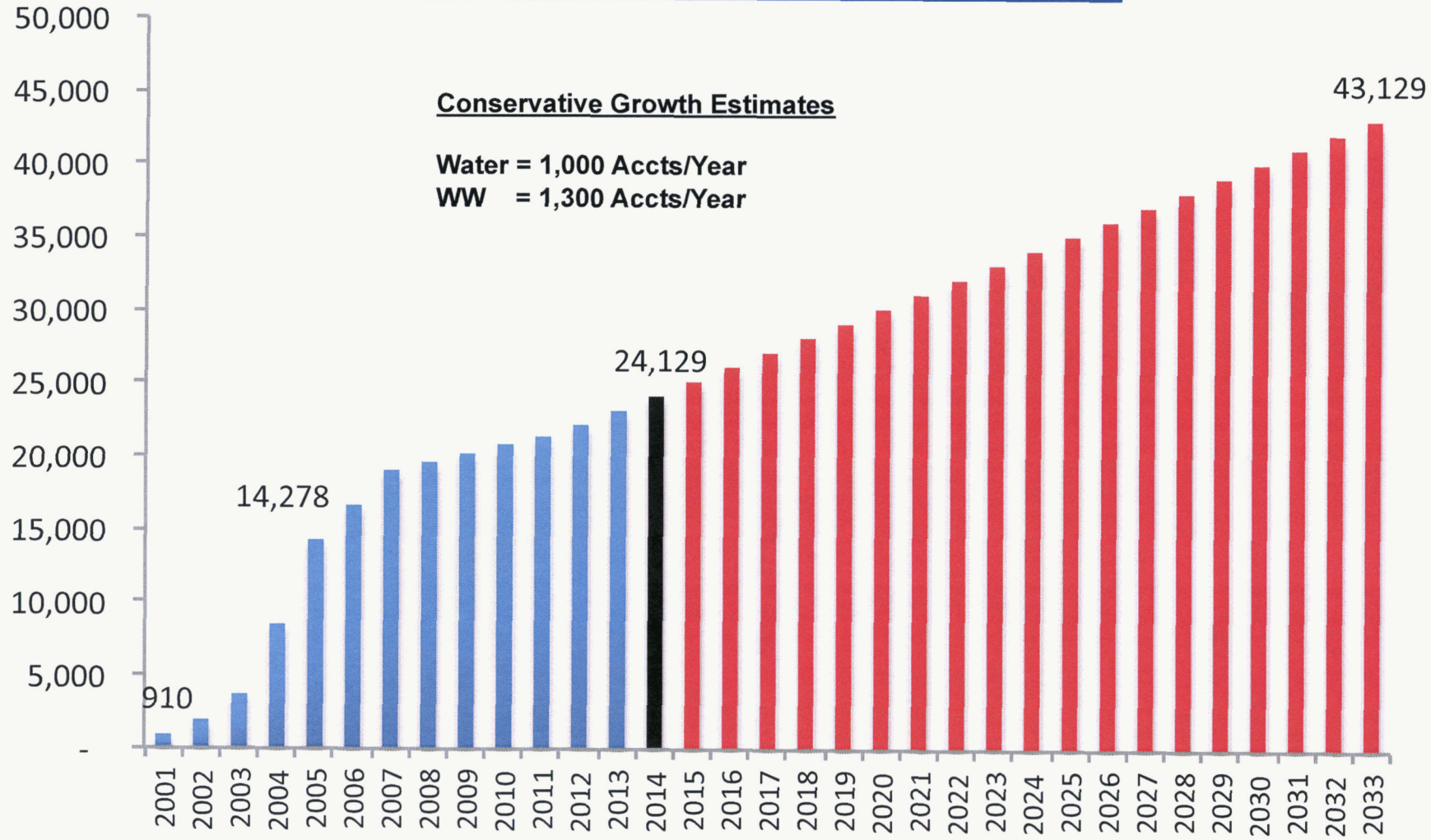
- **This forecast is NOT a guarantee**; it is a prediction based on a set of reasonable assumptions that may or may not turn out to be correct

- Because no one can predict the future with perfect accuracy, there remains a possibility that unexpected expenses will occur or expenses will be greater than forecast

- The risk of unexpected and/or higher expenses is common in the purchase of any business

- Town alone must be willing to accept this risk as a cost of doing business and of making this deal

Town of Florence
Forecast Future Water Accounts



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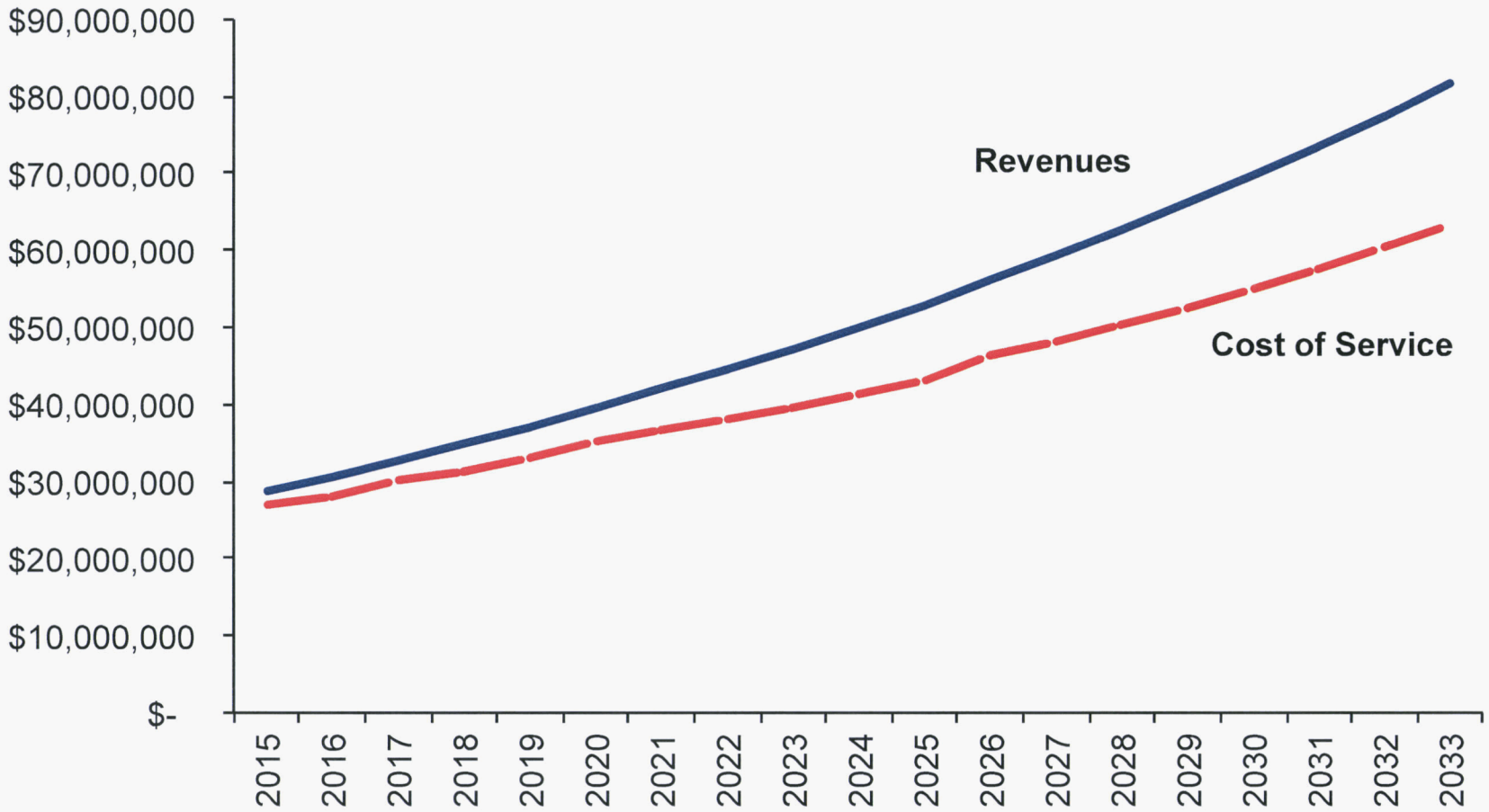
Preliminary – Subject to Change

Year 1-20 Financial Forecast
3.0% Annual Rate Adjustments

Revenues are forecast to be sufficient to fund all acquisition and operating costs



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Preliminary – Subject to Change

Potential Financial Benefits of Purchase

- Increased efficiencies of Town staff and work force in operating two systems
- Annual financial contribution from acquired utility to General Fund, thus limiting need for additional taxes
- Elimination of 5% franchise fee to existing Town residents
- Net cash flow could be used to improve quality of both existing and acquired utilities
- Net cash flow could also be used to limit future rate increases on both existing and acquired utilities

Risks of Additional Rate Increases

- While potential benefits are significant, there is also the risk that additional rate increases would be required if **any** of the following occurs:
  - Annual account growth is lower than 1,000 water and 1.300 ww
  - Town personnel requirements are greater than expected
  - Operating expenses or CAGRD are greater than forecast
  - Capital improvement needs are greater than forecast
  - Major economic disruption – recession, terrorist attack, weather event, etc.

Presentation Summary

- Acquisition price is reasonable and affordable compared to other utilities
- As with any deal of this magnitude, there are risks associated with this transaction that must be recognized and accepted
- Economic and financial forecast indicates that this acquisition has numerous **potential** financial benefits to Town of Florence

ASSET PURCHASE AND LEASE AGREEMENT

BETWEEN

TOWN OF FLORENCE

AND

JOHNSON UTILITIES, L.L.C., AND SOUTHWEST ENVIRONMENTAL UTILITIES, L.L.C.

April ___, 2014

EXHIBIT
A-4
ADMITTED

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ASSET PURCHASE AND LEASE AGREEMENT

This Asset Purchase and Lease Agreement (this "*Agreement*") is entered into as of April __, 2014, by and between the Town of Florence, Arizona, an Arizona municipal corporation (the "*Town*") and Johnson Utilities, L.L.C., an Arizona limited liability company and Southwest Environmental Utilities, L.L.C., an Arizona limited liability company (collectively, the "*Seller*").

RECITALS

A. Seller operates as a public utility as defined in Article 15, Section 2 of the Arizona Constitution (the "*Business*") providing domestic water and sewer service in the boundaries of the Town and adjacent areas in Pinal County, Arizona (the "*County*"). Seller operates the Business pursuant to a Certificate of Public Convenience and Necessity ("*CC&N*") issued by the Arizona Corporation Commission ("*ACC*") which authorizes Seller to provide water and wastewater treatment utility services within a defined geographic area (the "Certificated Area") as depicted on the diagram attached hereto as Exhibit Z and as legally described in Exhibit AA, it being understood by and between the parties that if requested by either party or the ACC, either the depiction or the legal description of the Certificated Area as finally attached hereto may be amended to conform to such requests.

B. Seller desires to sell, transfer and assign to Buyer, and Buyer desires to purchase from Seller, substantially all of the assets and properties used in the Business, to assume certain rights and obligations of Seller solely relating to the Business, including the obligation to provide water and wastewater utility services within the Certificated Area and those areas for which Seller has pending applications for service, and to use such assets and properties and operate the Business in its own name and for its own account on the terms and conditions set forth in this Agreement.

AGREEMENT

NOW, THEREFORE, in consideration of the foregoing, and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereby agree as follows:

ARTICLE I

PURCHASE, SALE AND LEASE OF ASSETS

Section 1.01. Purchased Assets. Seller will sell, convey, transfer, assign and deliver to Buyer, free and clear of all liens, mortgages, pledges, encumbrances and charges of every kind (except for Permitted Encumbrances, as hereinafter defined), on the terms and subject to the conditions set forth in this Agreement, all of Seller's right, title and interest in and to the properties, business and assets of Seller of every kind and description, real, personal and mixed, tangible and intangible, wherever located (except those assets which are excluded from this sale by Section 1.02) as they shall exist on the Closing Date (as hereinafter defined) which are useful, available for use or necessary for Seller's operation of the Business (collectively, the "*Purchased*

Assets"). Without limiting the generality of the foregoing, the Purchased Assets shall include the following:

(a) all Real Estate as set forth in Exhibit I (the "Real Estate");

(b) all Personal Property as set forth in Exhibit J (the "Personal Property");

(c) Infrastructure used by the Business to serve Customers as set forth in Exhibit BB;

(d) The Assigned Contracts set forth in Exhibit K and the Proprietary Rights as set forth in Exhibit L;

(e) The Seller's interest in the mainline extension agreements ("LXA's) identified or described in Exhibit Y;

(f) the Master Utility Agreements ("MUA's) identified or described in Exhibit X;

(g) Records relating to the Project and Customers as set forth in Exhibit W;

(h) to the extent Seller has any interest in any software licenses, software or data, including radio licenses or communications franchises or licenses, such licenses or franchises, as the case may be, shall be transferred to Seller under such instruments as are customarily utilized for the transfer of such rights, in a form which is commercially reasonable and acceptable to Seller and Buyer.

(i) $2,500,000 cash in the Offsite Facilities Hookup Fee Account, any balance in the Central Arizona Groundwater Replenishment District Account (as reduced by the shortfall from the October 2013 bill advanced by the Seller), and any Customer Deposits; and

(j) all accounts receivable, excluding accounts receivable for water deliveries made by Seller prior to the close of escrow as reflected in Seller's books and records as of close of escrow, related to Seller's Customers (collectively, "Customer Accounts") reflected on Seller's books and records as of close of escrow.

Section 1.02. Excluded Assets. Notwithstanding anything to the contrary in Section 1.01, the Purchased Assets shall exclude the following assets of Seller:

(a) notes receivable and insurance proceeds existing as of the Closing Date, unless such insurance proceeds receivable relate to damage to the Real Estate or the Personal Property or are not reimbursements to Seller for pre-closing expenditures;

(b) all cash and cash equivalents and investments, whether short-term or long-term, of Seller, including without limitation bank accounts, certificates of deposit, treasury bills and securities, except for the items described in Section 1.01(e) above;

(c) any stock, partnership interest, limited liability company interest or other equity ownership interest in any subsidiary or affiliate;

(d) the minute books and records of Seller; and

(e) the assets set forth in Exhibit A.

Section 1.03. Leased Assets. Notwithstanding anything to the contrary in Sections 1.01 or 1.02, the Rancho Sendero Anthem Wastewater 1.1MW plant (the "Anthem Plant") and the Section 11 Solar Plant (the "Section 11 Plant") shall be leased by the Seller to the Buyer for a period of one year with respect to the Anthem Plant and three years with respect to the Section 11 Plant after the Closing Date, at annual lease rate of $1.00 for each asset. At the end of the respective lease terms, the Anthem Plant and the Section 11 Plant shall be transferred to the Buyer as Purchased Assets hereunder in consideration of the purchase price of $1.00.

ARTICLE II

PURCHASE PRICE; ASSUMPTION OF LIABILITIES

Section 2.01. Payment of Purchase Price. As full consideration for the Purchased Assets, Buyer agrees, subject to the terms, conditions and limitations set forth in this Agreement, to deliver to Seller (or its assigns) one or more series of water and sewer revenue bonds (the "*Bonds*") in the aggregate principal amount of $121,000,000 (the "*Purchase Price*"), issued by The Industrial Development Authority of the City of Phoenix, Arizona (the "*Issuer*") pursuant to a Trust Indenture dated as of February 1, 2014 (the "*Indenture*") between the Issuer and Zions First National Bank, as corporate trustee (the "*Trustee*") and a Installment Sale Agreement dated on or about June 1, 2014 (the "Installment Sale Agreement") between the Issuer and the Buyer. The Bonds shall be dated as of the date of delivery, mature on or about May 1, 2044, bear interest at the rate of 6.625% per year for the first five (5) years, and 8.00% per annum thereafter, be payable on December 1, 2014, and semi-annually thereafter on each June 1 and December 1, and having such other terms and provisions as set forth in Exhibit B.

Section 2.02. Assumed Liabilities. On the Closing Date, Buyer will assume and agree to pay, discharge or otherwise perform when lawfully due only those liabilities, contracts, commitments, purchases and other obligations of Seller that are expressly set forth in Exhibit C, if any (the "*Assumed Liabilities*"), including the obligation to provide water and wastewater utility services within the Certificated Area and in those areas for which the Seller has pending applications for service.

Section 2.03. Excluded Liabilities. Anything to the contrary in Section 2.02 notwithstanding, the Assumed Liabilities shall exclude any liabilities not expressly set forth in Exhibit C, if any, as well as the following liabilities, contracts, commitments and other obligations of Seller (the "Excluded Liabilities"):

(a) Seller's obligations and any liabilities arising under this Agreement;

(b) any obligation of Seller for federal, state, local or foreign income tax liability (including interest and penalties) arising from the operations of Seller through

and including the Closing Date or arising out of the sale by Seller of the Purchased Assets pursuant to this Agreement, including without limitation any amounts shown on the Financial Statements (as defined herein) as "Deferred Income Taxes" or the like;

(c) any property taxes assessed on the Purchased Assets prior to the Closing;

(d) any obligation of the Seller related to any notes payable to members or related parties

(e) customer refunds on closed accounts

(f) any liabilities associated with any violations of ADEQ rules or regulations that occurred prior to Closing

(g) any obligation of Seller for expenses incurred in connection with the sale of the Purchased Assets pursuant hereto, including without limitation the fees and expenses of Seller's legal counsel;

(h) any obligation or liability of Seller related to an alleged breach of contract occurring prior to or on the Closing Date; and

(i) any liability, contract, commitment or other obligation of Seller, known or unknown, fixed or contingent, the existence of which constitutes or will constitute a breach of any representation or warranty of Seller contained in or made pursuant to Article 4 of this Agreement.

Section 2.04. Pro Rations.

(a) [Reserved].

(b) The parties hereto agree on the following pro rations:

(i) Sales Taxes. To the extent Buyer keeps all customer accounts receivable cash collected, it shall be responsible to reimburse Seller for the unpaid sales taxes associated with such receivables.

(ii) Income Taxes. Within 120 days of Closing, Buyer shall pay Seller an amount equal to 30% of the customer accounts receivable balance as of Closing to reimburse Seller for the associated income tax liability that Seller is required to pay on the receivables balance.

(iii) Property Taxes. Property taxes shall be prorated at Closing based on the pro ration calculation provided by the Seller.

(iv) GRD Taxes. Buyer will charge and collect the rate established by Utility Tariff to pay the GRD tax bill for August 2014. The balance that exists in the account at Closing shall be transferred to the Buyer, less any amount to be reimbursed to the Seller from the October 2013 invoice.

(v) Line Extension Refunds. There shall be a pro ration for refunds due on the line extension agreements for a partial year.

Section 2.05. Installment Sale Agreement. In connection with the issuance of the Bonds by the Issuer, the Buyer will enter into the Installment Sale Agreement with the Issuer, pursuant to which revenues generated by the Business will be used, on a non-recourse basis, to pay debt service on the Bonds.

Section 2.06. Management Agreement. Simultaneous with the execution and delivery of this Agreement, Seller, or its affiliate, will enter into a Management Agreement with Buyer, under which Seller, or its affiliate will operate the Business for a period of five (5) years (the "*Management Agreement*"). Concurrently, with the delivery of the Management Agreement, Buyer and Seller shall deliver such legal opinions, certified instruments and other documents relating to the legality and enforceability of the obligations to be performed under the Management Agreement as the other party may reasonably request. Buyer agrees and acknowledges that the Management Agreement and the obligations of Buyer thereunder are a material inducement for Seller entering into this Agreement and consummating the transactions contemplated herein.

Section 2.07. Procedure Upon Execution of Agreement. In order for this Agreement to become effective, the parties will take the following steps in the order listed below; *provided, however*, that upon their completion all such steps shall be deemed to have occurred simultaneously:

(a) The Town Council of the Town shall have adopted a resolution authorizing this Agreement and the execution and delivery of the Management Agreement and the Installment Sale Agreement.

(b) The Management Agreement and the Installment Sale Agreement shall be fully executed, delivered and in full effect.

ARTICLE III

CLOSING

Section 3.01. Time and Place of the Closing. The closing of the sale of the Purchased Assets shall take place on the date on which the conditions precedent described in this Article 3 are satisfied or waived, provided that the parties shall use their best efforts to cause the closing to occur on or before July 1, 2014, or such other date and time as the parties may mutually agree in writing (the "*Closing Date*"). Throughout this Agreement, such event is referred to as the "*Closing*." The Closing shall take place at 10:00 a.m., Arizona time, on the Closing Date, at the offices of Kutak Rock LLP, in Scottsdale, Arizona ("*Bond Counsel*").

Section 3.02. Conditions to Obligation of Buyer. The obligations of Buyer to consummate the transactions contemplated hereby shall be subject to the fulfillment (or waiver by Buyer, in its reasonable discretion) on or prior to the Closing Date of the following additional conditions, which Seller agrees to use commercially reasonable efforts in good faith to fulfill or cause to be fulfilled:

(a) The representations and warranties of Seller contained in this Agreement shall have been true and correct as of the date of this Agreement, and they shall be true and correct as of the Closing Date with the same force and effect as though made as of such date. Seller shall have performed and complied with all of its obligations required by this Agreement to be performed or complied with at or prior to the Closing Date. Seller shall have delivered to Buyer a certificate, dated as of the Closing Date and signed by the Manager of Seller, certifying that such representations and warranties are true and correct and that all such obligations have been thus performed and complied with.

(b) All necessary consents or approvals of third parties to the transactions contemplated hereby shall have been obtained and shown by written evidence reasonably satisfactory to Buyer, including without limitation, all required approvals from the ACC. All such required consents or approvals are set forth in Exhibit E.

(c) Seller shall have canceled its CC&N.

(d) There shall not be pending or threatened any action or proceeding by or before any court or other governmental body seeking to restrain, prohibit or invalidate the sale of the Purchased Assets to Buyer or any other transaction contemplated hereby, or that would have a material adverse impact on the right of Buyer to own, operate in their entirety or control the Purchased Assets.

(e) There shall not have been any change in the Business or Purchased Assets since November 1, 2013, other than changes occurring in the ordinary course of business which in the aggregate have not had a material adverse effect on the Purchased Assets or the financial condition, business prospects or operating results of the Business.

(f) Buyer shall have received an opinion of counsel to Seller, dated as of the Closing Date, in form and substance as set forth in Exhibit H attached hereto.

(g) Buyer acknowledges and agrees that there are no conditions to its obligations under this Agreement that are not expressly set forth herein.

(h) Buyer shall have (i) received all information required under this Agreement, (ii) received all title reports or other information to determine title to the Purchased Assets to its reasonable satisfaction, (iii) received all documents relating to the issuance of the Bonds by the Authority, and (iv) shall have completed all due diligence it deems reasonable necessary to consummate the transactions contemplated hereby.

Section 3.03. Conditions to Obligation of Seller. The obligations of Seller to consummate the transactions contemplated hereby shall be subject to the fulfillment (or waiver by Seller, in its reasonable discretion) on or prior to the Closing Date of the following additional conditions, which Buyer agrees to use commercially reasonable efforts in good faith to fulfill or cause to be fulfilled:

(a) The representations and warranties of Buyer contained in this Agreement shall have been true and correct as of the date of this Agreement, and they shall be true and correct as of the Closing Date with the same force and effect as though made as of

such date. Buyer shall have performed and complied with all of its obligations required by this Agreement to be performed or complied with at or prior to the Closing Date. Buyer shall have delivered to Seller a certificate, dated as of the Closing Date, certifying that such representations and warranties are true and correct and that all such obligations have been thus performed and complied with.

(b) All necessary consents or approvals of third parties to the transactions contemplated hereby shall have been obtained and shown by written evidence reasonably satisfactory to Seller, including without limitation, all required approvals from the ACC. All such required consents or approvals are set forth in Exhibit E.

(c) The Management Agreement and the Installment Sale Agreement shall be in full force and affect.

(d) There shall not be pending or threatened any action or proceeding by or before any court or other governmental body seeking to restrain, prohibit or invalidate the sale by Seller of the Purchased Assets to Buyer or any other transaction contemplated hereby, or that would have a material adverse impact on the right of Seller to sell the Purchased Assets or accept delivery of the Bonds in consideration.

(e) Seller shall have received an opinion of counsel to Buyer, dated as of the Closing Date, in form and substance as set forth in Exhibit G attached hereto.

(f) At the time of the Closing, the Buyer shall have adopted such resolutions as, in the opinion of counsel to Seller, shall be necessary in connection with the transactions contemplated hereby (collectively, the "Authorizing Resolution"), and such Authorizing Resolution will be in full force and effect and will not have been amended, modified or supplemented, except as may have been agreed to in writing by Seller.

(g) At or prior to the Closing, unless otherwise agreed to by Seller in writing, Seller will have received each of the following documents with respect to the Bonds (the "Bond *Deliverables*"):

(i) the approving opinion, dated the date of the Closing and addressed to Seller, of legal counsel to the Buyer, in form and content satisfactory to Seller and its counsel, to the effect that this Agreement and the Management Agreement have been duly authorized, executed and delivered by Buyer and are the legal, valid and binding obligation of the respective parties, enforceable in accordance with their terms, subject to customary exceptions for bankruptcy and judicial discretion;

(ii) the approving opinion, dated the date of the Closing and addressed to Seller, of Bond Counsel, in form and content satisfactory to Seller and its counsel, to the effect that (i) interest on the Bonds is excludable from gross income for purposes of federal and state income tax; (ii) the offer and sale of the Bonds to the Seller is exempt from registration under the Securities Act of 1933, as amended, and will not result in the Indenture being required to be qualified pursuant to the Trust Indenture Act of 1939, as amended; and (iii) the Indenture

and any other document executed by the Issuer with respect to the Bonds (the "Bond Documents") have been duly authorized, executed and delivered by the Issuer and are the legal, valid and binding obligation of the Issuer, enforceable in accordance with their terms, subject to customary exceptions for bankruptcy and judicial discretion;

(iii) a certificate or certificates, dated the date of the Closing and signed on behalf of Buyer to the effect that to the best of their knowledge, information and belief (i) the representations, warranties and covenants contained herein are true and correct in all material respects on and as of the Closing Date with the same effect as if made on the date of the Closing; (ii) no litigation of any nature is now pending seeking to restrain or enjoin the Buyer's ownership or operation of the Business or the collection of revenues or the pledging of net revenues to pay the principal and interest on the Bonds; or contesting the corporate existence or boundaries of Buyer or the title of the present officers to their respective offices; (iii) no authority or proceedings related to the matters described herein have been repealed, revoked or rescinded and no petition or petitions to revoke or alter the authorization to purchase the Business or to repeal or modify the Authorizing Resolution in any manner has been filed with or received by any of the undersigned; and (iv) Buyer has complied with all the agreements and satisfied all the conditions on its part to be performed or satisfied at or prior to the Closing;

(iv) a certificate or certificates, dated the date of the Closing and signed on behalf of Issuer to the effect that to the best of their knowledge, information and belief (i) no litigation of any nature is now pending seeking to restrain or enjoin the issuance of the Bonds, questioning the proceedings and authority by which the Bonds are to be issued, or affecting the validity of the Bonds; and (ii) no authority or proceedings for the issuance of the Bonds have been repealed, revoked or rescinded, and no petition or petitions to revoke or alter the authorization to issue the Bonds has been filed with or received by the Issuer; and

(v) a certified copy of the Indenture, the Management Agreement, and the Installment Sale Agreement;

(vi) a tax (nonarbitrage) certificate of the Issuer, in form and substance satisfactory to Bond Counsel;

(vii) the filing copy of the Information Return Form 8038-G (IRS) for the Bonds; and

(viii) such additional legal opinions, certificates, instruments and other documents as Seller or their counsel may reasonably request to evidence the truth and accuracy, as of the date hereof and as of the date of the Closing, of the representations, warranties and covenants of Buyer contained herein and the due performance or satisfaction by Buyer at or prior to the Closing of all agreements then to be performed and all conditions then to be satisfied by Buyer.

Section 3.04. Procedure at the Closing. At the Closing, the parties will take the following steps in the order listed below; *provided, however*, that upon their completion all such steps shall be deemed to have occurred simultaneously:

(a) Seller shall deliver to Buyer such bills of sale, endorsements, assignments and other instruments, in such form as in each case is reasonably satisfactory to Buyer and Seller, as shall be sufficient to vest in Buyer good and marketable title to the Purchased Assets, free and clear of all liens, mortgages, pledges, encumbrances, and charges of every kind except those which Buyer has expressly agreed in Section 2.02 hereof to assume.

(b) Buyer shall deliver to Seller instruments, in such form as in each case is reasonably satisfactory to Buyer and Seller, as shall be sufficient to effect Buyer's assumption of the Assumed Liabilities, if any, and the Contracts, together with the written consent of any third parties whose consent is required to Buyer's assumption of the Assumed Liabilities and the Contracts.

(c) Seller shall deliver to Buyer the Bond Deliverables, in such form as in each case is reasonably satisfactory to Buyer and Seller.

ARTICLE IV

REPRESENTATIONS AND WARRANTIES OF SELLER

In order to induce Buyer to enter into this Agreement and to consummate the transactions contemplated hereunder, as of the date hereof and as of the Closing Date, Seller makes the following representations and warranties to the best of Seller's knowledge:

Section 4.01. Organization. Seller is a limited liability company duly organized, validly existing, and in good standing under the laws of Arizona with full corporate power and authority to carry on its business and to own, purchase and operate its properties as and in the places where such business is conducted and such properties are owned, purchased, or operated. Seller is duly qualified or licensed to do business and is in good standing in Arizona, which is the only jurisdiction in which Seller's operations or the character of the properties owned, purchased, or operated by it makes such qualification or licensing necessary. Seller has delivered to Buyer complete and correct copies of Seller's articles of organization and operating agreement, in each case as amended and in effect on the date hereof. Seller is not in violation of any of the provisions of its articles or organization and operating agreement or any other organizational documents.

Section 4.02. Authorization. Seller has duly executed and delivered this Agreement and this Agreement and any agreements executed by Seller in connection herewith constitute (or will constitute on their execution and delivery) the legal, valid, and binding obligations of Seller enforceable against Seller in accordance with their terms, subject to bankruptcy, insolvency, reorganization, fraudulent transfer and conveyance, receivership, moratorium, and similar laws affecting creditors' rights generally, and to the availability of equitable remedies (whether asserted at law or in equity).

Section 4.03. No Conflicts, etc. The execution, delivery, and performance by Seller of this Agreement and the consummation of the transactions contemplated hereby do not and will not conflict with or result in a violation of or a default under (with or without the giving of notice or the lapse of time or both) (i) any applicable law to Seller, or any of the properties or assets of Seller, (ii) the organizational documents of Seller, or (iii) any Contract of which either Seller has knowledge to which either Seller is a party or by which either Seller or any of their properties or assets, may be bound or affected. Seller reasonably believes, except as expressly provided herein, that no governmental approval or other consent is required to be obtained or made by Seller in connection with the execution and delivery of this Agreement or the consummation of the transactions contemplated hereby.

Section 4.04. Real Estate.

(a) Exhibit I accurately and completely sets forth all real property owned by Seller, and with respect to every parcel of the Real Estate: (i) the owner; (ii) the location, including address, thereof; (iii) the legal description and approximate size thereof; and (iv) a brief description (including function) of the principal improvements and buildings thereon. To the knowledge of Seller, there are no unrecorded or oral leases, arrangements, agreements, understandings, options, contracts, or rights of first refusal, other than that which Seller has contractually promised to Buyer in writing, affecting or relating to any of the Real Estate. To the Seller's knowledge, all Real Estate has access suitable for the needs of the Project.

(b) Seller has good and marketable title to each parcel of the Real Estate, each of which shall be conveyed to Buyer by Special Warranty Deed.

(c) As to any leased property or leasehold interests of Seller, each lease or leasehold is legal, valid, binding, enforceable and in full force and effect consistent with the terms of the leases. Neither Seller nor any other party is in default, violation, or breach in any material respect under any lease, and no event has occurred and is continuing that constitutes or, with notice of lapse of time or both, would constitute a default, violation, or breach in any respect under any lease. The Seller enjoys peaceful and undisturbed possession under its leases. None of the leased property is subject to any sublease, assignment, or license, except as disclosed in Exhibit V.

(d) The buildings and other improvements located on the Real Estate are each in good operating condition and are sufficient and adequate for the operation of the Business as it is presently conducted.

(e) Seller has not received notice of: (i) any condemnation proceeding with respect to any portion of the Real Estate, and to its knowledge no such proceeding is contemplated by any governmental authority; or (ii) any special assessment which may affect the Real Estate, and to Seller's knowledge no such special assessment is contemplated by any governmental authority.

(f) To the knowledge of Seller, there are no historical or archeological materials or artifacts of any kind, or any Native American or Indian ruins, aboriginal or otherwise of any kind, located on any piece, parcel or part of the Real Estate.

Section 4.05. Personal Property. Exhibit J contains a complete and accurate listing of the Personal Property. Seller has good and marketable title to all of the Personal Property, and the Personal Property is in good operating condition.

Section 4.06. Proprietary Rights. The Proprietary Rights include all proprietary rights, the failure to possess which would have a material adverse effect on the Business. Exhibit L contains a complete list of all of the Proprietary Rights. Except as set forth on Exhibit L, there have been no claims made against Seller for the assertion of the invalidity, abuse, misuse, or enforceability of any of the Proprietary Rights, and there are not grounds for the same; and Seller has not received a notice of conflict with the asserted rights of others within three (3) years prior to the date of this Agreement.

Section 4.07. Contracts. To Seller's knowledge:

(a) Exhibit M contains a complete and accurate description of all agreements, contracts, commitments, and other instruments and arrangements of the types described below by which either Seller or any of its assets, businesses, or operations receive benefits or to which either Seller is a party or by which either Seller is bound, other than insignificant contracts entered into in the ordinary course of business consistent with past practice, including:

(i) purchases, licenses, permits, franchises, insurance policies, warranties, guarantees, governmental approvals, and other contracts concerning or relating to Seller's Real Estate or purchased Real Estate,

(ii) contracts for capital expenditures in excess of $500,000 each;

(iii) performance bonds, completion bonds, bid bonds, suretyship agreements and similar instruments;

(iv) joint venture, partnership, and similar contracts involving a sharing of profits and/or expenses;

(v) agreements providing for the leasing of Seller's Personal Property;

(vi) Line extension agreements;

(vii) agreements or instruments under which Seller has acquired or holds its water rights;

(viii) licenses, licensing arrangements and other contracts providing in whole or in part for the use of, or limiting the use of, any intellectual property;

(ix) loan agreements, indentures, letters of credit, mortgages, security agreements, pledge agreements, deeds of trust, bonds, notes, guarantees, sureties, indemnities and other agreements and instruments relating to the borrowing of money or obtaining of or extension of credit; and

(x) Master utility agreements and all other agreements that provide for the payment of hook-up fees (all items listed in Exhibit M and referred to in this subsection (a) are referred to as the "Contracts").

(b) Except as disclosed on Exhibit P, to the Seller's best knowledge, the Contracts listed in Exhibit M are in full force and effect and enforceable against each party thereto, subject to bankruptcy, insolvency, reorganization, fraudulent transfer and conveyance, receivership, moratorium, and similar laws affecting creditors' rights generally, and to the availability of equitable remedies (whether asserted at law or in equity).

(c) Except as disclosed on Exhibit N, there does not exist under any Contract any event of default or event or condition that, after notice or lapse of time or both, would constitute a violation, breach, or event of default thereunder on the part of either Seller or any other party. Except as set forth on Exhibit Q, no consent of any third party is required under any Contract as a result of or in connection with, and the enforceability of any Contract of which either Seller has knowledge will not be affected in any manner by, the execution, delivery and performance of this Agreement or the consummation of the transactions contemplated hereby.

Section 4.08. Taxes. Except as set forth on Exhibit O:

(a) Seller has filed all tax returns required to be filed by them for all periods ending before the Closing Date and have paid all tax liability shown due thereon. All such tax returns were correct and complete in all material respects. All taxes owed by the Seller (whether or not shown on any tax return) with respect to tax returns the due date of which preceded the date hereof have been paid.

(b) There are no outstanding requests, agreements, consents or waivers to extend the statutory period of limitations applicable to the assessment or collection of any taxes or deficiencies against Seller and there are no pending audits, disputes, or other proceedings that have been served upon Seller concerning Seller's liability for any taxes, and to Seller's knowledge, no such audits, disputes, or other proceedings have been threatened.

(c) No power of attorney relating to the taxes or tax returns of Seller has been executed or filed with any person including any taxing authority.

(d) Seller has withheld and paid all taxes required to have been withheld and paid in connection with any amounts paid or owing to any employee, independent contractor, creditor, stockholder or other person.

Section 4.09. Litigation. Except as set forth on Exhibit R: (i) there is no action, claim, demand, lawsuit, proceeding, arbitration, grievance, citation, summons, subpoena, inquiry, or investigation of any nature, civil, criminal, regulatory, or otherwise, in law or in equity, which has been served upon Seller or, to the knowledge of Seller overtly threatened against Seller which materially affects Seller, the Purchased Assets or Seller's business, or relating to the transactions contemplated by this Agreement, and there is no valid basis for the same, (ii) Seller is not a party to, subject to or bound by, any decree, order, injunction, settlement agreement or arbitration decision or award (or agreement entered into in any administrative, judicial or arbitration proceeding with any governmental authority) with respect to or affecting the properties, assets, personnel or business activities of Seller, and (iii) no citation, fee, or penalty has been levied or asserted against Seller under any environmental law or any other governmental authority.

Section 4.10. Financial Statements. Seller has delivered to Buyer financial statements of Seller as, at and for the periods ended on October 31, 2013 and December 31, 2012 (collectively, the "Financial Statements"), including in each case a balance sheet, a statement of income and retained earnings, and a statement of cash flows. The Financial Statements are complete and correct in all material respects, accurately reflect the assets, liabilities, and results of operations and financial condition of Seller as of their respective dates, and have been prepared in accordance with GAAP. Seller does not owe any obligation and is not subject to any liability to any of Seller's affiliates other than obligations and liabilities.

Section 4.11. Insurance. Exhibit S contains a complete and correct list and summary description of all insurance policies maintained by or for the benefit of Seller. Seller has delivered to Buyer complete and correct copies of all such policies together with all riders and amendments thereto. Such policies are in full force and effect, and all premiums due thereon have been paid. Seller has complied in all material respects with the terms and provisions of such policies. Except as set forth on Exhibit S, such policies shall not continue after the Closing Date for the benefit of Seller, other than in terms of providing continued, post-Closing coverage to Seller in respect of actions, events or circumstances arising or occurring during policy coverage periods up to and including the Closing Date, whether or not claims arising from such actions, events or circumstances are made before, on or after the Closing Date. Exhibit S sets out all claims made by Seller under any policy of insurance during the past two years and, in the opinion of Seller reasonably formed and held, there is no basis on which a claim should or could be made under any such policy and contains a complete and correct list and summary description of all insurance policies maintained by or for the benefit of Seller.

Section 4.12. Environmental Matters.

(g) Seller has complied and is in compliance in all material respects with all applicable environmental laws, whether federal, state or local, pertaining to the Real Estate, any leased real property or the ownership or operation of the Business, and Seller has not received any written communication alleging that Seller is not in compliance with any applicable environmental law, other than as disclosed in Exhibit T hereto. To Seller's knowledge, there is no claim pending or threatened against Seller relating to any alleged or actual violation of an environmental law, and none of the Real Estate is currently listed on the National Priorities List or the Comprehensive Environmental

Response, Compensation and Liability Information System, both promulgated under the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended (CERCLA) or any comparable state list, other than as disclosed in Exhibit T hereto.

(h) To the knowledge of Seller, neither the Seller nor any other person acting under its direction and control or on behalf of Seller, nor any affiliated entity of Seller, has caused or taken any action or is aware of any action that could reasonably result in, and the Seller is not subject to, any material liability or obligation relating to (i) the environmental conditions on, under, or about any of the Real Estate at the present time or in the past, including the air, soil and ground water conditions of such Real Estate, or (ii) the past or present use, management, handling, transport, treatment, generation, storage, disposal or release of any hazardous substance, other than as disclosed in Exhibit U hereto.

(i) Seller has made available to Buyer all (and not withheld from Buyer any) information, including all studies, analyses, and test results, in the possession, custody, or control of or otherwise known to Seller relating to (i) the environmental conditions on, under, or about any of the Real Estate, (ii) environmental conditions relating to the operation of the Business at the present time or in the past, (iii) any hazardous substances used, managed, handled, transported, treated, generated, stored, disposed of, or released by Seller or any other person on, under, about, or from any of the Real Estate or otherwise in connection with the use or operation of any of the Real Estate or the Business. There are no underground storage tanks located on any of the Real Estate.

Section 4.13. No Changes. Since December 31, 2012, there has not been: (a) any change in the Business or the Purchased Assets, other than changes occurring in the ordinary course of business which in the aggregate have not had a material adverse effect on the Business or the Purchased Assets; or (b) to knowledge of Seller, any threatened or prospective event or condition of any character whatsoever which could materially and adversely affect the Business or the Purchased Assets.

ARTICLE V

REPRESENTATIONS AND WARRANTIES OF BUYER

In order to induce Seller to enter into this Agreement and to consummate the transactions contemplated hereunder, as of the date hereof and as of the Closing Date Buyer makes the following representations and warranties:

Section 5.01. Organization. Buyer is a municipal corporation formed under the laws of the State of Arizona with full power and authority to enter into this Agreement and perform the obligations of Buyer hereunder.

Section 5.02. Authorization. The execution, delivery and performance of this Agreement and the consummation of the transactions contemplated hereby have been duly authorized by all necessary action of Buyer. Buyer has made all required filings with, and has

obtained all approvals, consents and orders of, any governmental authority, board, agency or commission having jurisdiction which would constitute a condition precedent to the performance by Buyer of its obligations hereunder. As of the Closing Date, Buyer will have, full legal right, power and authority (i) to enter into this Agreement, (ii) to adopt the Authorizing Resolution, (iii) to cause the Bonds to be delivered to Seller, (iv) to carry out and consummate the transactions contemplated by this Agreement, the Management Agreement, the Installment Sale Agreement, and the Bond Documents to which it is a party; and (vi) to set utility rates as it deems necessary and appropriate to meet its obligations with respect to the Bonds.

Section 5.03. Enforceability. This Agreement has been duly executed and delivered by Buyer and is a valid and binding obligation of Buyer, enforceable in accordance with its terms, except as may be limited by (a) any applicable bankruptcy, reorganization, moratorium or similar laws, now or hereafter in effect, affecting the enforceability of creditors' rights generally or (b) general principles of equity.

Section 5.04. No Conflicts. Neither the execution and delivery of this Agreement nor the consummation of the transactions contemplated hereby will: (i) conflict with or violate any municipal code or ordinances, or of any decree or order of any court or administrative or other governmental body which is either applicable to, binding upon or enforceable against Buyer; or (ii) result in any breach of or default under any mortgage, contract, agreement, indenture, trust or other instrument which is either binding upon or enforceable against Buyer.

Section 5.05. As-Is Where-Is Condition. BUYER ACKNOWLEDGES THAT SELLER HAS NOT MADE ANY REPRESENTATIONS OR WARRANTIES OR COVENANTS THAT ARE NOT EXPRESSLY SET FORTH IN THIS DOCUMENT. EXCEPT FOR THOSE REPRESENTATIONS, WARRANTIES, AND COVENANTS EXPRESSLY SET FORTH HEREIN: (A) BUYER IS ACQUIRING THE PURCHASED ASSETS AND UNDERTAKING THE ASSUMED LIABILITIES IN THEIR "AS-IS WHERE-IS" CONDITION AND THAT IT IS RELYING UPON ITS OWN INVESTIGATION AND ANALYSIS AND SHALL NOT BE ENTITLED TO ANY REDUCTION TO OR SET-OFF OF THE PURCHASE PRICE FOR ANY REASON. IT IS UNDERSTOOD AND AGREED THAT SELLER IS NOT MAKING AND SPECIFICALLY DISCLAIMS ANY WARRANTIES OR REPRESENTATIONS OF ANY KIND OR CHARACTER, EXPRESS OR IMPLIED, WITH RESPECT TO SELLERS OR ANY TANGIBLE OR INTANGIBLE ASSETS OF SELLER, INCLUDING, BUT NOT LIMITED TO, WARRANTIES OR REPRESENTATIONS AS TO OR ANY OTHER MATTER OR THING RELATING TO OR AFFECTING THE VALUE, CONDITION, MERCHANTABILITY, MARKETABILITY, PROFITABILITY, SUITABILITY OR FITNESS FOR A PARTICULAR USE OR PURPOSE OF PURCHASED ASSETS; (B) BUYER HAS NOT RELIED UPON AND WILL NOT RELY UPON, EITHER DIRECTLY OR INDIRECTLY, ANY REPRESENTATION OR WARRANTY OF SELLER OR ANY AGENT OR EMPLOYEE OF SELLER; (C) BUYER REPRESENTS THAT IT IS A KNOWLEDGEABLE BUYER AND THAT IT IS RELYING SOLELY ON ITS OWN EXPERTISE AND THAT OF ITS CONSULTANTS IN PURCHASING THE PURCHASED ASSETS; AND (D) BUYER WILL CONDUCT SUCH INSPECTIONS AND INVESTIGATIONS REGARDING THE PURCHASED ASSETS AS BUYER DEEMS NECESSARY. NOTWITHSTANDING THE ABOVE, BUYER'S RELIANCE HEREIN IS BASED UPON SELLER'S WARRANTY THAT IT HAS PROVIDED ALL

DOCUMENTATION AND INFORMATION KNOWN TO SELLER TO ALLOW BUYER TO MAKE AN INDEPENDENT DETERMINATION OF THE ASSETS BEING ACQUIRED. SELLER HAS NOT WITHHELD ANY INFORMATION WHICH WOULD PREVENT THE BUYER FROM MAKING AN INFORMED DECISION AS TO THE PURCHASE OF THE ASSETS.

ARTICLE VI

ADDITIONAL COVENANTS

Section 6.01. Conduct of Business. From the date hereof to the Closing Date (and thereafter with respect to any covenant or agreement extending beyond the Closing Date), except as expressly permitted or required by this Agreement or as otherwise consented to by Buyer in writing, Seller will (as applicable):

(a) carry on the Business in, and only in, the ordinary course, in substantially the same manner as heretofore conducted, and use reasonable efforts to preserve intact its present business organization, maintain its properties in good operating condition and repair, keep available the services of its present officers and substantially all of its employees, and preserve its relationship with substantially all of its customers and others having business dealings with it, with the goal and intent that its goodwill and ongoing business shall be in all material respects unimpaired on and following the Closing Date;

(b) pay all accounts payable and other obligations of Seller when they become due and payable in the ordinary course of business consistent with prior practice;

(c) perform in all material respects all of its obligations under all Contracts and other agreements and instruments and comply in all material respects with all applicable laws applicable to it;

(d) not enter into or assume any material agreement, contract, or instrument, or enter into or permit any material amendment, supplement, waiver, or other modification with respect to any Contract;

(e) not make or change any election, change an annual accounting period, adopt or change any accounting method, file any amended tax return, enter into any closing agreement, settle any tax claim or assessment relating to Seller, surrender any right to claim a refund of taxes, consent to any extension or waiver of the limitation period applicable to any tax claim or assessment relating to Seller or take any other similar action relating to the filing of any tax return or the payment of any tax, if such election, adoption, change, amendment, agreement, settlement, surrender, consent or other action would have the effect of increasing the tax liability of Seller for any period ending after the Closing Date or decreasing any tax attribute of Seller existing on the Closing Date; provided that Buyer will make the appropriate accounting changes after the purchase to coincide with the Buyer's required governmental disclosures;

(f) not sell or transfer to any person or otherwise dispose of any material property or asset of Seller, other than dispositions of property or assets made in the ordinary course of business consistent with prior practice;

(g) not cause or permit any lien to be placed on any property or asset of Seller where such lien did not exist on the date hereof; and

(h) not take any action or knowingly omit to take any action, which action or omission would result in a breach of any of the representations and warranties set forth in Article 4.

Section 6.02. No Solicitation. Prior to the Closing Date or the earlier termination of this Agreement, neither Seller nor any affiliate of Seller, shall solicit any inquiries or proposals with respect to, (i) the sale by Seller of all or substantially all of its properties and assets, or (ii) any merger transaction or other transaction involving the acquisition of control of Seller by any person other than Buyer.

Section 6.03. Further Actions.

(a) Seller and Buyer agree to use reasonable efforts to take all actions and to do all things necessary, proper or advisable to consummate the transactions contemplated hereby by the Closing Date.

(b) Seller and Buyer will, as promptly as practicable, file or supply, or cause to be filed or supplied with all relevant governmental authorities and other Persons, all applications, notifications and information required to be filed or supplied by it pursuant to applicable law in connection with this Agreement and the consummation of the transactions contemplated hereby.

(c) Seller and Buyer, as promptly as practicable, will use reasonable efforts to obtain, or cause to be obtained, all consents (including all governmental approvals and any consents required under any contract) necessary to be obtained by it under applicable law or pursuant to any contract or permit in connection with the transactions contemplated thereby.

(d) Seller will cause its affiliates to, coordinate and cooperate with Buyer in exchanging such information and supplying such assistance as may be reasonably requested by Buyer in connection with the filings and other actions contemplated by this Agreement.

(e) Following the Closing Date, Seller and Buyer shall, from time to time and at their own expense, execute and deliver such additional instruments, documents, conveyances, or assurances and take such other actions as shall be necessary, or otherwise reasonably requested by the other party, to render effective the consummation of the transactions contemplated hereby.

ARTICLE VII

TERMINATION

Section 7.01. Termination. This Agreement may be terminated at any time prior to the Closing Date:

(a) By Seller or Buyer by written notice to the other parties if the transactions contemplated hereby shall not have been consummated pursuant hereto by 5:00 p.m., Phoenix, Arizona time on July 1, 2014;

(b) By Buyer by written notice to Seller if (a) the representations and warranties of Seller shall not have been true and correct in all material respects as of the date when made or (b) any of the conditions set forth in Section 3.02 shall not have been, or if it becomes apparent to Buyer in its reasonable discretion that any of such conditions will not be, fulfilled by 5:00 p.m. Phoenix, Arizona time on July 1, 2014, unless such failure shall be due to the failure of Buyer to perform or comply with any of the covenants, agreements or conditions hereof to be performed or complied with by it prior to the Closing Date;

(c) By Seller by written notice to Buyer if (a) the representations and warranties of Buyer shall not have been true and correct in all material respects as of the date when made, or (b) any of the conditions set forth in Section 3.03 shall not have been, or if it becomes apparent to Seller in its reasonable discretion that any such condition will not be, fulfilled by 5:00 p.m. Phoenix, Arizona time on March 31, 2014, unless such failure shall be due to the failure of Seller to perform or comply with any of the covenants, agreements or conditions hereof to be performed or complied with by it prior to the Closing Date; or

(d) By Seller by written notice to Buyer if:

(i) the marketability of the Bonds or the market price thereof, in the reasonable opinion of Seller, has been materially adversely affected by (1) an amendment to the Constitution of the United States or the Constitution of the State or (2) any introduced or enacted federal or State legislation or (3) any decision of any federal or State court or (4) any ruling or regulation (final, temporary or proposed) of the Treasury Department of the United States, the Internal Revenue Service or other federal or State authority or (5) any bill favorably reported out of committee in either house of the Congress of the United States, in any case affecting the tax status of Buyer, its property or income, its securities (including the Bonds) or the interest thereon, or any tax exemption granted or authorized by the Internal Revenue Code of 1986, as amended, or the statutes of the State of Arizona (the "*State*"); or

(ii) a stop order, ruling, regulation, proposed regulation or statement by or on behalf of the Securities and Exchange Commission shall be issued or made having the effect or creating the probability that the issuance, offering or

sale of obligations of the general character of the Bonds shall be or shall become a violation of any provisions of the Securities Act of 1933, the Securities and Exchange Act of 1934, or the Trust Indenture Act of 1939; or

(iii) in the Congress of the United States legislation shall be enacted or a bill shall be favorably reported out of committee to either house, or a decision by a court of the United States shall be rendered, or a ruling, regulation, proposed regulation or statement by or on behalf of the Securities and Exchange Commission or other governmental agency having jurisdiction of the subject matter shall be made, to the effect that securities of Buyer or of any similar public body are not exempt from the registration, qualification or other requirements of the Securities Act of 1933, the Securities and Exchange Act of 1934 or the Trust Indenture Act of 1939; provided, however, that the effective date of the events described in (a), (b) and (c) of this Subparagraph 7.01(f) shall be prior to the Closing Date; or

(iv) the United States shall have become engaged in hostilities which have resulted in a declaration of war or a national emergency or there shall have occurred any other outbreak of hostilities or a national or international calamity or crisis, or an escalation thereof, the effect of such outbreak calamity or crisis on the financial markets of the United States being such as, in the opinion of Seller, would affect materially and adversely the ability of Seller to market the Bonds or to enforce contracts for the sale of the Bonds; or

(v) there shall have occurred a general suspension of trading on the New York Stock Exchange or the declaration of a general banking moratorium by the United States, or by the States of Arizona or New York; or

(vi) there shall exist any event which, in the sole judgment of Seller, would materially adversely affect the market for the Bonds.

Section 7.02. Effect of Termination.

(a) In the event of the termination of this Agreement pursuant the provisions in Section 7.01 (i) this Agreement shall become void and have no effect, without any liability to any person in respect hereof or of the transactions contemplated hereby on the part of any party hereto, or any of its officials, directors, officers, employees, agents, consultants, representatives or advisers, except for any liability resulting from such party's material breach of this Agreement and for failing to comply with Section 7.02(b).

(b) Upon such an event, (a) Buyer shall deliver to Seller all materials delivered to or acquired from Seller ("Seller's Materials") and (b) Buyer will maintain the confidentiality of, and not disclose to any third person (other than its attorney and other consultants to the extent reasonably required for the negotiation and processing of the transaction contemplated by this Agreement) any information obtained by Buyer from or through Seller's Materials except to the extent such information is generally available to the public or required to be disclosed pursuant to legal process or applicable law.

ARTICLE VIII

INDEMNIFICATION

Section 8.01. Indemnification by Seller. To the extent permitted by applicable law, but subject to the limitations set forth in Sections 8.04 and 8.05, Seller covenants and agrees to defend, indemnify and hold harmless Buyer, and its officials and employees, (collectively, the "*Buyer Indemnitees*") from and against, and to pay or reimburse Buyer Indemnitees for, any and all claims, amounts paid in settlement of claims, liabilities, obligations, losses, fines, costs, royalties, proceedings, deficiencies or damages (whether absolute, accrued, conditional, or otherwise and whether or not resulting from third patty claims), including without limitation any out-of-pocket expenses and reasonable attorneys' and accountants' fees incurred in the investigation or defense of any of the same or in asserting any of their respective rights hereunder but excluding any consequential damages (collectively, "*Losses*"), resulting from or arising out of:

(a) any material inaccuracy of any representation or warranty by Seller contained in Article 4; or

(b) any failure of Seller to perform any material covenant or agreement hereunder or to fulfill any other obligation in respect hereof; or

(c) all obligations of the Sellers, including but not limited to regulatory obligations and obligations for Taxes, for periods through and including the Closing Date.

Section 8.02. Indemnification by Buyer. To the extent permitted by Applicable Law, but subject to the limitations set forth in Sections 8.04 and 8.05, Buyer covenants and agrees to defend, indemnify and hold harmless Seller, and its members, officers, employees (collectively, the "*Seller Indemnitees*")from and against, and to pay or reimburse Seller Indemnitees for, any and all Losses resulting from or arising out of:

(a) any material inaccuracy in any representation or warranty by Buyer made or contained Article 5;

(b) any failure of Buyer to perform any material covenant or agreement hereunder or to fulfill any other obligation in respect hereof; or

(c) all obligations of the businesses being acquired, including but not limited to regulatory obligations and obligations for Taxes, for all periods on and after the Closing Date (including any obligations concerning the need for any regulatory approvals or consents to effectuate any of the actions contemplated in this Agreement, regardless of when such obligation accrues).

Section 8.03. Indemnification Procedures. In the case of any claim by a Buyer Indemnitee or a Seller Indemnitee (any of which, an "*Indemnified Party*") for indemnification under this Article 8, notice shall be given by the Indemnified Party to the party required to provide indemnification (the "*Indemnifying Party*") promptly after such Indemnified Party has

actual knowledge of any claim as to which indemnity may be sought. The notice shall specify the factual basis of the claim in reasonable detail to the extent known by the Indemnified Party:

(a) *Third Party Claims.* With regard to third party claims, the Indemnified Party shall permit the Indemnifying Party (at the expense of such Indemnifying Party) to assume the defense of any third party claim or any litigation resulting therefrom; provided that (i) the counsel for the Indemnifying Party who shall conduct the defense of such claim or litigation shall be reasonably satisfactory to the Indemnified Party, (ii) the Indemnified Party may participate in such defense at such Indemnified Party's expense, and (iii) the failure by any Indemnified Party to give notice as provided herein shall not relieve the Indemnifying Party of its indemnification obligation under this Agreement except to the extent that such omission results in a failure of actual notice to the Indemnifying Party and such Indemnifying Party is materially prejudiced as a result of such failure to give notice. Except with the prior written consent of the Indemnified Party, no Indemnifying Party, in the defense of any such claim or litigation, shall consent to entry of any judgment or enter into any settlement that provides for injunctive or other non-monetary relief affecting the Indemnified Party or that does not include as an unconditional term thereof the giving by each claimant or plaintiff to such Indemnified Party of a release from all liability with respect to such claim or litigation. In the event that the Indemnified Party shall in good faith determine that the conduct of the defense of any claim subject to indemnification hereunder or any proposed settlement of any such claim by the Indemnifying Party might be expected to affect adversely the Indemnified Party's tax liability or the ability of the Indemnified Party to conduct its business, or that the Indemnified Party may have available to it one or more defenses or counterclaims that are inconsistent with one or more of those that may be available to the Indemnifying Party in respect of such claim or any litigation relating thereto, the Indemnified Party shall have the right at all times to take over and assume control over the defense, settlement, negotiations or litigation relating to any such claim at the sole cost of the Indemnifying Party, provided that if the Indemnified Party does so take over and assume control, the Indemnified Party shall not settle such claim or litigation without the written consent of the Indemnifying Party, such consent not to be unreasonably withheld. In the event that the Indemnifying Party does not accept the defense of any matter as above provided, the Indemnified Party shall have the full right to defend against any such claim or demand and shall be entitled to settle or agree to pay in full such claim or demand. In any event, the Indemnifying Party and the Indemnified Party shall cooperate in the defense of any claim or litigation subject to this Section 8.03, including tax audits and claims, and the records of each shall be available to the other with respect to such defense.

(b) *Claims for Losses other than Third Party Claims.* With regard to a claim for indemnification for Losses other than a third party claim, the Indemnifying Party shall within thirty (30) days after receiving notice of the claim, give notice to the Indemnified Party of the acceptance or rejection of the claim by the Indemnifying Party. A notice of rejection of a claim will create of Dispute under Article 8.

Section 8.04. Time Limitations. If the Closing occurs, Seller will have liability with respect to Section 8.01 only if on or before the expiration or earlier termination of the

Management Agreement, Buyer notifies the Seller from which it is seeking indemnification in writing of the claim, specifying the factual basis of the claim in reasonable detail to the extent then known by Buyer. If the Closing occurs, Buyer will have liability with respect to Section 8.02 only if on or before the expiration or earlier termination of the Management Agreement, Seller notifies Buyer in writing of the claim, specifying the factual basis of the claim in reasonable detail to the extent then known by Seller. Notwithstanding the foregoing, if on or before the expiration or earlier termination of the Management Agreement, any party against which an indemnification claim has been made hereunder has been properly notified in writing of such claim and such claim has not been finally resolved or disposed of as of such date, then such claim shall continue to survive and shall remain a basis for indemnity hereunder until such claim is finally resolved or disposed of in accordance with the terms of this Agreement.

Section 8.05. Limitations on Amount. No claim shall be asserted against Seller under this Article 8 which, individually, is less than $25,000; and no claims shall be asserted against Seller under this Article 8 which, in the aggregate, exceed the sum of $2,000,000. If a particular claim or claims are covered by insurance carried by Seller in excess of the above amount, such claims may be pursued against Seller for amounts in excess of the limits set forth in the preceding sentence, but in such case, Buyer's recourse shall be limited to the proceeds of the applicable insurance coverage. No claim shall be asserted against Buyer under this Article 8 which, individually, is less than $25,000; and no claims shall be asserted against Buyer under Section 8.02 which, in the aggregate, exceed the sum of $2,000,000. If a particular claim or claims are covered by insurance carried by Buyer, such claims may be pursued against Buyer for amounts in excess of the limits set forth in the preceding sentence, but Sellers' recourse shall be limited to the proceeds of the applicable insurance coverage.

Section 8.06. Exclusive Remedy. The right to indemnification provided in this Article 8 is intended to be the sole and exclusive remedy of Buyer or Seller following the Closing. Until the Closing, the parties shall have any other remedies provided herein or available at law or in equity.

Section 8.07. Limitation of Liability. The liability of each party under this Agreement, for any reason whatsoever, whether in contract, tort or statute (including without limitation, negligence), or otherwise, shall be limited to the other party's actual damages. In no event shall either party have any liability to the other party or to third parties for any indirect, incidental, special, consequential or punitive damages, even if such party has been advised of the possibility thereof. The allocations of liability in this Agreement represent the agreed and bargained-for understanding of the parties with respect to allocation of risks inherent in their relationship.

ARTICLE IX

DISPUTE RESOLUTION

Section 9.01. Disputes.

(j) Mediation. If a dispute arises out of or relates to this Agreement, or the breach thereof, and if the dispute cannot be settled through negotiations, the Parties agree first to try to settle the dispute through mediation before resorting to arbitration, litigation

or some other dispute procedure. In the event that the Parties cannot agree upon the selection of a mediator within seven (7) days, either Party may request the Presiding Judge of the Pinal County Superior Court to assign a mediator from a list of mediators maintained by the Arizona Municipal Risk Retention Pool.

(k) If the parties are unable to resolve a claim, dispute or other matter in controversy, whether based on contract, tort, statute or other legal theory (including but not limited to any claim of fraud or misrepresentation), arising out of or related to the Agreement or the breach thereof by utilizing the mediation procedure described above, either party hereto may pursue in court any remedy available to it at law or in equity. This subsection should not be construed so as to prevent the parties, by mutual agreement, from resolving any dispute through binding arbitration.

ARTICLE X

MISCELLANEOUS

Section 10.01. Survival. Each of the representations and warranties made by Seller in Article 4 of this Agreement shall survive for a period of two (2) years after the Closing Date, notwithstanding any investigation at any time made by or on behalf of Buyer, and thereafter all such representations and warranties shall be extinguished. No claim for the recovery of Loss (as defined in Section 8.01) may be asserted by Buyer against Seller, or its successors in interest after such representations and warranties shall be thus extinguished; *provided, however*, that claims first asserted in writing within the applicable period shall not thereafter be barred and claims related to an assertion of infringement of intellectual property may be asserted at any time so long as they otherwise are not statutorily or equitably time barred.

Section 10.02. Knowledge. As used throughout this Agreement, the term "knowledge" means the actual awareness of a particular fact or circumstance and the awareness of a fact or circumstance that a prudent individual could reasonably be expected to discover or otherwise become aware of in the course of conducting a reasonable investigation and due inquiry concerning the fact or circumstance.

Section 10.03. Brokers' Commission. Seller will be solely responsible for and will indemnify and hold Buyer harmless from, the payment of any commission, fee or claim of any person, firm or corporation employed or retained or claiming to be employed or retained by Seller to bring about, or to represent Seller in, the transactions contemplated hereby.

Section 10.04. General Provisions regarding Representation and Warranties. The following provisions shall apply to all representations and warranties of any of the parties to this Agreement:

(a) *No Other Representation of Warranties.* Each party to this Agreement hereby expressly acknowledges and agrees that it has not relied on, and no other party has made, any representation or warranty, expressed or implied (all implied warranties being hereby expressly disclaimed), except for those representations and warranties that are expressly set forth in the Agreement,

(b) *Specific Overrules General.* To the extent that any matter is addressed by a specific representation or warranty, any more general representation shall be deemed not to apply to such a matter.

(c) *One Disclosure Suffices.* Anything that is duly disclosed to Buyer pursuant to this Agreement, including on any Exhibit hereto, shall be deemed to have been disclosed on all applicable schedules to this Agreement.

Section 10.05. Binding Effect. This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors, assigns, heirs and legal representatives.

Section 10.06. Entire Agreement. This Agreement (including the exhibits attached hereto) contains the entire agreement of the parties hereto with respect to the purchase of the Purchased Assets and the other transactions contemplated herein, and supersede all prior written and oral understandings and agreements of the parties with respect to the subject matter hereof. Any reference herein to this Agreement shall be deemed to include the exhibits attached hereto.

Section 10.07. Headings. The descriptive headings in this Agreement are inserted for convenience only and do not constitute a part of this Agreement.

Section 10.08. Execution in Counterpart. This Agreement may be executed in any number of counterparts, each of which shall be deemed an original.

Section 10.09. Notices. Any notice, request, information or other document to be given hereunder to any of the parties by any other party shall be in writing and delivered personally or sent by certified mail, overnight courier, facsimile or electronic mail as follows:

If to Buyer, addressed to:

Town of Florence, Arizona
c/o Town Manager
775 North Main Street
P.O. Box 2670
Florence, Arizona
Attn:
Email:

with a copy to:

Town Attorney
775 North Main Street
P.O. Box 2670
Florence, Arizona
Email:

If to Seller, addressed to:

Johnson Utilities, L.L.C.
5230 East Shea Boulevard, Suite 200

Scottsdale, Arizona 85254
Attention: George H. Johnson
Fax: (480) 483-7908
Email: gjohnson@azvision.net

with a copy to:

Gary A. Drummond, Esq
Sallquist & Drummond, P.C.
1430 East Missouri Avenue, Suite B-125
Phoenix, Arizona 85014
Email: gary@sd-law.com

Any party may change the address to which notices hereunder are to be sent to it by giving written notice of such change of address in the manner herein provided for giving notice. Any notice delivered personally shall be deemed to have been given on the date it is so delivered, and any notice delivered by registered or certified mail shall be deemed to have been given on the date it is received.

Section 10.10. Amendment. This Agreement may be amended only with the written approval of all of the parties hereto.

Section 10.11. Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Arizona applicable to contracts made and to be performed therein.

Section 10.12. Notice of A.R.S. Section 38-511 - Cancellation. Notice is hereby given of the provisions of Arizona Revised Statutes Section 38-511, as amended. By this reference, the provisions of said statute are incorporated herein to the extent of their applicability to contracts of the nature of this Agreement under the law of the State.

Section 10.13. Time is of the Essence. Time is hereby declared to be of the essence for the purposes of the performance of all conditions and obligations under this Agreement.

Section 10.14. Threat of Condemnation. The parties hereto expressly acknowledge that the sale of the Business from Seller to Buyer under the terms described herein has been negotiated under the threat of condemnation action.

* * *

SIGNATURES FOLLOW

IN WITNESS WHEREOF, the parties hereto have caused this Asset Purchase and Lease Agreement to be duly executed as of the date first above written.

BUYER:

TOWN OF FLORENCE

By: _____
Name: _____
Title: _____

SELLER:

JOHNSON UTILITIES, L.L.C.

By: _____
Name: _____
Title: _____

SELLER:

SOUTHWEST ENVIRONMENTAL UTILITIES, L.L.C.

By: _____
Name: _____
Title: _____

EXHIBIT A

EXCLUDED ASSETS

1. Renewable Energy Credits Associated with the Solar Facility Located at the Anthem Wastewater Treatment Plant

2. Renewable Energy Credits Associated with the Solar Facility Located at the Section 11 Wastewater Treatment Plant

3. Renewable Energy Credits Associated with the Solar Facility Located at the Rancho Sendero Water Plant

4. Johnson Ranch Well #2

5. Residence Located at 7320 East Sonoma Way, Florence, AZ 85132

EXHIBIT B

TERMS OF WATER AND SEWER REVENUE BONDS

Issuer:	The Industrial Development Authority of the City of Phoenix
Borrower:	Town of Florence, Arizona a municipal corporation formed under the laws of the State of Arizona
Par Amount:	$121,000,000
Bond Closing:	On or about July 1, 2014
Maturity:	30 years, with sinking fund principal redemptions beginning in Y6
Tax Status:	Interest on the Bonds will be excluded from gross income for purposes of federal and state income taxation and will not be subject to the alternative minimum tax
Town of Florence:	No recourse to Town of Florence. Net revenues from the Purchased Assets will be paid to the Town.
Bond Counsel	Kutak Rock LLP in Scottsdale, Arizona
Project Seller/Bond Purchaser	Johnson Utilities, L.L.C. will sell the Purchased Assets to the Borrower in exchange for the Bonds
Bond Terms:	The Bonds will bear interest at the rate of 6.625% (interest only) for the first 5 years and at the rate of 8.00% per annum for years 6-30, mature in 2044, and will not be subject to optional redemption

All major financing documents, including the offering document and the bond form will contain substantially the following disclaimer:

THE BONDS AND THE INTEREST THEREON ARE SPECIAL LIMITED OBLIGATIONS OF THE ISSUER PAYABLE EXCLUSIVELY FROM REVENUES AND RECEIPTS UNDER THE INSTALLMENT SALE AGREEMENT. THE BONDS DO NOT CONSTITUTE A DEBT OR A LOAN OF CREDIT OR A PLEDGE OF THE FULL FAITH AND CREDIT OR TAXING POWER OF THE ISSUER OR THE TOWN OF FLORENCE, OR OF THE STATE OF ARIZONA, OR OF ANY POLITICAL SUBDIVISION THEREOF, WITHIN THE MEANING OF ANY STATE CONSTITUTIONAL PROVISION OR STATUTORY LIMITATION AND SHALL NEVER CONSTITUTE NOR GIVE RISE TO A PECUNIARY LIABILITY OF THE STATE OF ARIZONA, OR ANY POLITICAL SUBDIVISION THEREOF. THE BONDS SHALL NOT

CONSTITUTE, DIRECTLY OR INDIRECTLY, OR CONTINGENTLY OBLIGATE OR OTHERWISE CONSTITUTE A GENERAL OBLIGATION OF OR A CHARGE AGAINST THE GENERAL CREDIT OF THE TOWN OF FLORENCE, BUT SHALL BE SPECIAL LIMITED OBLIGATIONS OF THE ISSUER PAYABLE SOLELY FROM THE SOURCES DESCRIBED HEREIN AND IN THE INDENTURE, BUT NOT OTHERWISE. THE ISSUER HAS NO TAXING POWER.

Defeasance: The Indenture will provide that the Borrower and/or the Town may defease the lien of Indenture at any time by depositing with the Trustee for the benefit of the Bondholders government obligations sufficient to pay principal and interest on the Bonds to the maturity date

Management: The Purchased Assets will be managed by the Seller (or its affiliate) for a period of 5 years on a fixed fee contract that pays $500,000 annually in full compliance with federal qualified management contract rules (Rev Ruling 97-13). Town will assume management (on its own or by contract) after Y5

Bond Purchase Price: Purchaser will purchase the Bonds at a price of par in exchange for the Purchased Assets

Cost of Issuance All closing costs related to the Bonds, including the fees and expenses of Seller's Counsel, Issuer, Issuer's Counsel, Bond Counsel, Borrower, Borrower's Counsel, and Trustee will be paid by the Seller at closing

Town Costs: All costs incurred by the Town will be paid by the Town

Denominations: The Bonds will be issued in minimum denominations of $1,000,000 and will only be transferable to parties related to Seller

DTC Eligibility No DTC eligibility; the bonds will be physical.

Flow of Funds: From cash flow generated by the Purchased Assets, the Manager will pay operating expenses, replenish reserve funds, and forward the balance to the Trustee, who will make payments in the following order of priority:

first, interest on the Bonds;

second, principal on the Bonds;

third, ongoing fees of the Borrower, Issuer and Trustee;

fourth, operating expenses;

fifth, management fees;

fifth, required arbitrage rebate amounts, if any;

sixth, replenishment of reserve funds; and

seventh, remainder to Town.

Security: The Bonds will be issued pursuant to the Indenture as special obligations of the Issuer and shall be secured by a first priority security interest in all amounts held pursuant to the Indenture, and the pledged revenues which consist of the following:

(1) Revenues received by the Issuer under the Installment Sale Agreement

(2) Debt service reserve, operating reserve and capital expenditure reserve funds will be established under the Indenture and be funded from cash deposits currently held by Seller and pledged revenues, in an amount to be determined, subject to federal tax rule limitations

EXHIBIT C

ASSUMED LIABILITIES

1. Customer Account Security Deposits (advance deposits made by customers to secure payment of future charges) which come due after Closing

2. Meter Advance Refunds Due After Closing

3. Refundable Service Line and Meter Installation Charges Due After Closing

4. Amounts Payable to Developer/Builder on the Line Extension Agreements (LXAs) set forth in Exhibit Y. Seller shall be responsible for the pro rata share of amounts due under the LXAs for the period ending on the Closing Date.

EXHIBIT D

ALLOCATION OF PURCHASE PRICE

[RESERVED]

EXHIBIT E

CONSENTS AND APPROVALS REQUIRED OF SELLER PURSUANT TO SECTION 3.02(B)

1. Approval from the Arizona Corporation Commission to transfer the Assets and delete the Certificate of Convenience and Necessity (CC&N)

EXHIBIT F

CONSENTS AND APPROVALS REQUIRED OF BUYER PURSUANT TO SECTION 3.03(B)

1. Approval from the Arizona Corporation Commission to Transfer the Assets and delete the Certificate of Convenience and Necessity (CC&N)

2. Affirmative vote of a majority of the qualified electors of the Town of Florence, Arizona at a special election held for the purpose of voting on the purchase of the Assets

EXHIBIT G

FORM OF OPINION OF COUNSEL TO BUYER

[Date]

Johnson Utilities, L.L.C.
Florence, AZ

Re: Asset Purchase and Lease Agreement by and between the Town of Florence ("Buyer") and Johnson Utilities, L.L.C. ("Seller") and Management Agreement by and between Buyer and Seller

Ladies and Gentlemen:

We have acted as counsel to the Town of Florence (the "Buyer), an Arizona municipal corporation in connection with (a) the Asset Purchase and Lease Agreement, dated as of [____], 2014 (the "Sale Agreement") by and between the Buyer and Johnson Utilities, L.L.C., an Arizona limited liability company (the "Seller"), and (b) the Management Agreement (the "Management Agreement"), dated as of [_____], 2014 between the Buyer and the Seller. This opinion is delivered to you pursuant to Section 3.03(e) of the Sale Agreement.

In rendering this opinion, we have reviewed an executed copy of each of the following documents (collectively, the "Organizational Documents"): Articles of Incorporation Buyer dated [_____], as certified by the Arizona Secretary of State, and the Bylaws of the Buyer, certified by an authorized officer of the Buyer, dated [_____].

We have also reviewed an executed copy of each of the following documents (collectively, the "Transaction Documents"):

(a) the Sale Agreement executed by the Buyer;

(b) the Management Agreement executed by the Buyer;

(c) the Officer's Certificate of the appropriate officers or authorized representatives of the Buyer, certifying that (i) each covenant and agreement of the Buyer to be performed prior to or as of the Closing pursuant to the Sale Agreement and the Management Agreement has been performed, (ii) each representation and warranty of the Buyer is true and correct on the Closing Date, as if made on and as of the Closing, and (iii) the resolution of the Buyer attached thereto authorizing and approving execution of the Sale Agreement and the Management Agreement and performance of the transactions contemplated thereby;

(d) the Incumbency Certificate of the appropriate officers or authorized representatives of the Buyer; and

In addition, we have reviewed such matters of law as we have deemed necessary for the rendering of the opinions contained herein.

In rendering the following opinions, we have assumed and relied upon (i) the genuineness of all signatures (other than the Buyer); (ii) the authenticity and completeness of all documents submitted to us as originals and the conformity to original documents of all documents submitted to us as PDF, electronic, certified or photostatic copies; (iii) the accuracy and completeness of all the Organizational Documents of the Buyer made available to us; (iv) there has not been any mutual mistake of fact or misunderstanding, fraud, duress, criminal activity or undue influence; (v) the conduct of all the parties and their respective agents has complied with any requirement of good faith and fair dealing; (vi) there are no agreements or understandings among the parties to the Transaction Documents, written or oral, and there is no usage of trade or course of prior dealings among the parties that would, in either case, define, supplement or otherwise qualify the terms and conditions of the Transaction Documents; (vii) the constitutionality or validity of a relevant statute, rule, regulation or agency action is not at issue unless a reported decision in the State of Arizona has specifically addressed, but not resolved, or has established, its unconstitutionality or invalidity; (viii) all parties (other than the Buyer) have the power, authority and capacity to execute, deliver and perform the Transaction Documents and that there are no facts or circumstances relating to you that might prevent you from enforcing any of the rights to which our opinion relates; (ix) the enforceability of the Transaction Documents against all parties other than the Buyer; (x) each party to the Transaction Documents (other than the Buyer) has satisfied the legal requirements which are applicable to it to the extent necessary to make the Transaction Documents enforceable against it; (xi) no party to the Transaction Documents will in the future take any discretionary action (including any decision not to act) permitted under the Transaction Documents which would result in a violation of law or constitute a breach or default under any agreements, other than the Transaction Documents, to which any party to the Transaction Documents is a party or by which its property is bound, or under any court, arbitrator or administrative order, writ, judgment, or decree that names any party to the Transaction Documents and is specifically directed to its property; (xii) all parties will act in accordance with, and refrain from taking any action which is forbidden by, the terms and conditions of the Transaction Documents and that you will perform all of your obligations under the Transaction Documents; and (xiii) adequate consideration at law has been paid under the Transaction Documents.

We have not conducted any other investigation to confirm any facts set forth in the Organizational Documents and in the Transaction Documents and the other documents called forth therein, and we have not conducted any independent investigation to confirm the facts upon which the opinions set forth herein are based.

Based solely upon the foregoing and subject to the assumptions, qualifications and limitations herein stated, we are of the opinion that:

1. The Buyer is an Arizona municipal corporation and is organized, validly existing and in good standing under the laws of the State of Arizona.

2. The Buyer has the power and authority to execute and deliver the Transaction Documents to which it is a party, to consummate the transactions contemplated thereby and to perform its obligations thereunder.

3. The execution and delivery by the Buyer of the Transaction Documents to which the Buyer is a party, the consummation by the Buyer of the transactions contemplated by such Transaction Documents and the performance of the Buyer's obligations therein have been duly authorized and/or ratified by all necessary action of the Buyer.

4. The Transaction Documents to which the Buyer is a party have been duly executed and delivered by the Buyer and constitute the valid and legally binding obligations of the Buyer, enforceable against the Buyer in accordance with their respective terms.

5. No consent or action of, or filing or registration with, any governmental or public regulatory body or authority is required to authorize, or is otherwise required in connection with either the execution and delivery by the Buyer of the Transaction Documents to which it is a party or the incurrence by the Buyer of its obligations under the Transaction Documents to which it is a party, except as may be have been obtained, made or taken prior to the date hereof.

6. The execution and delivery of the Transaction Documents by the Buyer do not, and the compliance with the terms of the Transaction Documents to which it is a party will not (A) result in a violation of the Buyer's Organizational Documents, (B) result in a breach of or default under any agreements or instruments (other than the Transaction Documents) to which the Buyer is a party, except for those agreements with respect to which any breach, default or violation thereof in the aggregate would not have a material adverse effect on the Buyer or the ability of the Buyer to perform its obligations under the Transaction Documents to which it is a party; or (C) result in any violation of any applicable Federal or State of Arizona law or statute, rule or regulation to which the Buyer is subject, or any judgment, order, writ, injunction or decree of any court or other tribunal located in the State of Arizona directed against and naming the Buyer, except where any such violations in the aggregate would not have a material adverse effect on the Buyer, or the ability of the Buyer to perform its obligations under the Transaction Documents.

7. There is no action, suit, proceeding, inquiry or investigation at law or in equity or by or before any governmental instrumentality or other agency pending or, to our knowledge, now threatened against or affecting the Buyer or to which the Buyer are or may be a party or to which the property of the Buyer is or may be subject, wherein an unfavorable decision, ruling or finding would adversely affect: (i) the existence or organization of the Buyer or the title to office of any officer of the Buyer or any power of the Buyer; (ii) the validity or enforceability of the proceedings taken by the Buyer for the authorization, execution and delivery by the Transaction Documents; (iii) the validity or enforceability of the Transaction Documents; or (iv) the transactions contemplated by the Transaction Documents.

Our opinions are based on the assumptions (upon which we have relied with your consent) and subject to the qualifications and limitations, set forth in this letter, including the following:

1. For purposes of rendering the opinions set forth herein, we have assumed that the Transaction Documents are governed and interpreted by the laws of the State of Arizona. We express no opinion whatsoever with respect to any rules of choice or conflicts of laws.

2. We have assumed for purposes of this opinion that: (a) the parties to the Transaction Documents other than the Buyer (the "Other Parties") are duly organized, validly existing and in good standing with full power and authority to enter into, execute, deliver and perform the Transaction Documents and their respective obligations thereunder; (b) the Transaction Documents have been duly authorized by the Other Parties and the Other Parties have duly executed and delivered the Transaction Documents to which they are signatories; (c) the Other Parties have satisfied those legal requirements that are applicable to each of them to the extent necessary to make the Transaction Documents enforceable against each of them; (d) any contracts, agreements, or instruments to which the Other Parties are a party or by which its or their property is bound, other than the Transaction Documents, will be enforced as written (e) the Other Parties have complied with all legal requirements pertaining to each of their status as such status relates to their rights to enforce the Transaction Documents against the Buyer; (f) each natural person executing any of the Transaction Documents is legally competent; (g) all signatures are genuine, the Transaction Documents submitted to us as originals are authentic and the Transaction Documents submitted to us as copies conform to the originals; (h) all Transaction Documents are complete or will be appropriately completed (including, without limitation, all amendments and exhibits thereto); (i) any certifications dated prior to Closing remain true as of Closing; (j) there has not been any mutual mistake of fact or misunderstanding, fraud, duress or undue influence; (k) the conduct of the parties to the Transaction Documents has complied with any requirement of good faith, fair dealing and conscionability; (l) the Other Parties and any agent acting for the Other Parties in connection with the Transaction have acted in good faith and without notice of any defense against the enforcement of any rights created by, or adverse claim to any property or security interest transferred or created as part of, the Transaction Documents; (m) there are no agreements or understandings among the parties, written or oral, and there is no usage of trade or course of prior dealing among the parties that would, in either case, define, supplement or qualify the terms of the Transaction Documents; (n) the Buyer hold the requisite title and rights to any property involved in the transactions contemplated by the Transaction Documents; and (o) the Buyer will obtain all permits and governmental approvals required, and take all actions similarly required, relevant to consummation of the Transaction Documents or performance of the Transaction Documents.

3. We also assume that if the consent of any other person or entity is required to the assignment of any contract, agreement, instrument, lease, license, permit, warranty or approval, that such consent has been received and such consent was given by the person or entity required and properly authorized to grant such consent. We note that we have no actual knowledge of the occurrence of any of the matters described in clauses (j) or (m), above, nor do we have any actual knowledge that any of the parties to the Transaction Documents have not complied with the requirement of good faith, fair dealing, and conscionability as assumed by clauses (k) or (l), above. We have not made any independent investigation or inquiry concerning the business or financial condition of the Buyer or concerning the operation, management, use or other dealings with the property of the Buyer.

4. Our opinions are subject to: (i) the effect of applicable bankruptcy, insolvency, reorganization, arrangement, moratorium, fraudulent transfer or fraudulent conveyance and other similar laws affecting creditor's rights generally; and (ii) limitations imposed by equitable doctrines, including without limitation, limitations upon the specific enforceability of provisions of the Transaction Documents, concepts of materiality, reasonableness (including commercial reasonableness of the sale or disposition of collateral), good faith and fair dealing, and the availability of injunctive relief or other equitable remedies (regardless whether considered in a proceeding in equity or at law).

5. We do not express any opinion on any matter not expressly addressed in this letter, and no other opinions should be implied therefrom. The opinions set forth herein are delivered based solely upon the facts, examinations, assumptions and other matters described herein as they exist as of the date hereof, and we have no obligation and disclaim any obligation to modify, supplement or update this opinion letter or otherwise to communicate with you with respect to events, changes in facts, law or matters which occur or come to our attention after the date hereof. This letter expresses our legal opinions as to matters set forth herein based on our professional judgment on the date hereof and is not to be construed as a guaranty or a warranty as to any legal or factual matter or that a court considering such matters would not rule in a manner contrary to the opinions expressed herein.

This opinion is delivered only to you in connection with the transactions referred to above and is solely for your benefit, and may be relied upon only by you. This opinion may not be relied upon by, nor copies delivered to, any other person without our express prior written consent; provided, however, that copies may be delivered to your counsel. This opinion letter is provided as a legal opinion only and not as a guarantee or warranty of the matters discussed herein. This opinion letter is given as of the date hereof and we undertake no obligation, and hereby disclaim any obligation, to update or supplement this opinion in response to a subsequent change in the law or future events affecting the Buyer or the transactions contemplated by the Transaction Documents.

Respectfully Submitted,

EXHIBIT H

FORM OF OPINION OF COUNSEL TO SELLER

Town of Florence, Arizona

Re: Asset Purchase and Lease Agreement by and between the Town of Florence ("Buyer") and Johnson Utilities, L.L.C. ("Seller") and Management Agreement by and between Buyer and Seller

Ladies and Gentlemen:

We have acted as counsel to Johnson Utilities, L.L.C., an Arizona limited liability company (the "Seller") in connection with (a) the Asset Purchase and Lease Agreement, dated as of [____], 2014 (the "Sale Agreement") by and between the Seller and the Town of Florence, Arizona (the "Buyer"), an Arizona municipal corporation, and (b) the Management Agreement, dated as of [_____], 2014 between the Buyer and the Seller. This opinion is delivered to you pursuant to Section 3.02(f) of the Sale Agreement.

In rendering this opinion, we have reviewed an executed copy of each of the following documents (collectively, the "Organizational Documents"):

(a) Articles of Organization of the Seller dated [_____], as certified by the Arizona Secretary of State, and the Operating Agreement of the Seller, certified by an authorized officer of Seller, dated [_____]; and

(b) Certificates of Existence issued [_____], by the Arizona Secretary of State for Seller.

We have also reviewed an executed copy of each of the following documents (collectively, the "Transaction Documents"):

(a) the Sale Agreement executed by the Seller;

(b) the Management Agreement executed by the Seller;

(c) the Officer's Certificates of the appropriate officers or authorized representatives of the Seller, certifying that (i) each covenant and agreement of the Seller to be performed prior to or as of the Closing pursuant to the Sale Agreement and the Management Agreement has been performed, (ii) each representation and warranty of the Seller is true and correct on the Closing Date, as if made on and as of the Closing, and (iii) the resolutions of the Seller attached thereto authorizing and approving execution of the Sale Agreement and the Management Agreement and performance of the transactions contemplated thereby; and

(d) the Incumbency Certificate of the appropriate officers or authorized representatives of the Seller.

In addition, we have reviewed such matters of law as we have deemed necessary for the rendering of the opinions contained herein.

In rendering the following opinions, we have assumed and relied upon (i) the genuineness of all signatures (other than the Seller); (ii) the authenticity and completeness of all documents submitted to us as originals and the conformity to original documents of all documents submitted to us as PDF, electronic, certified or photostatic copies; (iii) the accuracy and completeness of all the Organizational Documents of the Seller made available to us; (iv) there has not been any mutual mistake of fact or misunderstanding, fraud, duress, criminal activity or undue influence; (v) the conduct of all the parties and their respective agents has complied with any requirement of good faith and fair dealing; (vi) there are no agreements or understandings among the parties to the Transaction Documents, written or oral, and there is no usage of trade or course of prior dealings among the parties that would, in either case, define, supplement or otherwise qualify the terms and conditions of the Transaction Documents; (vii) the constitutionality or validity of a relevant statute, rule, regulation or agency action is not at issue unless a reported decision in the State of Arizona has specifically addressed, but not resolved, or has established, its unconstitutionality or invalidity; (viii) all parties (other than the Seller and the Manager) have the power, authority and capacity to execute, deliver and perform the Transaction Documents and that there are no facts or circumstances relating to you that might prevent you from enforcing any of the rights to which our opinion relates; (ix) the enforceability of the Transaction Documents against all parties other than the Seller and the Manager; (x) each party to the Transaction Documents (other than the Seller and the Manager) has satisfied the legal requirements which are applicable to it to the extent necessary to make the Transaction Documents enforceable against it; (xi) no party to the Transaction Documents will in the future take any discretionary action (including any decision not to act) permitted under the Transaction Documents which would result in a violation of law or constitute a breach or default under any agreements, other than the Transaction Documents, to which any party to the Transaction Documents is a party or by which its property is bound, or under any court, arbitrator or administrative order, writ, judgment, or decree that names any party to the Transaction Documents and is specifically directed to its property; (xii) all parties will act in accordance with, and refrain from taking any action which is forbidden by, the terms and conditions of the Transaction Documents and that you will perform all of your obligations under the Transaction Documents; and (xiii) adequate consideration at law has been paid under the Transaction Documents.

We have not conducted any other investigation to confirm any facts set forth in the Organizational Documents and in the Transaction Documents and the other documents called forth therein, and we have not conducted any independent investigation to confirm the facts upon which the opinions set forth herein are based.

Based solely upon the foregoing and subject to the assumptions, qualifications and limitations herein stated, we are of the opinion that:

1. The Seller is a limited liability company organized, validly existing and in good standing under the laws of the State of Arizona.

2. The Seller has the power and authority to execute and deliver the Transaction Documents to which it is a party, to consummate the transactions contemplated thereby and to perform its obligations thereunder.

3. The execution and delivery by the Seller of the Transaction Documents, the consummation by the Seller of the transactions contemplated by such Transaction Documents and the performance of the Seller's obligations therein have been duly authorized and/or ratified by all necessary limited liability company action of the Seller.

4. The Transaction Documents have been duly executed and delivered by the Seller and constitute the valid and legally binding obligations of the Seller, enforceable against the Seller in accordance with their respective terms.

5. No consent or action of, or filing or registration with, any governmental or public regulatory body or authority is required to authorize, or is otherwise required in connection with either the execution and delivery by the Seller of the Transaction Documents or the incurrence by the Seller of its obligations under the Transaction Documents, except as may be have been obtained, made or taken prior to the date hereof.

6. The execution and delivery of the Transaction Documents by the Seller do not, and the compliance with the terms of the Transaction Documents will not (A) result in a violation of the Seller's Organizational Documents, (B) result in a breach of or default under any agreements or instruments (other than the Transaction Documents), except for those agreements with respect to which any breach, default or violation thereof in the aggregate would not have a material adverse effect on the Seller or the ability of the Seller to perform its obligations under the Transaction Documents; or (C) result in any violation of any applicable Federal or State of Arizona law or statute, rule or regulation to which the Seller is subject, or any judgment, order, writ, injunction or decree of any court or other tribunal located in the State of Arizona directed against and naming the Seller, except where any such violations in the aggregate would not have a material adverse effect on the Seller, or the ability of the Seller to perform its obligations under the Transaction Documents to which it is a party.

7. There is no action, suit, proceeding, inquiry or investigation at law or in equity or by or before any governmental instrumentality or other agency pending or, to our knowledge, now threatened against or affecting the Seller or to which the Seller is or may be a party or to which the property of the Seller is or may be subject, wherein an unfavorable decision, ruling or finding would adversely affect: (i) the existence or organization of the Seller or the title to office of any officer of the Seller or any power of the Seller; (ii) the validity or enforceability of the proceedings taken by the Seller for the authorization, execution and delivery by the Transaction Documents; (iii) the validity or enforceability of the Transaction Documents; or (iv) the transactions contemplated by the Transaction Documents.

Our opinions are based on the assumptions (upon which we have relied with your consent) and subject to the qualifications and limitations, set forth in this letter, including the following:

1. For purposes of rendering the opinions set forth herein, we have assumed that the Transaction Documents are governed and interpreted by the laws of the State of Arizona. We express no opinion whatsoever with respect to any rules of choice or conflicts of laws.

2. We have assumed for purposes of this opinion that: (a) the parties to the Transaction Documents other than the Seller (the "Other Parties") are duly organized, validly existing and in good standing with full power and authority to enter into, execute, deliver and perform the Transaction Documents and their respective obligations thereunder; (b) the Transaction Documents have been duly authorized by the Other Parties and the Other Parties have duly executed and delivered the Transaction Documents to which they are signatories; (c) the Other Parties have satisfied those legal requirements that are applicable to each of them to the extent necessary to make the Transaction Documents enforceable against each of them; (d) any contracts, agreements, or instruments to which the Other Parties are a party or by which its or their property is bound, other than the Transaction Documents, will be enforced as written (e) the Other Parties have complied with all legal requirements pertaining to each of their status as such status relates to their rights to enforce the Transaction Documents against the Seller; (f) each natural person executing any of the Transaction Documents is legally competent; (g) all signatures are genuine, the Transaction Documents submitted to us as originals are authentic and the Transaction Documents submitted to us as copies conform to the originals; (h) all Transaction Documents are complete or will be appropriately completed (including, without limitation, all amendments and exhibits thereto); (i) any certifications dated prior to Closing remain true as of Closing; (j) there has not been any mutual mistake of fact or misunderstanding, fraud, duress or undue influence; (k) the conduct of the parties to the Transaction Documents has complied with any requirement of good faith, fair dealing and conscionability; (l) the Other Parties and any agent acting for the Other Parties in connection with the Transaction have acted in good faith and without notice of any defense against the enforcement of any rights created by, or adverse claim to any property or security interest transferred or created as part of, the Transaction Documents; (m) there are no agreements or understandings among the parties, written or oral, and there is no usage of trade or course of prior dealing among the parties that would, in either case, define, supplement or qualify the terms of the Transaction Documents; (n) the Seller hold the requisite title and rights to any property involved in the transactions contemplated by the Transaction Documents; and (o) the Seller will obtain all permits and governmental approvals required, and take all actions similarly required, relevant to consummation of the Transaction Documents or performance of the Transaction Documents.

3. We also assume that if the consent of any other person or entity is required to the assignment of any contract, agreement, instrument, lease, license, permit, warranty or approval, that such consent has been received and such consent was given by the person or entity required and properly authorized to grant such consent. We note that we have no actual knowledge of the occurrence of any of the matters described in clauses (j) or (m), above, nor do we have any actual knowledge that any of the parties to the Transaction Documents have not complied with the requirement of good faith, fair dealing, and conscionability as assumed by clauses (k) or (l), above. We have not made any independent investigation or inquiry concerning the business or financial condition of the Seller or concerning the operation, management, use or other dealings with the property of the Seller.

4. Our opinions are subject to: (i) the effect of applicable bankruptcy, insolvency, reorganization, arrangement, moratorium, fraudulent transfer or fraudulent conveyance and other similar laws affecting creditor's rights generally; and (ii) limitations imposed by equitable doctrines, including without limitation, limitations upon the specific enforceability of provisions of the Transaction Documents, concepts of materiality, reasonableness (including commercial reasonableness of the sale or disposition of collateral), good faith and fair dealing, and the availability of injunctive relief or other equitable remedies (regardless whether considered in a proceeding in equity or at law).

5. We do not express any opinion on any matter not expressly addressed in this letter, and no other opinions should be implied therefrom. The opinions set forth herein are delivered based solely upon the facts, examinations, assumptions and other matters described herein as they exist as of the date hereof, and we have no obligation and disclaim any obligation to modify, supplement or update this opinion letter or otherwise to communicate with you with respect to events, changes in facts, law or matters which occur or come to our attention after the date hereof. This letter expresses our legal opinions as to matters set forth herein based on our professional judgment on the date hereof and is not to be construed as a guaranty or a warranty as to any legal or factual matter or that a court considering such matters would not rule in a manner contrary to the opinions expressed herein.

This opinion is delivered only to you in connection with the transactions referred to above and is solely for your benefit, and may be relied upon only by you. This opinion may not be relied upon by, nor copies delivered to, any other person without our express prior written consent; provided, however, that copies may be delivered to your counsel. This opinion letter is provided as a legal opinion only and not as a guarantee or warranty of the matters discussed herein. This opinion letter is given as of the date hereof and we undertake no obligation, and hereby disclaim any obligation, to update or supplement this opinion in response to a subsequent change in the law or future events affecting the Seller, the Manager or the transactions contemplated by the Transaction Documents.

Respectfully Submitted,

EXHIBIT I

SCHEDULE OF REAL ESTATE

Wells

Name	Assessor Parcel No.
Silverado Well No. 1	210-34-022C
Anthem No 3	211-01-003
Johnson Ranch 5	210-20-005
Circle Cross 1	210-07-001H2
Morning Sun Farms Well 1	509-02-002L
Pecan WRP Monitor Well	104-22-008D
Pecan WRP Monitor Well 2	104-22-008D
Oasis 1	200-75-2590
Oasis 2	200-24-089B
Oasis 3	200-24-089B
San Tan Number 1	509-02-214A
San Tan Number 2	509-02-214A
Rancho Sendero No. 2	211-02-006
Johnson Ranch 7*	210-20-001H
Skyline 1	509-02-028D6
Johnson Ranch 3 *	210-21-004B1
Johnson Ranch 4	210-20-0040
Crestfield Manor 1 - Future	200-13-666A
Crestfield Manor 2 - Future	200-13-666C
Ricke 1	210-36-002D
Ricke 3	210-36-002B
Morning Sun Farms Well 2	509-03-002H
Hardison Well No 1	210-21-002D
Magma well NO. 1	210-40-019C
Magma Well No 2	210-40-019B
Attaway Well, Section 13	210-12-001D
Rancho Sendero No. 1	211-02-004B
Anthem No. 2	211-01-0080
Anthem No. 4	211-01-0040
Sec11WWTP Mon Well*	200-24-091
Edwards Road 2	210-28-018
Wild Horse 1	200-74-0850
San Tan WRP Monitor Well	509-02-062D3
Anthem No. 1	211-01-0070
Bella Vista Well No. 1	210-23-001J
Ellsworth Well	In Progress
Monterra Wells	In Progress

Water Plants

Name	Assessor Parcel No.
Silverado Water plant	210-34-022C
San Tan Water Storage	509-02-057B
Circle Cross Water Plant	210-07-001H
Oasis Water Plant	200-24-089A
CAP Pump Station No, 1	210-20-003R
Rancho Sendero Water Plant	211-02-0060
Wild Horse Water Plant	200-74-0850
Edwards Road Water Plant	210-28-001B
Ricke Water Plant	210-36-002D
Morning Sun Farms W. P.	509-03-002H
Bella Vista Water Plant	210-23-001J
Anthem Water Plant	211-01-0070
Johnson Ranch Water Plant	210-20-001J
RO system	210-20-001J

Lift Stations

Name	Assessor Parcel No.
Superstition Views	210-64-061B
Circle Cross #1	210-07-005H
Circle Cross #2	509-03-001D
Magma Lift Station	210-38-003B
4D/4F	210-66-951B
Crestfield Manor Lift Station	200-13-666B
Quail Run Lift Station	210-24-452B
Ocotillo Crossing	104-87-152B
Copper Basin #1	210-67-499B
Pecan Station	104-22-008D
Oasis Sunrise	200-24-089B
Rancho Bella Vista North Phase 1	210-71-937D
Laredo Ranch Lift Station	109-27-310B
Cambria Lift Station (the Links)	104-87-073E
Cambria L.S. Upgrade	104-22-040G
Station 4A	210-66-951C
Station Unit 6	210-54-0410
Copper Basin #2	210-73-007B
Morning Sun Farms	509-03-003M
JR Unit 29	210-76-337A
14-52B Lift Station	210-66-951C
Meadow Vista Lift Station	109-21-5050
Magic Ranch Phase III	200-03-5310

Rancho Bella Vista North Phase 2	210-71-937E
Magic Ranch	210-75-516A
Joy Drive Lift Station	109-26-820A
The Parks Lift Station	104-98-1140
Johnson Farms Lift Station	104-22-012L
Archer Meadows Lift Station	104-22-028Y
Ironwood Crossing Lift Station	104-25-002E
Coolidge High School	509-19-7000
Combs School	104-22-7120
San Tan Station	509-02-062D3
Reuse Station	200-24-003D5
Main Station	210-20-0001J
Whitewing	In Process
Belcara	In Process
Mitchell Trail	In Process

Wastewater Reclamation Plants

Name	Assessor Parcel No.
Pecan Water Reclamation Plant	104-22-008M
Section 11 WWTP	200-24-0910
Precision	210-20-003J
San Tan Water Reclamation Plant	509-02-062D
Anthem WRP	211-02-0050
Copper Basin	210-25-002B

Oasis Golf Course

Name	Assessor Parcel No.
Oasis Golf Course	200-24-090
Oasis Golf Course	200-24-089B

EXHIBIT J

PERSONAL PROPERTY

Vehicles

YEAR	MODEL	VIN #
2013	Chevy Silv 4X4	1GCNKPEAXDZ163542
2013	Chevy Sil	1GCNCPEX7DZ139829
2013	Chevy Sil	1GCNKPEA6DZ122373
2013	Chevy Sil	1GCNCPEXXDZ137699
2012	Chevy Tahoe	1GNSCCE03CR151206
2012	Chevy Silv 4X2	1GCNCPEX8CZ351248
2004	Ford (Explorer) 4DSW	1FMZU64K34ZB34167
2003	INT'L 430 TK	1HTMMAAL53H594937
2001	Chevy Van	1GCHG35R111138049
1997	Ford FT8000/ Crane	1FDZU82EXVVA28834
1999	Dodge 1 TN P/U (RAM)	1B7MC3361XJ649823
2003	Chevy S-10	1GCCS14H038243181
2011	Chevy Colorado	1GCCCSBF91B8131208
2011	Chevy Colorado	1GCCCSBF98B2131156
2003	Chevy Colorado	1GCEC14V43Z350479
2004	Chevy Silverado	1GCEK14V54Z179844
2005	Chevy Colorado	1GCCS148958171593
2005	Chevy Colorado	1GCCS148158171801
2005	Chevy Colorado	1GCEC14XX5Z30110
2005	Chevy Colorado	1GCEC14X15Z300630
2006	Chevy Tahoe	1GNEK13ZX6J124092
2006	Chevy Tahoe Z71	1GNEK13T56R125051
2007	Ford Ranger	1FTYR10U77PA49120
2011	Chevy Colorado	1GCCSBF99B8131733
2008	Ford F150	1FTRF12268KB81941
2000	FRTLNR Tractor	1FUYDSEBXYLG14587
1990	KENWORTH W90 TKTR	1NKWLB0X0LS548128

Equipment List

Item Description	ID No.
Safety Tripod Winch and Cable	04922W
TL-6035 Forklift	60467-CVC
6" Trash Pump	O6HJ100911
Massey Ferguson Tractor 263 (0000HO6131)	268740
Godwin 6" Dri-Prime Pump Model DC150M	0332772-17
Auger Post Hole Digger	GCABT-2077980
Honda Generator	EG 3500
Ramset Gun/ Powder activated	F467136
Saw Drill	A1_ _ 604501949
Drill	D091402479
Concrete Vibrator	0310-0067/WSD1
Nail Gun	132740_ _ 033
Auger & Bit	140C8
Cement Drill	316090
Topcon Rotating Laser	RT-SSA
Theodolite Surveying Equip	N/A
Magnum Power Piston (paint spayer)	BA114003
Trailer Jet unit	
Spectra Presision Laser LL300	S/N # 10035435
Sokkia B20 Automatic Level	N/A
ForkLift	600276A
ForkLift	602428A
Solar Message Consturtion Board	N/A
Light Lift 6330	NL63KFMXZ/9901NL11

Club at Oasis

State of Arizona Beer & Wine License 7110069

Item Description	Serial Number
Toro groundmaster 4500-D	30856-27000088
Toro Ground 3500-D	80839-270000816
John Deere 3235C # 29D0049	TC3235CO20653
John Deere 3235C # 2XD034	TC3235CO30323
John Deere 2500 Green Mower 11 Blade	TC2500D030521
John Deere 2500 Green Mower 11 Blade	TC2500D020124
John Deere 2500 Green Mower 8 Blade	TC250AD020630
Toro Workman 3300	07212-230000670
Club Car	RG0240-209521
Club Car	RG0431-412650
Express Dual 3000 reel Grinder	13252

Angmaster 3000 Bedknife Grinder	13253
Toro Sand Pro 5020	0886-210000255
John Deere RC2072 Rotary Deck Mower	
Massey Ferguson Tractor 263	5726E37454
EZ-Go Work Horse Utility Cart	1168708
John Deere Gator	M00TURF00844
John Deere Gator	
Lely Fertilizer Spreader	10Z13-134
Ryan Vert-cutter	507798
Ryan Vert-cutter	508450
Ryan Vert-cutter	508095
Hover Mower	GJAFE4164957
Hover Mower	GJAFE4164985
Air Compressor	101048
Welder	9227-704
Lawn Mower	5B5XG / 158VG
Slit Seeder	82120 / 2366
Edger	CAN006662862
Sod Cutter	5448448210
Hedge Trimmer	286900327
Chain Saw	290880369
Weedeater	T42512005560
Weedeater	T42512017164
Weedeater	T42512005572
Weedeater	T42512005541
400 Gallon Sprayer	No s/n
Cold Water Pressure Washer # EP-30115A	11060270-100367
Hot Water Pressure Washer # 11090330	11090330-169806
Yamaha 48 Volt & Charger	1073129
Yamaha 48 Volt & Charger	1194384
Yamaha 48 Volt & Charger	1386894
Yamaha 48 Volt & Charger	1489156
Yamaha 48 Volt & Charger	1073136
Yamaha 48 Volt & Charger	1194388
Yamaha 48 Volt & Charger	1489155
Yamaha 48 Volt & Charger	1012863
Yamaha 48 Volt & Charger	1386893
Yamaha 48 Volt & Charger	1104375
Yamaha 48 Volt & Charger	1194387
Yamaha 48 Volt & Charger	1073137
Yamaha 48 Volt & Charger	1194371
Yamaha 48 Volt & Charger	1386890
Yamaha 48 Volt & Charger	1489157
Yamaha 48 Volt & Charger	1073128

Yamaha 48 Volt & Charger	1489160
Yamaha 48 Volt & Charger	1073132
Yamaha 48 Volt & Charger	1194378
Yamaha 48 Volt & Charger	1194372
Yamaha 48 Volt & Charger	1194374
Yamaha 48 Volt & Charger	1194383
Yamaha 48 Volt & Charger	1194370
Yamaha 48 Volt & Charger	1489163
Yamaha 48 Volt & Charger	1194386
Yamaha 48 Volt & Charger	1194367
Yamaha 48 Volt & Charger	1489154
Yamaha 48 Volt & Charger	1386892
Yamaha 48 Volt & Charger	1073134
Yamaha 48 Volt & Charger	1194381
Yamaha 48 Volt & Charger	1194373
Yamaha 48 Volt & Charger	1238576
Yamaha 48 Volt & Charger	1194380
Yamaha 48 Volt & Charger	1238573
Yamaha 48 Volt & Charger	1194369
Yamaha 48 Volt & Charger	1386891
EZ Go Carts & Charges	122-9290
EZ Go Carts & Charges	122-9293
EZ Go Carts & Charges	122-9288
EZ Go Carts & Charges	122-9296
EZ Go Carts & Charges	122-9287
EZ Go Carts & Charges	122-9289
EZ Go Carts & Charges	122-9295
Club Cars	PH0910-007334
Club Cars	PH0910-007331
Club Cars	PH0910-007373
Club Cars	PH0910-007480
Club Cars	PH0910-007330

EXHIBIT K

ASSIGNED CONTRACTS

All of the rights and benefits accruing to Seller in each of the contracts and agreements that relate to the Personal Property and the Infrastructure, including, without limitation, all customer service agreements, supply contracts, purchase orders and purchase commitments made by Seller in the ordinary course of the Business and all other choses in action, causes of action and other rights of every kind of Seller which are related to the Project, which include but are not limited to, Seller's existing Central Arizona Project ("CAP") contract and any pending applications to CAP, the Central Arizona Water Conservation District or the United States Bureau of Reclamation for new or additional allotments of CAP water, which the parties will, both before and after Closing, reasonably cooperate with one another in effecting the assignment thereof from Seller to Buyer.

EXHIBIT L

PROPRIETARY RIGHTS

1. Arizona Department of Environmental Quality Aquifer Protection Permits for the Pecan, San Tan, Anthem and Section 11 Wastewater Treatment Plants

2. Arizona Department of Water Resources Designation of Assured Water Supply for the Phoenix and Pinal active management areas

3. Central Arizona Groundwater Replenishment Agreement

4. Central Arizona Governments 208 Plan

5. Pinal County Franchise Agreements

6. Town of Florence Operating Agreements

7. There have been no claims against the Proprietary Rights.

EXHIBIT M

DESCRIPTION OF SELLER'S CONTRACTS PURSUANT TO SECTION 4.07(A)

1. Pinal County Franchise Agreement
2. Town of Florence Operating Agreement
3. Central Arizona Groundwater Replenishment District Replenishment Agreement
4. Arizona State Land Department Special Land Use Permit
5. State Land Department Right of Way Agreements
6. Central Arizona Water Conservation District Land Use Licenses

EXHIBIT N

DISCLOSURE OF EVENTS OF DEFAULT UNDER CONTRACTS PURSUANT TO SECTION 4.07(E)

NONE.

EXHIBIT O

EXCEPTIONS TO TAX REPRESENTATIONS PURSUANT TO SECTION 4.08

NONE.

EXHIBIT P

DISCLOSURE OF UNENFORCEABLE CONTRACTS PURSUANT TO SECTION 4.07(B)

NONE.

EXHIBIT Q

DISCLOSURE OF REQUIRED CONSENTS PURSUANT TO SECTION 4.07(C)

NONE.

EXHIBIT R

EXCEPTIONS TO LITIGATION REPRESENTATIONS PURSUANT TO SECTION 4.09

1. Johnson Utilities LLC dba Johnson Utilities Company v. Swing First Golf, LLC; In the Court of Appeals, State of Arizona, Division One, Case No. 1 CA-CV 13-0625 (Maricopa County Superior Court Case No. CV2008-000141)

2. Arizona Department of Environmental Quality Notice of Violation Numbers 92021, 97512, 102722, 102257, 103956

EXHIBIT S

DESCRIPTION OF SELLER'S INSURANCE POLICIES, RETAINED POLICIES AND CLAIMS HISTORY PURSUANT TO SECTION 4.11

POLICIES 2013-2014

Policy coverage	Policy Number	Term Dates	Insurance Company
Package: GL /Property/Auto	PHPK1016444	05/06/13 to 06/01/14	Philadelphia Insurance
Umbrella	PHPK643317	05/06/13 to 06/01/14	Philadelphia Insurance
Pollution	PHPK643317	11/09/10 to 06/01/14	Philadelphia Insurance
Solar	59MSKM4948	04/30/14 to 04/30/14	Hartford Insurance

Customer Loss Detail
Report 4/24/2014

Philadelphia Insurance Companies for Johnson Utilities, L.L.C.

Policy Number	Product	Claim Number	Claimant/Driver Name	Loss Type	Closed
PHPK643317	Premises Environmental	PHER13050722170	First Service Residential - Attn: Carl Gehring	GL PROPERTY DAMAGE ON COMBINED GLBI	1/27/2014
PHPK1016444	Municipalities Package	PHMI13050722055	JOHNSON UTILITIES, L.L.C.	Cover BLDG - Other	6/25/2013
		PHMI13060723648	JOHNSON UTILITIES, L.L.C.	Utl Cov Boiler Machinery	6/18/2013
		PHMI13080743574	Susan Bahm	GL PROPERTY DAMAGE ON COMBINED GLBI	1/29/2014
		PHM913080744012	First Service Residential - Attn: Carl Gehring	GL PROPERTY DAMAGE ON COMBINED GLBI	OPEN
		PHMI13100754304	JOHNSON UTILITIES, L.L.C.	Cover BLDG - Lightning	11/4/2013
		PHMI13100754304	JOHNSON UTILITIES, L.L.C.	Ult Cov Boiler Machinery	11/4/2013
		PHMI13100755452	JOHNSON UTILITIES, L.L.C.	Crime Employee Dishonesty	OPEN
		PHMI13110765551	JOHNSON UTILITIES, L.L.C.	Cover Bldg - Water Damage	OPEN
PHPK716330	Municipalities Package	PHMI12090663949	Eric Stone	General Liability Bodily Injury	11/14/2012
		PHMI13060725867	Mary Kluza		6/14/2013
PHPK862426	Municipalities Package	PHMI12080647829	Brent Fitzgerald	General Liability Bodily Injury	6/10/2013
		PHMI12080656549	JOHNSON UTILITIES, L.L.C.	Cover BLDG - Lightning	9/18/2012
		PHMI12080658321	JOHNSON UTILITIES, L.L.C.		8/28/2012
		PHMI12110678046	JOHNSON UTILITIES, L.L.C.	Cover BLDG - Wind/Hail	11/30/2012
		PHMI12120683930	Christopher Dancel	GL PROPERTY DAMAGE ON COMBINED GLBI	5/1/2013
		PHMI12120687127	JOHNSON UTILITIES, L.L.C.	Ult Cov Boiler Machinery	1/8/2013

EXHIBIT T

DISCLOSURE OF ENVIRONMENTAL NONCOMPLIANCE PURSUANT TO SECTION 4.12(A)

1. Arizona Department of Environmental Quality Notice of Violation Numbers 92021, 97512, 102722, 102257, 103956

EXHIBIT U

DISCLOSURE OF ACTIONS RESULTING IN ENVIRONMENTAL LIABILITY PURSUANT TO SECTION 4.12(B)

NONE.

EXHIBIT V

DISCLOSURE OF SUBLEASES, ASSIGNMENTS AND LICENSES PURSUANT TO SECTION 4.04(C)

NONE.

EXHIBIT W

RECORDS RELATING TO PROJECT AND CUSTOMERS

All books, files, operating data and records (including both paper and electronic data and records) of Seller relating to the Project or the Customers, including without limitation, all customer lists, billing, financial, accounting, credit, regulatory and rate adjustment records, correspondence, budgets, all accounts receivable, excluding accounts receivable for water deliveries made by Seller prior to the close of escrow as reflected in Seller's books and records as of close of escrow, and other similar documents and records, and including any books, records, files or data pertaining to the Project which Seller is required to maintain in accordance with any law, rule or regulation of any Governmental Agency; except proprietary information of Seller or personal information relating to Seller's natural person principals.

EXHIBIT X

MASTER UTILITY AGREEMENTS

4/12/2005	Anthem at Merrill Ranch
11/1/2007	Arizona Farms
2/28/2007	Bella Villagio
11/1/2007	Bella Vista Section 23
12/19/2006	Caballero
6/7/2002	Circle Cross Ranch I
10/14/2004	Circle Cross Ranch II
6/27/2005	Circle Cross Ranch IIB
3/10/2002	Copper Basin
3/22/2005	Crestfield Manor @ Arizona Farms Village
2/8/2005	Felix Farms
5/20/2005	Heritage Estates
9/17/1999	Johnson Ranch
8/15/2005	Magic Ranch, Parcel G and Portions of K & F and Unit 2
11/1/2004	Magic Ranch, Parcels B & C
11/18/2005	Magma Ranch I
8/11/2005	Magma Ranch II
2/2/2009	Merrill Ranch
3/10/2006	Mesquite Trails
5/22/2003	Morning Sun Farms
6/12/2013	Quail Ranch
4/21/2005	Quail Run
4/8/2003	Rancho Bella Vista
8/4/2004	Rancho Sendero
4/12/2006	Salita del Sol @ San Tan
5/10/2001	San Tan Heights
5/31/2007	San Tan Shadows
8/20/2013	Sherwood Park
9/7/2006	SILVERADO RANCH
2/9/2004	Skyline Ranch
1/25/2007	Skyview Farms
4/13/2004	Sonoran Villages
2/1/2003	Superstition Views
9/31/2005	The Palms at Magic Ranch
2/21/2012	The Village at Magic Ranch

5/25/2005	Trailside Village aka Ocotillo Trails
4/30/2006	Belcara at Pima Road
9/11/2006	Borgata Village Phase 1
1/20/2006	Ironwood Crossing
12/28/2006	Johnson Farms
1/26/2005	Milagro
10/17/2002	Pecan Estates
1/26/2005	Taylor Ranch
11/3/2004	Vineyard Estates
11/11/2004	Wayne Ranch
4/3/2014	Johnson Ranch Estates
3/7/2014	Ironwood 80

EXHIBIT Y

MAINLINE EXTENSION AGREEMENTS

Water Line Agreements

Date	Subdivision
08/12/13	American Leadership Academy Charter School - Florence
02/23/07	Anthem Market Place at Merrill Ranch
07/31/06	Unit 2 Anthem at Merrill Ranch
10/27/06	Unit 3 Anthem at Merrill Ranch
07/31/06	Unit 4 Anthem at Merrill Ranch
10/27/06	Unit 5 Anthem at Merrill Ranch
07/31/06	Unit 6 Anthem at Merrill Ranch
10/27/06	Unit 7 Anthem at Merrill Ranch
07/31/06	Unit 8 Anthem at Merrill Ranch
10/27/06	Unit 9 Anthem at Merrill Ranch
07/31/06	Unit 10 Anthem at Merrill Ranch
07/31/06	Unit 11 Anthem at Merrill Ranch
07/31/06	Unit 12 Anthem at Merrill Ranch
07/31/06	Unit 13 Anthem at Merrill Ranch
12/08/06	Unit 14 Anthem at Merrill Ranch
07/31/06	Unit 15 Anthem at Merrill Ranch
07/28/08	Unit 17 Anthem at Merrill Ranch
12/28/09	Unit 18 Anthem at Merrill Ranch
07/31/06	Unit 19 Anthem at Merrill Ranch
01/09/09	Unit 20 Anthem at Merrill Ranch
07/31/06	Unit 21 Anthem at Merrill Ranch
07/31/06	Unit 23 Anthem at Merrill Ranch
07/31/06	Unit 25 Anthem at Merrill Ranch
09/12/06	Unit 27 Anthem at Merrill Ranch
09/01/06	Unit 29 Anthem at Merrill Ranch
01/09/09	Unit 35A Anthem at Merrill Ranch
01/09/09	Unit 37 Anthem at Merrill Ranch
09/12/06	Unit 39 Anthem at Merrill Ranch
01/09/09	Unit 40 Anthem at Merrill Ranch
04/29/08	Unit 50 Anthem at Merrill Ranch
05/29/08	Unit 54 Anthem at Merrill Ranch
02/28/07	Bella Villagio
10/30/09	Borgata at Hunt Highway (Retail)
08/24/07	Borgata at San Tan; Unit 1
10/26/09	Borgata Professional Plaza

Water Line Agreements

10/22/12	Central AZ College (San Tan Campus) and Bella Vista Farms Offsite Agreement
08/28/12	Central AZ College (San Tan Campus), Phase 1
06/07/02	Circle Cross Ranch; Phase 1; Parcels 1 & 4; portions of 2 & 5 (Laramie)
06/07/02	Circle Cross Ranch; Phase 1; Parcels 3 & 6; portions of 2 & 5 (2 & 5 = Laramie; 3 = Silverado
10/18/04	Circle Cross Ranch; Phase 2; Parcel 6-B
10/18/04	Circle Cross Ranch; Phase 2; Parcel 7
10/18/04	Circle Cross Ranch; Phase 2; Parcel 8
10/18/04	Circle Cross Ranch; Phase 2; Parcel 9
10/18/04	Circle Cross Ranch; Phase 2; Parcel 10
10/18/04	Circle Cross Ranch; Phase 2; Parcel 11
10/18/04	Circle Cross Ranch; Phase 2; Parcel 14
10/18/04	Circle Cross Ranch; Phase 2; Parcel 15
06/28/05	Circle Cross Ranch; Phase 2B; Parcel 12
06/28/05	Circle Cross Ranch; Phase 2B; Parcel 13
06/28/05	Circle Cross Ranch; Phase 2B; Parcel 16
06/28/05	Circle Cross Ranch; Phase 2B; Parcel 17
06/28/05	Circle Cross Ranch; Phase 2B; Parcel 18
06/28/05	Circle Cross Ranch; Phase 2B; Parcel 19
06/28/05	Circle Cross Ranch; Phase 2B; Parcel 20
06/28/05	Circle Cross Ranch; Phase 2B; Parcel 21
04/28/06	Copper Basin; Phase 1, Parcels A, B, C, D
10/01/02	Copper Basin; Phase 2
01/13/04	Copper Basin (Villages at); Phase 3A (split 4/28/06 from Unit 3)
01/13/04	Copper Basin (Villages at); Phase 3B (split 4/28/06 from Unit 3)
12/22/04	Copper Basin (Villages at); Phase 4
02/01/06	Copper Basin (Villages at); Phase 5A
04/10/08	Copper Basin, Village - Unit 5B
03/21/05	Crestfield Manor @ AZ Farms Village
09/06/05	Felix Farms
03/04/08	Florence High School
12/08/05	Heritage Estates
10/01/00	Mutschler, J. Jay (Mutschler 5 acres)
01/31/99	Rose Ross - See Contract # 2017
07/01/99	Ellis, David & Nancy J.
04/10/03	Rimrock Financial, Inc.
10/31/02	Montana Resources LLC
03/17/04	Kimpel, Robert & Lynn
05/04/04	Legler, Justin
05/18/04	Chamberlin, Randy (KEM Homes, Inc)
06/03/04	Maurer, Mark

Water Line Agreements

07/27/04	Brennan, Lupita
06/18/04	Turcotte, David
06/23/04	Diamante Homes, Inc.
08/02/04	Call Builders
09/29/04	CBC incorporated
09/30/04	Kent, Joel and Pat
12/13/04	Schamac Custom Homes (W. Todd Schafer)
08/18/05	WJB Construction
03/10/05	Grant, Kelly & Mary
03/14/05	Turcotte, David (These 3 in one file)
04/04/05	Bell, Mark and Jody
04/19/05	Taylor, Scott (Astoria Homes Inc)
05/03/05	Quintana Hill Estates
09/08/05	Neilson, Pat
09/09/05	Cannon, Tom
09/19/05	Turcotte, David
09/26/05	Davis, Greg
09/20/05	Fortuna, Dawn & David
01/31/06	Hundley, Sterling
12/15/05	Rounds, Rob
07/20/06	Kempton, Mitch
06/14/06	Gary 1, LLC
06/29/06	Whiting, Ken
08/24/06	Call Builders L.L.C. - Lots 46 & 47
10/20/06	Flores, Javier
11/17/06	Mendoza, Luis & Rosie
12/20/06	Cotone, Cris
12/20/06	Plote, Larry
03/14/07	CDLM Properties, L.L.C.
08/15/07	MacPhail, Scott
07/26/07	Cascade Scottsdale at Gilbert
06/25/07	Lee, Tart Sing
07/17/07	Eduprize School
10/23/07	Jones, Spencer & Lindsay
10/23/07	Sundance Development, LLC - (20 acres)
05/08/08	Pierce, Brandon
11/27/07	San Tan Homes, LLC
12/19/07	Kelley Construction
12/04/07	King, David
01/16/08	Kastle Homes
06/05/08	Calvario, Victor

Water Line Agreements

10/09/09	Mullen, Steve
06/18/10	Farnworth, Martin
01/10/12	Augusta Investments, LLC
03/06/14	ELM (Jarel Morrow)
02/24/14	ELM (Jarel Morrow)
12/31/98	Johnson Ranch Golf Course
04/15/04	Johnson Ranch Indigo Sky Blvd. - Construct Utility Plant
03/15/00	Johnson Ranch Unit 1 (24/83= 107) $750.00
12/22/98	Johnson Ranch Unit 2
12/22/98	Johnson Ranch Unit 3A
12/22/98	Johnson Ranch Unit 3B (Fairways)
12/22/98	Johnson Ranch Unit 4A
03/28/00	Johnson Ranch Unit 4B (The Greens)
09/06/01	Johnson Ranch Unit 4D & 04F (2)
03/01/00	Johnson Ranch Unit 5 (Lakeview Gardens)
12/01/99	Johnson Ranch Unit 6 (Equestrian Manor)
03/15/00	Johnson Ranch Unit 7
03/15/00	Johnson Ranch Unit 8
03/15/00	Johnson Ranch Unit 12 (A & B)
03/15/00	Johnson Ranch Unit 13
11/13/03	Johnson Ranch Unit 14/52 Phase 1 (Richmond American)
11/13/03	Johnson Ranch Unit 14/52 Phase 2 (Richmond American)
09/06/01	Johnson Ranch Unit 15
02/27/03	Johnson Ranch Unit 16 Phase 1
02/27/03	Johnson Ranch Unit 16 Phase 2
02/27/03	Johnson Ranch Unit 16 Phase 3
02/27/03	Johnson Ranch Unit 17 Phase 1
02/27/03	Johnson Ranch Unit 17 Phase 2 & 3
02/27/03	Johnson Ranch Unit 18 Phase 1
02/27/03	Johnson Ranch Unit 18 Phases 2 & 3
04/28/04	Johnson Ranch Unit 19, 43, 44 & 45 (Solera, Phs III)
08/14/02	Johnson Ranch Unit 20 / 21
08/12/03	Johnson Ranch Unit 22A
09/10/03	Johnson Ranch Unit 22B
09/10/03	Johnson Ranch Unit 23A
04/15/04	Johnson Ranch Unit 23B
04/28/04	Johnson Ranch Unit 24
04/28/04	Johnson Ranch Unit 25
06/20/06	Johnson Ranch Unit 26B
04/15/04	Johnson Ranch Unit 27, Phase 1
04/15/04	Johnson Ranch Unit 27, Phase 2

Water Line Agreements

04/15/04	Johnson Ranch Unit 28
08/13/04	Johnson Ranch Unit 29 Phase 2
08/12/03	Johnson Ranch Unit 29, Phase 1
06/20/06	Johnson Ranch Unit 30B
06/20/06	Johnson Ranch Unit 32
07/12/02	Johnson Ranch Unit 34
08/20/03	Johnson Ranch Unit 35 & 36
09/06/01	Rural Metro / Tosco / Unit 36 (Circle "K")
03/31/06	Johnson Ranch Unit 37 & 38
04/15/04	Johnson Ranch Unit 39, 40B, 50; Phase 1
10/02/03	Johnson Ranch Unit 40A, 48 & 49 (Solera, Phs I)
10/02/03	Johnson Ranch Unit 41 & 47 (Solera, Phs I)
04/15/04	Johnson Ranch Unit 42; Phase 2 (Solera)
04/15/04	Johnson Ranch Unit 46; Phase I
04/28/04	Johnson Ranch Unit 51
09/17/04	Magic Ranch Estates; Phase 1
01/22/99	Magic Ranch (Oasis Golf Course)
10/30/06	Magic Ranch (Oasis) - Parcels B and C
04/28/06	Magic Ranch (Oasis) - Parcel CC
06/01/02	Magic Ranch (Oasis) - Phase 3
10/15/01	Magic Ranch (Oasis) - Phase 1, Unit I (Lots 1-137 = 137 lots)
02/20/03	Magic Ranch (Oasis) - Phase 1, Unit 2 (Lots 138-258 = 121 lots)
04/01/04	Magic Ranch (Oasis) - Phase 2, Units 3 & 4
12/08/05	Magic Ranch (Oasis) - Phases 5 & 6
06/01/02	Magic Ranch (Oasis Sunrise) - Phase 1 (Mirage)
07/28/03	Magic Ranch (Oasis Sunrise) - Phase 2 (Mirage)
11/15/05	Magic Ranch Parcel G portions of K and F (Ironhorse at MR)
11/15/05	Magic Ranch Parcel G portions of K and F (Ironhorse at MR)
03/27/06	Magic Ranch - Unit 2
01/09/06	Magic Ranch (The Palms) - Unit 1
01/09/06	Magic Ranch (The Palms) - Unit 2
10/22/12	Magic Ranch (The Village)
11/18/04	Magma Ranch; Phases 1-10
08/23/05	Magma Ranch II; Unit 1
08/23/05	Magma Ranch II; Unit 2 - Parcel 4
08/23/05	Magma Ranch II; Unit 2, Parcel 5
08/23/05	Magma Ranch II; Unit 03
08/23/05	Magma Ranch II; Unit 04
04/13/05	Magma Ranch III AKA Sonoran Villages
05/22/03	Morning Sun Farms & South (Model Lots)
07/19/04	Morning Sun Farms; Phase 1

Water Line Agreements

07/19/04	Morning Sun Farms; Phase 2
08/05/05	Morning Sun Farms; Phase 3
04/13/06	Morning Sun Farms; Phase 4
04/21/05	Quail Run
04/08/03	Rancho Bella Vista; Parcel A
07/26/06	Rancho Bella Vista - Units 2a 2b 2c 3a 3b
10/07/04	Rancho Bella Vista South; Phase 1
10/01/04	Rancho Bella Vista South; Phase 1 (Ryland)
05/01/05	Rancho Bella Vista South; Phase 2 (Ryland)
10/31/05	Rancho Bella Vista Southl Phase 3A
02/28/06	Rancho Bella Vista South; Phase 3B
09/24/04	San Tan Heights; Phase 3; Parcel A-1
09/24/04	San Tan Heights; Phase 3; Parcel A-2
09/24/04	San Tan Heights; Phase 3; Parcel A-3
09/24/04	San Tan Heights; Phase 3; Parcel A-4
09/24/04	San Tan Heights; Phase 3; Parcel A-5
09/24/04	San Tan Heights; Phase 3; Parcel A-6
09/24/04	San Tan Heights; Phase 3; Parcel A-7
09/24/04	San Tan Heights; Phase 3; Parcel A-8
09/24/04	San Tan Heights; Phase 3; Parcel A-9 & Infrastructure
10/21/05	San Tan Heights; Phase 4; Parcel C-6
10/21/05	San Tan Heights; Phase 4; Parcel C-7
10/21/05	San Tan Heights; Phase 4; Parcel C-8
10/21/05	San Tan Heights; Phase 4; Parcel C-9
10/21/05	San Tan Heights; Phase 4; Parcel C-10
10/21/05	San Tan Heights; Phase 4; Parcel C-11
10/21/05	San Tan Heights; Phase 4; Parcel C-12
10/21/05	San Tan Heights; Phase 4; Parcel C-13
07/21/03	San Tan Heights; Phs 2; Parcel A
07/22/03	San Tan Heights; Phs 2; Parcel B
07/23/03	San Tan Heights; Phs 2; Parcel C
07/21/03	San Tan Heights; Phs 2; Parcel D
07/24/03	San Tan Heights; Phs 2; Parcel E
07/25/03	San Tan Heights; Phs 2; Parcel F
07/21/03	San Tan Heights; Phs 2; Parcel I
07/26/03	San Tan Heights; Phs 2; Parcel J
07/27/03	San Tan Heights; Phs 2; Parcel K
10/21/03	San Tan Heights; Phs 2; Parcel L
08/01/02	San Tan Villages Parcel 01
08/01/02	San Tan Villages Parcel 02
08/01/02	San Tan Villages Parcel 03

Water Line Agreements

08/01/02	San Tan Villages Parcel 04
04/09/02	San Tan Villages Parcel 05
04/09/02	San Tan Villages Parcel 06
04/09/02	San Tan Villages Parcel 07
02/07/02	San Tan Villages Parcel 08
02/07/02	San Tan Villages Parcel 09
09/07/06	Silverado Ranch; Unit 1A
09/07/06	Silverado Ranch; Unit 1B
09/07/06	Silverado Ranch; Unit 1C
09/07/06	Silverado Ranch; Unit 1D
09/07/06	Silverado Ranch; Unit 1E
09/07/06	Silverado Ranch; Unit 1F
09/07/06	Silverado Ranch; Unit 1G
09/07/06	Silverado Ranch, Unit 1H
10/01/07	Skyline Ranch Market Place
08/18/04	Skyline Ranch; Phase 1, Parcel A
08/18/04	Skyline Ranch; Phase 1, Parcel B
08/18/04	Skyline Ranch; Phase 1, Parcel C
08/18/04	Skyline Ranch; Phase 1, Parcel D
08/11/04	Skyline Ranch; Phase 2, Parcel A
08/11/04	Skyline Ranch; Phase 2, Parcel B
08/11/04	Skyline Ranch; Phase 2, Parcel C
08/11/04	Skyline Ranch; Phase 2, Parcel D
08/11/04	Skyline Ranch; Phase 2, Parcel E
08/11/04	Skyline Ranch; Phase 2, Parcel F
08/11/04	Skyline Ranch; Phase 2, Parcel G
08/11/04	Skyline Ranch; Phase 2, Parcel H
08/11/04	Skyline Ranch; Phase 2, Parcel I
07/22/13	St. Michael the Archangel Parish Hall
02/01/03	Superstition Views Phase I
08/12/03	Superstition Views Phase II
08/29/08	Superstition Views Phase III
06/05/06	Whitewing at San Tan Magma
12/29/98	Wild Horse Estates Phase 1
04/17/06	Wild Horse Estates Phase 2

Sewer Line Agreements

Date	Subdivision
02/23/07	Anthem Market Place at Merrill Ranch
07/31/06	Unit 2 Anthem at Merrill Ranch
10/27/06	Unit 3 Anthem at Merrill Ranch
07/31/06	Unit 4 Anthem at Merrill Ranch
10/27/06	Unit 5 Anthem at Merrill Ranch
07/31/06	Unit 6 Anthem at Merrill Ranch
10/27/06	Unit 7 Anthem at Merrill Ranch
07/31/06	Unit 8 Anthem at Merrill Ranch
10/27/06	Unit 9 Anthem at Merrill Ranch
07/31/06	Unit 10 Anthem at Merrill Ranch
07/31/06	Unit 11 Anthem at Merrill Ranch
07/31/06	Unit 12 Anthem at Merrill Ranch
07/31/06	Unit 13 Anthem at Merrill Ranch
12/08/06	Unit 14 Anthem at Merrill Ranch
07/31/06	Unit 15 Anthem at Merrill Ranch
07/28/08	Unit 17 Anthem at Merrill Ranch
12/28/09	Unit 18 Anthem at Merrill Ranch
07/31/06	Unit 19 Anthem at Merrill Ranch
01/09/09	Unit 20 Anthem at Merrill Ranch
07/31/06	Unit 21 Anthem at Merrill Ranch
in process	Unit 22A Anthem at Merrill Ranch
in process	Unit 22B Anthem at Merrill Ranch
07/31/06	Unit 23 Anthem at Merrill Ranch
07/31/06	Unit 25 Anthem at Merrill Ranch
09/12/06	Unit 27 Anthem at Merrill Ranch
10/01/06	Unit 29 Anthem at Merrill Ranch
01/09/09	Unit 35A Anthem at Merrill Ranch
01/09/09	Unit 37 Anthem at Merrill Ranch
09/12/06	Unit 39 Anthem at Merrill Ranch
01/09/09	Unit 40 Anthem at Merrill Ranch
04/29/08	Unit 50 Anthem at Merrill Ranch
05/28/08	Unit 54 Anthem at Merrill Ranch
05/14/07	Banner Ironwood Medical Center, Phase I
04/30/06	Belcara at Pima Road
02/28/07	Bella Villagio
08/24/07	Borgata at San Tan Unit 1
10/02/07	Bulk Wastewater Treatment Agreement - ONLY
07/03/07	Castlegate Ward Meeting House

Sewer Line Agreements

10/22/12	Central AZ College & Bella Vista Farms Comm. Property Offsites
08/28/12	Central AZ College (San Tan Campus)
06/07/02	Circle Cross Parcels 01,02,04,05 - Phase I
06/07/02	Circle Cross Parcels 2,3,5,6 - Phase I
10/18/04	Circle Cross Ranch - Phase II Parcel 06B
10/18/04	Circle Cross Ranch - Phase II Parcel 07
10/18/04	Circle Cross Ranch - Phase II Parcel 08
10/18/04	Circle Cross Ranch - Phase II Parcel 09
10/18/04	Circle Cross Ranch - Phase II Parcel 10
10/18/04	Circle Cross Ranch - Phase II Parcel 11
10/18/04	Circle Cross Ranch - Phase II Parcel 14
10/18/04	Circle Cross Ranch - Phase II Parcel 15
06/28/05	Circle Cross Ranch - Phase IIB Parcel 12
06/28/05	Circle Cross Ranch - Phase IIB Parcel 13
06/28/05	Circle Cross Ranch - Phase IIB Parcel 16
06/28/05	Circle Cross Ranch - Phase IIB Parcel 17
06/28/05	Circle Cross Ranch - Phase IIB Parcel 18
06/28/05	Circle Cross Ranch - Phase IIB Parcel 19
06/28/05	Circle Cross Ranch - Phase IIB Parcel 20
06/28/05	Circle Cross Ranch - Phase IIB Parcel 21
01/23/08	Coolidge High School No. 2 - LS & FM
04/28/06	Copper Basin Unit 1, Parcels A, B, C, D
10/01/02	Copper Basin Unit 2
01/13/04	Copper Basin Unit 3A, Village (split 4/28/06 from 3)
01/13/04	Copper Basin Unit 3B, Village (split 4/28/06 from 3)
12/22/04	Copper Basin, Village - Unit 4
02/01/06	Copper Basin, Village - Unit 5A
04/10/08	Copper Basin, Village - Unit 5B
03/21/05	Crestfield Manor@AZ Farms Village
09/06/05	Felix Farms
03/04/08	Florence High School
11/14/12	Happy Valley East Campus LS/FM
12/08/05	Heritage Estates
12/15/06	Ironwood Crossing Unit 1
12/15/06	Ironwood Crossing Unit 2 (Parcels 1, 2, & 3)
11/17/10	Ironwood Crossing Unit 3A (Parcel 15)
07/26/12	Ironwood Crossing Unit 3B (Parcels 11 & 12)
07/26/12	Ironwood Crossing Unit 3C (Parcels 13 & 14)
10/02/07	J.O. Combs Educational Village
04/15/04	Johnson Ranch Indigo Sky Blvd. - Construct Utility Plant
03/15/00	Johnson Ranch Unit 1 (24/ 83 = 107)

Sewer Line Agreements

12/22/98	Johnson Ranch Unit 2
12/22/98	Johnson Ranch Unit 3A
12/22/98	Johnson Ranch Unit 3B (Fairways)
12/22/98	Johnson Ranch Unit 4A
03/28/00	Johnson Ranch Unit 4B (The Greens)
09/06/01	Johnson Ranch Units 4D & 4F (2)
03/28/00	Johnson Ranch Unit 5 (Lakeview Gardens)
12/0/99	Johnson Ranch Unit 6 (Equistrian Manor)
03/15/00	Johnson Ranch Unit 7
03/15/00	Johnson Ranch Unit 8
03/15/00	Johnson Ranch Unit 12 (A & B)
03/15/00	Johnson Ranch Unit 13
11/13/03	Johnson Ranch Unit 14/52 Phase 1
11/13/03	Johnson Ranch Unit 14/52 Phase 2
09/06/01	Johnson Ranch Unit 15
02/27/03	Johnson Ranch Unit 16 Phase 1
02/27/03	Johnson Ranch Unit 16 Phase 2
02/27/03	Johnson Ranch Unit 16 Phase 3
02/27/03	Johnson Ranch Unit 17 Phase 1
02/27/03	Johnson Ranch Unit 17 Phase 2 and 3
02/27/03	Johnson Ranch Unit 18 Phase 1
02/27/03	Johnson Ranch Unit 18 Phases 2 & 3
04/28/04	Johnson Ranch Unit 19, 43, 44 & 45
08/14/02	Johnson Ranch Units 20 / 21
08/12/03	Johnson Ranch Unit 22A
09/10/03	Johnson Ranch Unit 22B
09/10/03	Johnson Ranch Unit 23A
04/15/04	Johnson Ranch Unit 23B
04/28/04	Johnson Ranch Unit 24
04/28/04	Johnson Ranch Unit 25
06/20/06	Johnson Ranch Unit 26B
04/15/04	Johnson Ranch Unit 27, Phase 1
04/15/04	Johnson Ranch Unit 27, Phase 2
04/15/04	Johnson Ranch Unit 28
08/12/03	Johnson Ranch Unit 29, Phase 1
08/13/04	Johnson Ranch Unit 29, Phase 2
06/20/06	Johnson Ranch Unit 30B
06/20/06	Johnson Ranch Unit 32
07/12/02	Johnson Ranch Unit 34
08/20/03	Johnson Ranch Units 35 & 36
09/06/01	Johnson Ranch Rural Metro/Tosco Unit 36

Sewer Line Agreements

03/31/06	Johnson Ranch Unit 37 & 38
04/15/04	Johnson Ranch Unit 39, 40B, 50
10/02/03	Johnson Ranch Unit 40A, 48 & 49
10/02/03	Johnson Ranch Units 41 & 47
04/15/04	Johnson Ranch Unit 42, (Solera, Phs II)
04/15/04	Johnson Ranch Unit 46, Phase 1
04/28/04	Johnson Ranch Unit 51
10/21/04	Laredo Ranch Phase I
10/21/04	Laredo Ranch Phase II
10/21/04	Laredo Ranch Lift Station
01/22/99	Magic Ranch (Oasis Golf Course)
04/28/06	Magic Ranch (Oasis) Parcel CC
06/01/02	Magic Ranch (Oasis Sunrise) - Phase I (Mirage)
07/28/03	Magic Ranch (Oasis Sunrise) - Phase II (Mirage)
02/18/03	Magic Ranch (Oasis) - Phase 1, Unit I (Lots 1-137)
02/18/03	Magic Ranch (Oasis) - Phase 1, Unit 2 (Lots 138-258)
04/01/04	Magic Ranch (Oasis) - Phase 2, Units 3 and 4
12/08/05	Magic Ranch (Oasis) - Phases 5 and 6
11/01/06	Magic Ranch Parcels B and C
09/17/04	Magic Ranch Estates - Unit 1
11/15/05	Magic Ranch Parcel G portions of K and F (Ironhorse)
11/15/05	Magic Ranch Parcel G portions of K and F (Ironhorse)
03/28/06	Magic Ranch - Unit 2
01/09/06	Magic Ranch (The Palms) - Unit 1
01/09/06	Magic Ranch (The Palms) - Unit 2
10/22/12	Magic Ranch (The Village)
11/18/04	Magma Ranch I
08/23/05	Magma Ranch II Unit 1
08/23/05	Magma Ranch II Unit 2, Phase 4
08/23/05	Magma Ranch II Unit 2, Phase 5
08/23/05	Magma Ranch II Unit 3
08/23/05	Magma Ranch II Unit 4
01/26/05	Milagro - Sewer Only
05/22/03	Morning Sun Farms & South (Model Lots)
07/19/04	Morning Sun Farms Phase 1
07/19/04	Morning Sun Farms Phase 2
08/05/05	Morning Sun Farms Phase 3
04/13/06	Morning Sun Farms Unit 4
03/31/08	Ocotillo Crossing
05/25/05	Ocotillo Trails (**Trailside Village**)
01/02/07	Parks, The (Parcels A & B)

Sewer Line Agreements

	Parks, The: Offsite Gravity Line (Parcels A & B)
05/15/12	Pecan Creek 1st Meeting House
06/30/06	Pecan Creek South Unit 1
06/30/06	Pecan Creek South Unit 2
06/30/06	Pecan Creek South Unit 3
06/30/06	Pecan Creek South Unit 4
06/30/06	Pecan Creek South Unit 5
06/30/06	Pecan Creek South Unit 6
11/15/02	Pecan Estates - Parcel 1
11/15/02	Pecan Estates - Parcel 2
11/15/02	Pecan Estates - Parcel 3
11/15/02	Pecan Estates - Parcel 4 - SHEA
11/15/02	Pecan Estates - Parcel 5 - SHEA
11/15/02	Pecan Estates - Parcel 6 - FULTON
11/15/02	Pecan Estates - Parcel 7 - SHEA
11/15/02	Pecan Estates - Parcel 8 - TAYLOR
09/19/07	Pinal Professional Village
04/21/05	Quail Run
07/26/06	Rancho Bella Vista - Units 2a 2b 2c 3a 3b
04/08/03	Rancho Bella Vista Phase 01
02/28/06	Rancho Bella Vista South Phase 3B (Lots 632-756)
04/08/03	Rancho Bella Vista South Phase 01
10/01/04	Rancho Bella Vista South Phase 01
05/01/05	Rancho Bella Vista South Phase 02
10/31/05	Rancho Bella Vista South Phase 03A
09/24/04	San Tan Heights Parcel A 01
09/24/04	San Tan Heights Parcel A 02
09/24/04	San Tan Heights Parcel A 03
09/24/04	San Tan Heights Parcel A 04
09/24/04	San Tan Heights Parcel A 05
09/24/04	San Tan Heights Parcel A 06
09/24/04	San Tan Heights Parcel A 07
09/24/04	San Tan Heights Parcel A 08
09/24/04	San Tan Heights Parcel A 09
07/21/03	San Tan Heights Parcel A
07/22/03	San Tan Heights Parcel B
07/23/03	San Tan Heights Parcel C
07/21/03	San Tan Heights Parcel D
07/24/03	San Tan Heights Parcel E
07/25/03	San Tan Heights Parcel F
07/21/03	San Tan Heights Parcel I

Sewer Line Agreements

07/26/03	San Tan Heights Parcel J
07/27/03	San Tan Heights Parcel K
10/21/03	San Tan Heights Parcel L
10/21/05	San Tan Heights Parcel C 06
10/21/05	San Tan Heights Parcel C 07
10/21/05	San Tan Heights Parcel C 08
10/21/05	San Tan Heights Parcel C 09
10/21/05	San Tan Heights Parcel C 10
10/21/05	San Tan Heights Parcel C 11
10/21/05	San Tan Heights Parcel C 12
10/21/05	San Tan Heights Parcel C 13
08/01/02	San Tan Villages Parcel 01
08/01/02	San Tan Villages Parcel 02
08/01/02	San Tan Villages Parcel 03
08/01/02	San Tan Villages Parcel 04
04/09/02	San Tan Villages Parcel 05
04/09/02	San Tan Villages Parcel 06
04/09/02	San Tan Villages Parcel 07
02/07/02	San Tan Villages Parcel 08
02/07/02	San Tan Villages Parcel 09
01/23/08	Shea Homes at Johnson Farms (Neighborhood 1)
01/23/08	Shea Homes at Johnson Farms (Neighborhood 2)
04/01/12	Shea Homes at Johnson Farms (Neighborhood 3: Phases 3A, 3B, 3C)
04/19/12	Shea Homes at Johnson Farms (Neighborhood 7A: Phases 1 and 2)
10/21/10	Shea Homes at Johnson Farms (Neighborhood 7B)
01/23/08	Shoppes at Pecan Ranch, The
09/07/06	SILVERADO UNIT 01A
09/07/06	SILVERADO UNIT 01B
09/07/06	SILVERADO UNIT 01C
09/07/06	SILVERADO UNIT 01D
09/07/06	SILVERADO UNIT 01E
09/07/06	SILVERADO UNIT 01F
09/07/06	SILVERADO UNIT 01G
09/07/06	SILVERADO UNIT 01H
10/01/07	Skyline Ranch Marketplace
08/18/04	Skyline Ranch Phase 01
08/18/04	Skyline Ranch Phase 01, Parcel A
08/18/04	Skyline Ranch Phase 01, Parcel B
08/18/04	Skyline Ranch Phase 01, Parcel C
08/18/04	Skyline Ranch Phase 01, Parcel D
08/11/04	Skyline Ranch Phase 02, Parcel A

Sewer Line Agreements

08/11/04	Skyline Ranch Phase 02, Parcel B
08/11/04	Skyline Ranch Phase 02, Parcel C
08/11/04	Skyline Ranch Phase 02, Parcel D
08/11/04	Skyline Ranch Phase 02, Parcel E
08/11/04	Skyline Ranch Phase 02, Parcel F
08/11/04	Skyline Ranch Phase 02, Parcel G
08/11/04	Skyline Ranch Phase 02, Parcel H
08/11/04	Skyline Ranch Phase 02, Parcel I
07/22/13	St. Michael the Archangel Parish Hall
02/01/03	Superstition Views Phase I
08/11/03	Superstition Views Phase II
08/29/08	Superstition Views Phase III
01/31/06	Taylor Ranch
11/03/04	Vineyard Estates
10/27/04	Wayne Ranch
11/11/04	Wayne Ranch
06/05/06	Whitewing at San Tan Magma

EXHIBIT Z

DIAGRAM OF CERTIFICATED AREA

[SEE ATTACHED]

EXHIBIT AA

LEGAL DESCRIPTION

EXHIBIT BB

INFRASTRUCTURE USED BY BUSINESS

Wells, storage tanks, booster pumps, water mains, service lines, sewer lines, lift stations, water meters, manholes, valves and fire hydrants, communication antennas and associated equipment, electronic or otherwise, connected with, affixed to or utilized by the Project, including any equipment related to the SCADA system, wherever located, comprising the water and wastewater system used by the Project in connection with the provision of water and wastewater treatment utility services to customers within the Certificated Area, whether owned or leased.

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April 3, 2014

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HAND-DELIVERED

Arizona Corporation Commission
DOCKETED
APR 03 2014
DOCKETED BY

Commissioner Susan Bitter Smith
ARIZONA CORPORATION COMMISSION
1200 West Washington Street
Phoenix, Arizona 85007

Re: Docket WS-02987A-13-0477

Dear Commissioner Bitter Smith:

In your letter dated March 24, 2014, to the parties in the above-referenced docket, you requested responses to five questions. This letter provides the responses of Johnson Utilities, LLC ("Johnson Utilities" or the "Company") to those questions.

1. ***Do the parties agree that Johnson Utilities currently serves customers who reside or are located outside the municipal boundaries of the Town of Florence? If so, please provide an estimate of the number of such customers.***

Johnson Utilities serves customers who reside or are located outside the municipal boundaries of the Town of Florence, and the Company does not believe there is any disagreement among the parties on this point. As of December 2013, Johnson Utilities served approximately 20,780 water connections and approximately 28,825 sewer connections outside of the municipal boundaries of the Town of Florence.

As a prefatory comment regarding the Company's responses below, Johnson Utilities would note that last fall the Arizona Corporation Commission ("Commission") approved the application of H20, Inc. to sell all of its assets to the Town of Queen Creek and to cancel its Certificate of Convenience and Necessity ("CC&N") in Decision 74085 (Docket No. W-02234A-13-0237). An employee of the Town of Queen Creek informed counsel undersigned that the substantial majority (in excess of 85%) of the certificated territory of H2O, Inc. was located outside of the Town's municipal boundaries. In Decision 74085, the Commission imposed only two conditions upon the transfer of H2O Inc.'s assets to the Town of Queen Creek, as follows:

> IT IS FURTHER ORDERED that H20, Inc. shall notify the Commission by a compliance filing in this docket of the successful close of escrow finalizing the sale of H20, Inc. to the Town of Queen Creek, within 30 days of the closing.

EXHIBIT
A-5
ADMITTED

> IT IS FURTHER ORDERED that our approval of this application is based upon the Town of Queen Creek's commitment to honor all liabilities of H20, Inc. relating to mainline extensions and customer deposits.[1]

The conditions included in the approval of H2O, Inc.'s application to transfer its assets to the Town of Queen Creek are certainly appropriate. However, for the reasons discussed below, Johnson Utilities respectfully submits that additional conditions on approval of the sale and transfer of the Company's assets to the Town of Florence such as those mentioned below would fall outside the Commission's authority and jurisdiction.

2. Should provisions be made to ensure that existing customers who reside or are located outside of the municipal boundaries will be served by the Town of Florence? Why or why not?

There is a statute in place which directly addresses this question and expressly requires the Town of Florence to provide water and wastewater service to existing customers of Johnson Utilities located outside of the municipal boundaries of the Town. Title 9, Chapter 5, Article 2 of the Arizona Revised Statutes addresses municipal ownership of utilities. Specifically, A.R.S. § 9-516(C) states as follows:

> A city or town acquiring the facilities of a public service corporation rendering utility service without the boundaries of such city or town, or which renders utility service without its boundaries, shall not discontinue such service, once established, as long as such city or town owns or controls such utility. A city or town which renders utility service outside of its boundaries as prescribed by this subsection shall not be prohibited from selling a part of its utility operation to another utility which operates under regulations prescribed by law. (emphasis added)

Applying this statute to the facts of this case, the Town of Florence is a "city or town acquiring the facilities of a public service corporation [Johnson Utilities] rendering service without the boundaries of such city or town" by virtue of the Asset Purchase and Lease Agreement that will be executed between the Town and Johnson Utilities. As a result, the Town "shall not discontinue such service, once established, as long as such city or town owns or controls such utility." The plain language of this statute makes clear that the Town cannot discontinue water or wastewater service to existing customers of Johnson Utilities who reside or are located outside of the Town's municipal boundaries.

There is Arizona case law directly on point addressing A.R.S. § 9-516(C). In *Yuma Valley Land Co., LLC v. City of Yuma*, 227 Ariz. 228, 256 P.3d 625 (App. Div. 1, 2011), a copy of which is attached hereto as Attachment 1, the Arizona Court of Appeals recently acknowledged that while a municipality has no duty to provide utility service to nonresidents absent a statutory or contractual obligation, under A.R.S. § 9-516(C), "[o]nce a municipality undertakes to provide service to nonresidents, it may not discontinue service as long as the municipality owns or controls the utility."[2] The Commission can rest assured that, without any question, the Town of Florence cannot lawfully discontinue water and wastewater service to existing customers of Johnson Utilities on the grounds that they reside or are located outside the Town's municipal boundaries. Thus, any additional provisions by the Commission in this regard are simply not needed or warranted. The Company would note also that no such conditions were imposed in the case of H2O, Inc., as discussed above.

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[1] Decision 74085 at p. 8, lines 1-6.
[2] *Yuma Valley Land Co., LLC v. City of Yuma*, 227 Ariz. 228, 229, 256 P.3d 625, 626 (App. Div. 1, 2011).

Additionally, Johnson Utilities would point out that the Arizona Attorney General determined in 1962 that conditions imposed upon a municipality by the Commission would fall outside of the Commission's authority and jurisdiction. In Opinion No. 62-7 issued January 8, 1962, a copy of which is attached hereto as Attachment 2, the Attorney General opined as follows:

> The Corporation Commission has no jurisdiction to regulate the relationships between a municipality and its consumers, even though such consumers lie beyond the boundaries of the city. The relations between the municipality and its consumers can only be regulated through the Legislature.
>
> We consider it now settled law that the Arizona Corporation Commission has no jurisdiction over the municipalities in either the regulation, purchase, acquisition or operation of their public utility activities within or without municipal boundaries.[3]

For all of the reasons set forth above, Johnson Utilities respectfully requests that the Commission abstain from imposing any conditions that would purport to apply to the Town of Florence.

3. If customers outside the municipal boundaries will be served by the Town of Florence, should provisions be made to ensure that such are treated on an equal footing with those customers who reside or are located within the municipal boundaries? Why or why not?

The Arizona Supreme Court has construed A.R.S. § 9-516(C) as creating an implicit obligation on municipalities to ensure that rates for customers who reside or are located outside municipal boundaries are reasonable. In *Jung v. City of Phoenix*, 160 Ariz. 38, 770 P.2d 342 (Ariz. 1989), a copy of which is attached hereto as Attachment 3, the Arizona Supreme Court considered an appeal in a case where the City of Phoenix imposed increased water rates for residents located outside of the city's municipal boundaries. The Supreme Court ruled as follows:

> At the outset we point out that A.R.S. § 9-516(C) speaks in terms of the city *rendering utility service* without its boundaries. The furnishing of utility service by a public service corporation is regulated by the Corporation Commission, and such utility service must be provided at reasonable rates. Although the Corporation Commission has no jurisdiction over municipal charges for utility service, we believe that the implication of reasonable rates for utility service must be read into A.R.S. § 9-516(C). If such a construction is not adopted, a city could charge any rate it wished despite its effect on the nonresidents' need for utility service. The legislature did not intend to place nonresidents of a city in such an impossible situation. The obligation of a city to continue utility service as required by A.R.S. § 9-516(C) necessarily implies that the charges for such services will be at reasonable rates.
>
> * * *
>
> The City [of Phoenix] does not contend that it does not have a legal duty to continue water service to the nonresidents. The statute at issue [A.R.S. § 9-516(C)] clearly mandates such duty. As a consequence of that duty we hold that the city must provide water service at a reasonable rate.
>
> * * *

[3] Arizona Attorney General Opinion No. 62-7 at pp. 4-5

> In all cases, the city must have a reasonable basis for the discrimination in its charges. *Delong v. Rucker*, 302 S.W.2d 287 (1957). Proof that service of nonresidents involves greater expenses is sufficient to show a city acted reasonably in charging high[er] rates for nonresidents. *See id.* at 290, *Collins v. Goshen*, 635 F.2d 954 (2nd Cir. 1980).[4]

In addition to the obligation to maintain reasonable rates for non-resident customers implicit in A.R.S. § 9-516(C), there is another statute which prescribes the specific procedure that a municipality must follow in order to increase water or wastewater rates or rate components. A.R.S. § 9-511.01 states as follows:

> A. A municipality engaging in a domestic water or wastewater business shall not increase any water or wastewater rate or rate component, fee or service charge without complying with the following:
>
> 1. Prepare a written report or supply data supporting the increased rate or rate component, fee or service charge. A copy of the report shall be made available to the public by filing a copy in the office of the clerk of the municipality governing board at least thirty days before the public hearing described in paragraph 2.
>
> 2. Adopt a notice of intention by motion at a regular council meeting to increase water or wastewater rates or rate components, fees or service charges and set a date for a public hearing on the proposed increase that shall be held not less than thirty days after adoption of the notice of intention. A copy of the notice of intention showing the date, time and place of the hearing shall be published one time in a newspaper of general circulation within the boundaries of the municipality not less than twenty days before the public hearing date.
>
> B. After holding the public hearing, the governing body may adopt, by ordinance or resolution, the proposed rate or rate component, fee or service charge increase or any lesser increase.
>
> C. Notwithstanding section 19-142, subsection B, the increased rate or rate component, fee or service charge shall become effective thirty days after adoption of the ordinance or resolution.
>
> D. Any proposed water or wastewater rate or rate component, fee or service charge adjustment or increase shall be just and reasonable.
>
> E. Rates and charges demanded or received by municipalities for water and wastewater service shall be just and reasonable. Every unjust or unreasonable rate or charge demanded or received by a municipality is prohibited and unlawful. (emphasis added)

This statute ensures the reasonableness of rates adopted by a municipality because it requires that rate increases be justified by a study or data, that the Town provide prior public notice of any rate increases, and that a public hearing be held before any rate increases are implemented. Additionally, the statute prohibits as unlawful any rate increase that is not just and reasonable. Customers residing or

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[4] *Jung v. City of Phoenix*, 160 Ariz. 38, 770 P.2d 342, 344-345 (Ariz. 1989)

located outside the Town's municipal boundaries and served by the municipality may participate in the rate-setting process just like customers who reside or are located within the municipal boundaries. Thus, the statute quoted above provides due process and a meaningful opportunity to participate in the rate setting process for all customers who receive water service or wastewater service from the Town, regardless of their service address.

With specific reference to water service, there is yet another statute which ensures that customers outside of the Town's municipal boundaries are treated fairly by the municipality. A.R.S. § 9-511(A) states as follows:

> A. A municipal corporation may engage in any business or enterprise which may be engaged in by persons by virtue of a franchise from the municipal corporation, and may construct, purchase, acquire, own and maintain within or without its corporate limits any such business or enterprise. A municipal corporation may also purchase, acquire and own real property for sites and rights-of-way for public utility and public park purposes, and for the location thereon of waterworks, electric and gas plants, municipal quarantine stations, garbage reduction plants, electric lines for the transmission of electricity, pipelines for the transportation of oil, gas, water and sewage, and for plants for the manufacture of any material for public improvement purposes or public buildings. If a municipality provides water to another municipality, <u>the rates it charges for the water to the public in the other municipality shall be one of the following</u>:
>
> 1. The same or less than the rates it charges its own residents for water.
>
> 2. The same or less than the rates the other municipality charges its residents for water.
>
> 3. If the other municipality does not provide water, the average rates charged for water to the residents in the other municipality by private water companies.
>
> 4. Rates determined by a contract which is approved by both municipalities and in which such rates are justified by a cost of service study or by any other method agreed to by both municipalities. (emphasis added)

The plain language of this statute makes clear that the Town of Florence must treat water customers residing or located outside its municipal boundaries with fairness.

Because the statutes and case law discussed above impose a clear and robust obligation on the Town of Florence to charge rates that are reasonable for customers located outside its municipal boundaries, and to provide a "reasonable basis" for any "discrimination in its charges" under the *Jung* decision, additional provisions by the Commission are not needed or warranted. Moreover, Johnson Utilities would point out again that under Attorney General Opinion No. 62-7, any such conditions imposed upon the Town of Florence by the Commission would fall outside of the Commission's authority and jurisdiction. The Company would also note that the Commission did not impose such conditions in the case of H2O, Inc., as discussed above.

For all of the reasons set forth above, Johnson Utilities respectfully requests that the Commission abstain from imposing any conditions that would purport to apply to the Town of Florence.

4. ***If such provisions should be made, please provide some recommendations regarding the nature and substance of methods or processes to ensure equal treatment.***

For the reasons discussed above, Johnson Utilities submits that no additional provisions beyond the existing statutory mandates and supporting Arizona case law are needed or warranted to ensure the fair treatment of non-residents. Additionally, Johnson Utilities submits that the imposition of such conditions would fall outside of the Commission's authority and jurisdiction, and the Commission did not impose such conditions in the recent case of H2O, Inc., as discussed above.

5. ***I note that in the application, Johnson Utilities states "For a period of 18 months following the acquisition the Town has no plans to change the rates charged to existing customers of Johnson Utilities." Please provide comments regarding the duration and specific terms of this commitment.***

Representatives of the Town of Florence have informed Johnson Utilities that the Town does not intent to change the existing rates for water or wastewater service for at least 18 months after the acquisition. However, we would note that the Town currently charges a 5% franchise fee on the water and wastewater services provided to Johnson Utilities customers residing within the Town's municipal boundaries. Once the acquisition closes, the 5% franchise fee will be eliminated for those customers. Representatives of the Town have also informed the Company that the Town will undertake and complete a full rate study in order to make a determination on any changes in future rates and charges.

We hope that the Commission and the parties will find the information provided herein helpful in this case.

Sincerely,

Jeffrey W. Crockett

cc: Docket Control (Original plus 13 copies)
Chairman Bob Stump
Commissioner Gary Pierce
Commissioner Brenda Burns
Commissioner Bob Burns
Parties on the Service List for Docket WS-02987A-13-0477

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ATTACHMENT 1

H

Court of Appeals of Arizona,
Division 1, Department B.
YUMA VALLEY LAND COMPANY, LLC; Territorial Real Estate, LLC; Saguaro Desert Land, Inc. and Parkway Place Development, LLC, Plaintiffs/Appellants,
v.
CITY OF YUMA, Defendant/Appellee.

No. 1 CA–CV 10–0121.
May 5, 2011.

Background: Developers brought declaratory judgment action against city, seeking confirmation that city was required to provide water and sewer services to their property. The Superior Court, Yuma County, No. S1400CV200900840,Andrew W. Gould, J., dismissed the complaint, and developers appealed.

Holding: The Court of Appeals, Brown, J., held that city was not obligated to provide services to the property, which was outside city limits.

Affirmed.

West Headnotes

[1] Municipal Corporations 268 ⚷277

268 Municipal Corporations
268IX Public Improvements
268IX(A) Power to Make Improvements or Grant Aid Therefor
268k277 k. Improvements and works beyond boundaries of municipality. Most Cited Cases

A municipality operating a public utility may provide service to nonresidents, but no duty exists to provide service to nonresidents absent a statute or a contractual obligation.

[2] Municipal Corporations 268 ⚷277

268 Municipal Corporations
268IX Public Improvements
268IX(A) Power to Make Improvements or Grant Aid Therefor
268k277 k. Improvements and works beyond boundaries of municipality. Most Cited Cases

Once a municipality undertakes to provide utility service to nonresidents, it may not discontinue service as long as the municipality owns or controls the utility. A.R.S. § 9–516(C).

[3] Municipal Corporations 268 ⚷712(4)

268 Municipal Corporations
268XI Use and Regulation of Public Places, Property, and Works
268XI(B) Sewers, Drains, and Water Courses
268k712 Connections with Sewers or Drains
268k712(3) Right or Obligation to Connect; Fees
268k712(4) k. Nonresidents. Most Cited Cases

Water Law 405 ⚷2037

405 Water Law
405XII Public Water Supply
405XII(B) Domestic and Municipal Purposes
405XII(B)12 Supply to Private Consumers
405k2037 k. Right and duty to supply in

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general. Most Cited Cases

City, which constructed water and sewer lines adjacent to developer's property, was not obligated to provide water and sewer service to the property, despite developers' contention that city's action made it impossible for the property to receive the services in any other way, where property was not within city boundaries, city did not currently provide service to the property, and city had never undertaken to provide water or sewer service to the property or any areas adjacent to the property outside the city limits. A.R.S. § 9–516(C).

****625** Jennings, Strouss & Salmon P.L.C. By MichaelJ. O'Connor and Douglas Gerlach, Phoenix, Attorneys for Plaintiffs/Appellants.

Snell & Wilmer L.L.P. By KevinJ. Parker, Robert J. Metli, Ronald W. Messerly and Martha E. Gibbs, Phoenix, Attorneys for Defendant/Appellee.

***228 OPINION**

BROWN, Judge.

¶ 1 Yuma Valley Land Company, Territorial Real Estate, Parkway Place Development, and Saguaro Desert Land (collectively "Developers") appeal the superior court's decision dismissing their declaratory judgment complaint against the City of Yuma. For the following reasons, we affirm.

BACKGROUND

¶ 2 Yuma Valley Land Company and Territorial Real Estate own real property ("the Property") in an unincorporated area of Yuma County. Parkway Place Development and Saguaro Desert Land own options to buy the Property and intend to develop it for residential and/or commercial use.

¶ 3 In June 2009, Developers sued the City, seeking confirmation that the City was required to provide water and sewer services to the Property. Developers alleged that because the City had installed water and sewer lines immediately adjacent to the Property, it had the effect of precluding the Developers from providing water or sewer service to the Property other than by contracting with the City. Developers thus sought a declaratory judgment confirming that the City: (1) could not require payment of development fees as a condition to providing water and sewer services to the Property; and (2) must provide those services to the Property at the rates found in the City's Development Fee Schedule.

****626 *229** ¶ 4 The City moved to dismiss, asserting that although Developers could enter a contract with the City for water and sewer services, no contract existed and therefore the City had no legal obligation to provide such services to the Property. Developers did not dispute that under ordinary circumstances the City had no obligation to provide service to nonresidents, but argued the City was required to provide the requested services when the City's actions made it impossible for Developers to obtain service elsewhere. The City countered that even if Developers could not obtain service elsewhere, it was still not legally obligated to provide service to the Property.

¶ 5 The superior court granted the City's motion to dismiss, pointing to the lack of any Arizona authority supporting the proposition "that the impossibility of a property owner to obtain water or sewage services from an alternative source gives rise to a duty on the part of a City or municipal entity to provide such water and sewage services." The court also noted that the complaint failed to sufficiently allege that it would be impossible for Developers to obtain water and sewer services from any other source. However, the court clarified that even if the complaint were amended to include that allegation, it would not change the court's opinion that the City had no duty to provide water or sewer service to the Property. Developers timely appealed.

DISCUSSION

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¶ 6 In reviewing the dismissal of a complaint for failure to state a claim, we accept as true the facts alleged in the complaint and will affirm the dismissal only if the plaintiff would not be entitled to relief under any interpretation of the facts susceptible of proof. *Fidelity Sec. Life Ins. Co. v. State,* 191 Ariz. 222, 224, ¶ 4, 954 P.2d 580, 582 (1998); Ariz. R. Civ. P. 12(b)(6). We review de novo questions of law decided by the superior court. *Aldabbagh v. Ariz. Dep't of Liquor Licenses & Control,* 162 Ariz. 415, 418, 783 P.2d 1207, 1210 (App.1989).

[1][2] ¶ 7 A municipality operating a public utility may provide service to nonresidents. *City of Phoenix v. Kasun,* 54 Ariz. 470, 474, 97 P.2d 210, 212 (1939). But no duty exists to provide service to nonresidents absent a statute, *id.* at 480, 97 P.2d at 214, or a contractual obligation, *Copper Country Mobile Home Park v. City of Globe,* 131 Ariz. 329, 333, 641 P.2d 243, 247 (App.1982). Once a municipality undertakes to provide service to nonresidents, it may not discontinue service as long as the municipality owns or controls the utility. Ariz.Rev.Stat. § 9–516(C) (2008).

[3] ¶ 8 Developers concede that a municipality is generally under no obligation to provide water and sewer service to nonresidents, but contend nonetheless that the general rule does not apply when the actions of the municipality have made it impossible for the nonresidents to receive those services in any other way. The limited authority relied upon by Developers, however, is not persuasive.

¶ 9 Developers rely in part on *Travaini v. Maricopa County,* 9 Ariz.App. 228, 450 P.2d 1021 (1969). In that case, an owner of property located within the boundaries of the City of Phoenix sought to connect to a city sewer line. *Id.* at 228, 450 P.2d at 1021. The city denied the owner's request on the grounds that the sewer line would be overburdened by the additional connection. *Id.* This court affirmed the superior court's issuance of a writ of mandamus compelling the city to permit the sewer connection. *Id.* at 229–30, 450 P.2d at 1022–23. We held that "[a]lthough there is no requirement that the City provide sewer services ... once a city undertakes to provide a service to the people in the city[,] it must provide that service adequately and on an impartial and non-discriminatory basis[.]" *Id.* at 229, 450 P.2d at 1022.

¶ 10 Developers also cite *Tonto Creek Estates Homeowners Ass'n v. Arizona Corp. Commission,* 177 Ariz. 49, 864 P.2d 1081 (App.1993), suggesting that the City is obligated to provide service because it is capable of doing so. In *Tonto Creek,* a homeowners' association assumed operation of a water utility that provided water service to lots within the Tonto Creek Estates subdivision. *Id.* at 54, 864 P.2d at 1086. Over time, the association began providing water service to several ***230 **627** properties located in a different subdivision, Tonto Rim Ranch. *Id.* Because the association, as a public service corporation, contracted to provide water to various lot owners located in Tonto Rim Ranch, this court concluded that the Arizona Corporation Commission could properly order the association to provide service to all the lot owners in that subdivision on a non-discriminatory basis. *Id.* at 58–59, 864 P.2d at 1090–91.

¶ 11 Here, it is undisputed that the City has constructed water and sewer lines adjacent to the Property. However, unlike the situation in *Travaini,* the Property is not within the City boundaries and the complaint does not allege the City currently provides service to the Property. Similarly, although the City may be capable of providing service to the Property, Developers have not asserted that the City has ever undertaken to provide water or sewer service to the Property or any areas adjacent to the Property outside the City limits. Thus, neither *Travaini* nor *Tonto Creek* limits the applicability in this case of the general rule that a municipality is not obligated to provide any utility service outside its boundaries absent a contractual or statutory obligation.

¶ 12 Developers also cite *Barbaccia v. County of*

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Santa Clara, 451 F.Supp. 260 (N.D.Cal.1978), in support of their contention that a city must provide utility service if the city's actions make it impossible to obtain service elsewhere. *Barbaccia* involved a takings claim against the City of San Jose and the County of Santa Clara. *Id.* at 262. The plaintiffs owned property in Santa Clara County that had become surrounded by the City of San Jose as the city expanded and annexed adjoining land. *Id.* Through agreements between the county and the city, the county retained some regulatory authority, but the property became subject to city planning and developmental control. *Id.* at 262–63. The plaintiffs alleged that through various actions, including denial of development plans because of a desire to keep the property as open space, the city denied them profitable use of the property. *Id.* at 263–64. After the plaintiffs filed the lawsuit, the county approved a plan for development, contingent upon the property's connection to the city's sewer system. *Id.* at 264. A local ordinance, however, precluded the city from providing sewer hook-ups to residential users outside the city limits. *Id.*

¶ 13 The district court found that the plaintiffs had stated a claim for an unconstitutional taking based on the "extraordinarily unique circumstances" of the case, including the city's decision to block future development by refusing to provide sewer service. *Id.* at 266. The court recognized that "[i]n the majority of cases a municipality will have no obligation to annex surrounding territory or provide non-city users access to its sewer system, but when a city envelops county land and then, while holding a monopoly on [sewage infrastructure], denies annexation or sewer hook-ups the city cannot hide behind the fiction that its power and responsibility stops at its borders." *Id.*

¶ 14 *Barbaccia* does not support Developers' position that the City is obligated to provide utility services to the Property. *Barbaccia* did not address the issue of whether the City of San Jose was obligated to provide the service; the only issue was whether the plaintiff had stated a claim for an unconstitutional taking of his property. *Id.* at 264 n. 2 (noting that neither side had directly addressed the "plaintiffs' right to compel the city of San Jose to provide access to its sewers" and recognizing the "traditional rule ... that a municipality may not be forced to extend its sewer lines to property lying outside its boundaries"). Moreover, Developers have not alleged that the City has attempted to impose any planning or developmental control on the Property, as was the case in the very unique circumstances present in *Barbaccia.* Even assuming such allegations, Developers have cited no authority suggesting that evidence supporting a takings claim would permit a court to compel a municipality to extend water and sewer services outside its boundaries.

CONCLUSION

¶ 15 Based on the foregoing, we affirm the superior court's dismissal of Developers' complaint.

***231 **628** CONCURRING: DIANE M. JOHNSEN, Presiding Judge, and JOHN C. GEMMILL, Judge.

Ariz.App. Div. 1,2011.
Yuma Valley Land Co., LLC v. City of Yuma
227 Ariz. 228, 256 P.3d 625, 607 Ariz. Adv. Rep. 29

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ATTACHMENT 2

Morris Rozar
Phil Haggerty } Concurred

January 8, 1962
Opinion No. 62-7
R-64

REQUESTED BY: Honorable George F. Senner, Commissioner
Arizona Corporation Commission

OPINION BY: ROBERT W. PICKRELL
The Attorney General

QUESTIONS:

1. Does the Corporation Commission have jurisdiction to hold hearings regulating the transfer of assets from a privately owned water utility to a municipality and to enter an Order approving or disapproving said transfer?

2. If it does have jurisdiction to conduct such a hearing, may it inquire into the following:

   A. Amount and reasonableness of the consideration to be paid by the municipality.

   B. Reasonableness of terms and conditions of deferred payments.

   C. Reasonableness of conditions in the agreement not related to the amount of the consideration or the terms of payment.

   D. The duties and obligations of the privately owned public utility and the conditions surrounding the disposition of any certificate of convenience and necessity held by it.

3. What is the effect upon the Corporation Commission's jurisdiction of A.R.S.§9-516(C) and the declaration of public policy contained therein? (Chap. 111, Sec. 1, Laws 1960).

CONCLUSIONS:

1. Yes. A.R.S. §40-285 (1956) requires that a privately owned public utility obtain the approval of the Corporation Commission prior to disposing of its assets. This statute is not rendered inoperative even though a municipality or charter city is a purchaser.

2. A. No.

   B. No.

   C. Yes, but only insofar as the conditions relate to the future acts and duties of the private utility and to the customers who will be served thereby after the purchase or acquisition of the utility's properties by the municipality.

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D. Yes.

3. Subparagraph C of A.R.S. §9-516 has the effect of requiring the Corporation Commission to make a determination of fact that a city or town has refused private utility service before it may issue a new certificate of convenience and necessity in detriment to the rights of the holder of the existing certificate whose property is required by the municipality. It is intended to protect the seller, to preserve his rights as a regulated monopoly, pending completion of final purchase and to require the Corporation Commission to make orders when approving such a sale by a privately owned public utility as are necessary to preserve the existence of the original franchise until the municipality has completed the sale or refuses to serve part of the formerly enfranchised area.

REASONING

These questions may be answered by defining the conflicting jurisdictional areas of municipalities and the Corporation Commission and determining the effect of §§40-285, 9-515 and 9-516 A.R.S. (1956) on this situation. The Commission in its request for an opinion pointed out the following:

> "Specifically, pursuant to §40-285, Arizona Revised Statutes, we have recently held hearings upon the transfer of the assets of Government Heights Water Company in Tucson to the City of Tucson. The question was raised at that hearing and thereby necessitating this request.
>
> In view of the fact that most sales of privately owned water utility companies to municipalities are made on an installment payment basis, usually the certificate of convenience and necessity is held in abeyance pending the final payment and in case of default the certificate of convenience and necessity automatically reverts back to the seller. Further, pursuant to General Order No. U-4, water utilities under our jurisdiction are allowed to collect certain contributions, advances and deposits which are refundable under definite terms and conditions and are the responsibility of the utility under our jurisdiction.
>
> Does the Arizona Corporation Commission have jurisdiction to hold hearings and regulate the transfer of assets of a privately owned water utility to a municipality? Particularly, does the Commission have juris-

diction to inquire into the transaction as to sales price, terms and conditions of payment and other specific conditions of sale and purchase?"

In addition to the facts given in the letter, we have been informed that the water company has executed a contract of sale with the City of Tucson for the complete transfer of all its property rights, interests, and assets used to serve water. All of its former customers are being served by the city, and the territory which the water company was entitled to serve under its certificate of convenience and necessity lies within the corporate limits of the city. The city expanded its territory and encroached on the area being served by the water company. The agreement by its terms was made subject to the approval of the Corporation Commission. The Commission, at a hearing under A.R.S. §40-285, passed upon the proposed sale, received objections by both the city and the utility on any inquiry relating to the amount of the sale price or the reasonableness of the terms as related to the consideration, and the parties have not submitted themselves voluntarily to any jurisdiction of the Commission. It was stipulated that the Commission shall exercise only such jurisdiction as it may have by law. On May 1, 1961 the city began serving and has since served all the customers of the private utility using the utilities system.

The statute under which the Commission was acting reads as follows:

"§40-285 <u>Disposition of plant by public service corporations; acquisition of capital stock of public service corporation by other public service corporations</u>

A. A . . . water corporation shall not sell, lease, assign, mortgage or otherwise dispose of or encumber the whole or any part of its . . . system, necessary or useful in the performance of its duties to the public, or any franchise or permit or any right thereunder, . . . <u>without first having secured from the commission an order authorizing it so to do</u>. Every such disposition, encumbrance or merger made other than in accordance with the order of the commission authorizing it is void.

B. The approval or permit of the commission under this section shall not revive or validate any lapsed or invalid franchise or permit, or enlarge or add to the powers or privileges contained in the grant of any franchise or permit, or waive any forfeiture.

C. Nothing in this section shall prevent the sale, lease or other disposition by any such corporation of property which is not necessary or useful in the performance of its duties to the public, . . ." (Emphasis supplied).

It is our opinion that this statute can and should be given effect in this situation and has not been repealed by implication by A.R.S. §9-511, et seq., regarding the municipality's powers and duties in acquiring private utilities. Repeals by implication are not favored and statutes are to be construed together so as to give effect to all. Industrial Commission v. Hartford Accident & Indemnity Co., 61 Ariz. 86, 144 P.2d 548 (1943). In our opinion A.R.S. §40-285 must be construed with A.R.S. §§9-515 and 9-516 and the constitutional powers of municipalities and the Commission. Before discussing the effect of A.R.S. §40-285, we deem it pertinent to review the mutual powers of the Corporation Commission and the municipality and attempt to resolve apparent or actual conflicts therein.

The Corporation Commission's powers are constitutional and the Legislature may extend its powers, but may not limit them. Arizona Constitution Art. 15 Sec. 6; Garvey v. Trew, 64 Ariz. 342, 170 P.2d 845; Cert. Denied, 91 L.Ed. 673 (1946). The Legislature may not extend the Corporation Commission's powers into fields of subject matter different from those given it by the Constitution. Menderson v. City of Phoenix, 51 Ariz. 280, 76 P.2d 321 (1938). The Corporation Commission has no statutory power over municipalities, we doubt it may be given any by the Legislature. It has no jurisdiction to regulate the relationships of municipalities with the consumers of city owned water utilities. City of Phoenix v. Wright, 52 Ariz. 227, 80 P.2d 390 (1938). The Commission's jurisdiction is limited to the exercise of the powers given it by the Constitution and statutes, and should it make an order in excess of its constitutional and statutory grants of power, such orders are vulnerable for lack of jurisdiction and could be questioned in any collateral proceeding. Walker v. De Concini, 86 Ariz. 143, 341 P.2d 933 (1959). The Corporation Commission has no jurisdiction to regulate the relationships between a municipality and its consumers, even though such consumers lie beyond the boundaries of the city. The relations between the municipality and its consumers can only be regulated through the Legislature. City of Phoenix v. Kasun, 54 Ariz. 470, 97 P.2d 210 (1939). That the Commission had no jurisdiction over the acquisition and operation of public utilities by municipalities, at least over the area and consumers within municipal boundaries, was long ago recognized by the Commission. Southside Gas and Electric Co., Docket 462, Arizona Corporation Commission P.U.R. Annotated 1918A, 493 (1917). The Commission asserted its jurisdiction over the municipalities' customers outside the city limits under the then existing statutory sections. Harber v. City of Phoenix, Docket 383, Arizona Corporation 1918D, 352, (interpreting §§2277 and 2339, Revised Statutes of Arizona, 1913). Commissioner Cole dissented considering the Corporation Commission's jurisdiction could not be extended in any fashion so as to affect the powers of a municipality in the field of public utilities. The dissenting opinion was ultimately accepted. See City of Phoenix v. Kasun, supra.

We consider it now settled law that the Arizona Corporation Commission has no jurisdiction over the municipalities in either the regulation, purchase, acquisition or operation of their public utility

activities within or without municipal boundaries. However, the Commission may exercise all necessary express and implied powers to carry out its own proper functions, acting within the scope of its own jurisdiction over privately owned public service corporations. Garvey v. Trew, supra.

The denial of jurisdictional power to regulate municipalities does not give power to the municipal corporations to regulate relationships between the enfranchised privately owned public utility and members of the public. This power is vested solely in the Corporation Commission. City of Phoenix v. Sun Valley Bus Lines, 64 Ariz. 319, 170 P.2d 289 (1946).

Article 15, Sec. 3, is an Arizona Constitution grant of jurisdictional power to regulate public service corporations by the Corporation Commission. It contains a proviso:

> ". . . Provided, that incorporated cities and towns may be authorized by law to exercise supervision over public service corporations doing business therein, including the regulation of rates and charges to be made and collected by such corporations; . . ."

This proviso is not self-executing and requires legislation to give it effect. Phoenix Railway Co. v. Lount, 21 Ariz. 289, 187 Pac. 933 (1920). Northeast Rapid Transfer Co. v. Phoenix, 41 Ariz. 71, 81, 15 P.2d 951 (1932). As of this date we have found nothing which leads us to believe that the Legislature has passed enabling legislation to carry into effect this constitutional proviso. The history of past legislation shows a strong tendency by the Legislature to leave regulation under the Commission and this would militate against any construction of the statutes that would give a municipality regulatory authority. We therefore conclude that there is no legislative intent shown by general statute to vest in a municipality power to regulate a privately owned public utility in any fashion. Municipal powers granted by the Constitution and enabling statutes concern only acquisition of utilities or, as given by charter, direct operation. The municipality's rights to enter into and do business also stem from the constitution. (Art. 2, Sec. 34, Art. 13, Sec. 5). This is a broad grant of power and is in Tucson's case carried into effect by the city charter. City of Tucson v. Polar Water Co., 76 Ariz. 126, 259 P.2d 561 (1953). Title 9, Chap. 5, Art. 2, A.R.S. (1956), deals with municipal ownership. The pertinent parts are as follows:

> "§9-511.
>
> A. A municipal corporation may engage in any business or enterprise which may be engaged in by persons by virtue of a franchise from the municipal corporation, and may construct, purchase, acquire, own and maintain within or without its corporate limits any such business . . .
>
> B. The municipality may exercise the right of eminent domain either within or without its corporate limits for

the purposes as stated in subsection A . . . "

"§9-514.

Before construction, purchase, acquisition or lease by a municipal corporation, . . . shall be undertaken, . . . purchase, . . . shall be authorized by the affirmative vote of a majority of the qualified electors who are taxpayers of the municipal corporation . . . . "

"§9-515.

A. When a municipal corporation and the residents thereof are being served under an existing franchise by a public utility, the municipal corporation, before constructing, purchasing, acquiring or leasing, . . . shall first purchase and take over the property and plant of the public utility.

B. The property and plant shall become the property of the municipal corporation upon payment by the municipal corporation of the fair valuation thereof within eighteen months after the determination of the valuation . . .

C. The fair valuation of the public utility shall be the equivalent of the compensation to be paid for the taking of private property for public use as provided by article 2, chapter 8 of title 12, and the amount shall be determined by one of the following methods:

1. By agreement between the municipal corporation and the public utility.
2. By arbitrators . . .
3. By a court of competent jurisdiction determining the compensation . . .

D. The municipal corporation and the public utility shall have right of appeal as provided by article 2, chapter 8 of title 12."

These statutes may not be construed as limiting the right of the municipalities to engage in business, nor need they be construed as giving authority by the Legislature to the municipalities to engage in business. City of Tombstone v. Macia, 30 Ariz. 218, 245 Pac. 677, 46 A.L.R. 828 (1926). This case pointed out that the municipality's powers to engage in business were given by the constitution and that the predecessor statute §2035 Civil Code 1913, et seq., be construed as a statute authorizing the issuance of municipal bonds. (Distinguished, City of Tucson v. Polar Water Co., on rehearing, infra).

To the extent that these statutes relate to cities, they are repealed when in conflict with a charter granted pursuant to Art. 13, Sec. 2, Const. of Arizona. See §9-284(A). Tucson is a charter city.

It may enter into the utility business as a constitutional right. The charter is enabling legislation. City of Tucson v. Polar Water Co., 76 Ariz. 126. In that case the Supreme Court held that a privately owned public utility could not recover damages for injuries to it resulting from competition by the charter city when the city entered into the utility business. In the decision on rehearing of the same case, City of Tucson v. Polar Water Co., 76 Ariz. 404, 265 P.2d 773 (1954), the Court affirmed the holding modifying the reasoning and affirmed that part which held that A.R.S. §9-515 (16-604 ACA 1939) had no application to the situation where a municipality expands its territory and encroaches upon an existing utility. This opinion deals with a similar fact situation. The court held that the city could not be required, under the then existing statutes, to compensate the private utility for its damages and pointed out that unless a franchise were exclusive, any damage resulting from competition with the municipality would be without legal effect and would not constitute a legal injury. The court further pointed out that the franchise issued by the Corporation Commission was not an exclusive franchise and that no one could successfully sustain a contention that it was. The court did not cite any authority therefor, but we believe that the statement is amply supported by our constitutional provisions affecting such franchises. (Art. 2 Sections 9 and 13; Art. 4, Part 2, Sec. 19, Sub Sec. 13; Art. 13, Sec. 4; Art. 13, Sec. 6; Art. 14, Sec. 7.).

On rehearing, the court reversed itself only to say A.R.S. §9-515 (16-604 ACA 1939) was an eminent domain statute of general effect, of statewide concern, and would necessarily prevail and take precedence over any provisions of a city charter in conflict therewith.

The court, on rehearing, refused to read into the then existing statutes any provisions requiring the municipality in that case to compensate the private utility; but it said that the Legislature could pass appropriate legislation to protect the franchises issued by the Corporation Commission and the businesses operating thereunder from damage or destruction from municipal competition. They said that there was no constitutional basis for saying that the Legislature could not require the cities to pay a just compensation for such destruction, even though it resulted from competition. They pointed out that there was no such protective legislation.

The Twenty-first Legislature was in its Second Regular Session at the time the second Polar Water case was decided and they promptly passed Sections 1 and 2, Chap. 105, Session Laws 1954, (A.R.S. §9-516 (A) and (B)). The conclusion is inescapable that these amendments to the Cities and Towns Code were intended to provide the protective legislation said to be missing by the court. In 1960 this Section was further amended by adding Subsection C, which reads as follows:

"§9-516. Declaration of public policy; eminent domain

. . .

C. It is declared the public policy of the state that when a city or town has purchased the property or plant of a public

> utility serving in an area within or without the boundaries of the city or town pursuant to this article, the corporation commission shall not be authorized or empowered to grant a new certificate of convenience and necessity or franchise to any person, firm or corporation to provide the same kind of public utility service within the area or territory previously authorized to said public utility under its certificate of convenience and necessity or franchise, but if the city or town refuses to provide utility service to a portion or part of the area or territory previously authorized to the public utility, the corporation commission may issue a new certificate of convenience and necessity or franchise to a public utility to provide utility service in that portion or part of the area or territory. As amended Laws 1960, Ch. 111, §1."

The Legislature has required the Corporation Commission to continue in effect, but to hold in abeyance the certificate of convenience and necessity granted to those utilities that are in the process of being acquired by the municipality; and to prohibit the Corporation Commission from issuing a new certificate unless it were to find, as a matter of fact, that the city or town had refused to provide utility service to a portion of the area previously enfranchised and which the city or town has taken over from the private utility.

This opinion cannot interpret the impact of this statute on all conceivable fact situations. We give full effect to the presumption of constitutionality. It is sufficient for the purposes of this opinion to interpret the entire §9-515 A.R.S. as being a statute intended to compel the municipalities to pay just compensation to privately owned public utilities whether it chooses to purchase or compete. The City of Tucson has decided to purchase. There is no question of competition. The city charter provides for such purchase. (See Chap. IV §§ 6, 7, 14 and 24). It is given all necessary power to contract. The city elected officials, being responsible to the city voters, are charged with the duty of protecting the consumers to be served by the city upon purchase. No such duty is imposed upon the Corporation Commission.

A.R.S. §9-516 makes applicable to charter municipalities §9-515 as an eminent domain statute, and establishes the method whereby fair valuation is to be determined when the city seeks to acquire the assets of the privately owned public utility. In none of the Constitutional provisions, statutes, or cases is there any intimation that either the people, Legislature, or the courts has placed the determination of value in the hands of the Corporation Commission, either as a fact-finding agency or a judicial body. We have already expressed our doubts that such a function could be given to the Corporation Commission without conflicting with the constitutional powers given to municipalities. A.R.S. §9-516(C) is therefore a statute preserving the rights of the holder of the certificate of convenience and necessity during the period when the utilities' assets

are being purchased. It limits the powers of the Corporation Commission to issue an additional certificate of convenience and necessity during the time the municipality is completing the purchase and is serving all the customers in the area formerly served by the utility. It is implicit in the statute that the Corporation Commission must give effect to the possibility of non-service and that its order authorizing the privately owned public utility to sell its assets to a municipality is to be made preserving, among other matters, the certificate of the private utility.

A.R.S. §9-516(A) (B) and (C) having been passed, the constitution thereof is presumed, and this office is bound by that presumption. We conclude that the Arizona Supreme Court has considered, insofar as it is pertinent to this opinion, that it is proper for the Legislature to enact legislation compelling a municipality to reimburse a public utility operating within its corporate limits for such losses the utility may sustain; even though those losses result from competition with the city insofar as the serving of water is concerned. A.R.S. §9-515(C) sets forth the methods whereby a municipality may exercise its right of eminent domain. Where the statute is not operative the city charter would prevail to determine the method of purchase of the terms, conditions and consideration. The constitutional section, Article 13, No. 5, was not considered self-executing and §9-511, et seq., is the enabling legislation. Hartford Accident and Indemnity Co. v. Wainscott, 41 Ariz. 439, 19 P.2d 328 (1933).

The entire method for determining fair compensation and the right to exercise eminent domain has been set forth in these statutes or in the charters. It has also set forth (absent a charter) how property shall be valued and when the property and plant shall become the property of the municipal corporation. (A.R.S. §9-515(B), (C), (1) and (2)).

Do these sections repeal, by implication, A.R.S. §40-285? This section requires that a privately owned public utility obtain permission from the Arizona Corporation Commission before encumbering or disposing of its assets used in its public service function, as quoted above. §40-285 A.R.S. was taken from California. Trico Electric Corporation v. Ralston, 67 Ariz. 358, 196 P.2d 470 (1948). See Section 851, Public Utilities, West's Annotated California Code. Formerly Sec. 51(A) California Public Utilities Act.

In that case our Supreme Court cited with approval Hanlon v. Eshleman, et al, 146 Pac. 656, 169 Cal. 200 (1915):

> ". . .The owner may not transfer such properties unless authorized by the commission. All that the commission is concerned with therefore, is whether a proposed transfer will be injurious to the rights of the public. If not, the owner may be authorized to make the transfer. With the rights of an intending purchaser the commission has nothing to do. . . " (Emphasis supplied).

The Hanlon case held the statute permissive, and the proper parties to a proceeding thereunder were only the privately owned public utility and the Commission. By reenacting A.R.S. §40-285 following the Trico decision in substantially the same wording, it is presumed that the Legislature was aware of the decision and adopted the construction placed thereon. Moore v. Chilson, 26 Ariz. 244, 224 Pac. 818 (1924). In the case of Baldwin, et al v. Railroad Commission of California, 275 Pac. 425, 206 Calif. 581 (1929), the California Supreme Court construed the effect of the California counterpart to our statute in an analogous situation. On application of those former consumers of the water company who would be served by an irrigation district after sale, the Commission refused to pass upon the reasonableness of value, feasibility of project or the reasonableness of purchase price of an agreement made between a privately owned water company and a water storage district (an agency not subject to commission jurisdiction) on the grounds that the Commission lacked jurisdiction. The State of California had vested in a different agency a requirement to make a determination as to the values and the amount to be paid under such a contract. The Commission contended and conceded that a transfer of public utilities does not put an end to all obligations of service but that its regulatory functions were not concerned with rights of the future consumers of the storage district. This situation is parallel to ours in that our law places determination of fair value in agencies other than the Corporation Commission. We quote at length from that case:

> "Section 51(a) of the Public Utilities Act, . . . does not in terms require the commission to inquire into the value of the properties sought to be transferred for the purpose of determining the reasonableness or adequacy of the contemplated purchase price. Obviously, neither does it hamper the commission's investigation into any of such facts, should such an investigation be deemed necessary or advisable in a matter within its jurisdiction.
>
> . . . we think the position taken by the Railroad Commission is sound. It is thereby precluded from determining that a transfer to the district would not be beneficial to the consumers included within the district. That question is left to the determination of other state agencies. When the Commission has safeguarded, as it has in its order authorizing the transfer of the rights of consumers of the canal company outside the district, and has provided that the consumers within the district shall be served as provided in the Storage District Act, it is clear that the Commission has properly performed its functions. With other questions it has no concern. . . .
>
> The Railroad Commission will have no regulatory powers over the service of water which will be made to these protesting consumers, when completion of the proposed project is voted favorably by the electors in the district. . . .

> Petitioners complain that, if none of these matters needs to be determined by the Railroad Commission, then its authority in this case under section 51(a) of the Public Utilities Act becomes nothing more than a 'rubber stamp' approval. This is not true. The Commission must determine whether and to what extent, under the showing made by the applicant for authority to transfer the public utility properties, the canal company may be properly relieved of its public utility obligations.
>
> We therefore conclude that the Railroad Commission, in the proceeding before it, has regularly exercised its jurisdiction. . . " (Emphasis supplied).

If a municipality did undertake to purchase or acquire by agreement the assets of a privately owned water company the municipality could not later disregard the order of the Corporation Commission permitting the sale. Henderson v. Oroville-Wyandotte Irrigation District, Supreme Court California, 2 P.2d 803, 809 (1931). Under A.R.S. §9-515(C), three statutory methods are provided by which the municipal corporation may have determined the fair value of the assets of the public utility. Since the passage of A.R.S. §9-516 these methods are available to municipalities. In none of these instances is any action required by the Corporation Commission. All cases in California, wherein the railroad commission has determined value of purchases by municipalities, are based upon a 1914 addition to the California Constitution; Section 23A, Article 12, Constitution, West's Annotated California Code, Vol. 3, Page 93. There is no comparable Arizona constitutional provision. In California, even with such power, the railroad commission cannot fix purchase price nor make a contract for the persons involved, but can only decline to approve if the purchaser would be financially unable to furnish service or that the transfer would be contrary to the public interest. Atomic Express, 56 Calif. P.U.C. 182 (1958). The city officials are responsible to their electorate. They must decide whether to acquire by purchase or by court action. The determination of what constitutes fair value, at least insofar as charter cities are concerned, lies solely with the city officials. The Corporation Commission's concern is only with the franchised utility and its duty as a public service corporation. Until it is relieved by the Commission of its duties, and the certificate of convenience and necessity is retired, it is subject to the Commission's regulation.

The members of the public to be protected by the Corporation Commission in deciding whether or not to approve a transfer or sale, are not the former consumers who are now to be served by the municipality. See Baldwin v. Railroad Commission, supra. Those to be protected by the Corporation Commission are the persons who will or may be served by the public service corporation after the transfer.

A.R.S. §9-515 provides for several methods by which a municipal corporation may acquire the assets of a privately owned public utility. Two of these are by negotiation and in both cases the public utility

must be a party to the negotiation. Before it can become a party to a valid agreement it must secure permission of the Corporation Commission under A.R.S. §40-285. If such an agreement is made and approved between a municipal corporation and the public utility under the provisions of A.R.S. §9-515(B) and (C)(1), then the parties have entered into an executory bi-lateral contract. In this particular case, the purchase of all the physical assets, including the real property rights of the public utility. Until the sale is complete and all customers in the area are served, the utility has an interest under A.R.S. §9-516(C) as the holder of the certificate, and the Commission continues to retain jurisdiction over the utility and its certificate. As an alternative procedure, the municipality may of course condemn as provided in A.R.S. §9-515(C)(3), by court action. Where however the municipal corporation by voluntary agreement seeks to purchase a privately owned public utility it acquires, subject to the statutory requirement, that the utility obtain permission from the Commission to enter into the contract of sale. This does not thereby result in making a municipality subject to the jurisdiction of the Corporation Commission. The seller-utility must obtain permission in order to make the transfer, and the purpose thereof is to permit the Corporation Commission to make sure that the rights of the customers of the utility will be adequately protected. This requirement is not removed even though the municipality undertakes to acquire all property and serve all the customers of the privately owned public utility. In that case the Corporation Commission still must require the utility to obtain its permission. The duties and powers of the Commission are limited to the necessary hearings and orders to make sure that sale by the utility will not leave persons served neither by the utility nor the municipality. Once the municipality serves all the customers, there are no public duties then left to the utility and none of its assets used in the service of water would be necessary or useful in the performance of its duties. This section does not permit the Corporation Commission to refuse to allow the corporation's assets to be sold. (See A.R.S. §40-285(c)). The Corporation Commission in the instant case, would only be able to go into those matters which would affect the former customers of the utilities, to an orderly disposition of the remaining obligations of the public utility, and to ascertain that all such obligations have been properly provided.

Regarding the certificate, the Commission's jurisdiction continues under A.R.S. §9-516(C) until it has determined that the municipality is serving the entire area and there is no area requiring certification or service by any private utility.

CONCLUSIONS

1. The Corporation Commission has not been given any jurisdiction over a municipality in the municipality's determination of what fields of business, including public utilities, it will enter, nor over the feasibility, desirability or consideration to be paid by the municipality in the acquisition or purchase of public utilities.

2. The Legislature, exercising its power over non-charter municipalities, has decreed that municipalities shall pay fair value to acquire the facilities of public service corporations and has specified how that valuation is to be determined. (A.R.S. §§9-515(C) and 9-516).

3. Under A.R.S. §9-516(A) and (B) the Legislature has declared its intent that charter cities shall not destroy the property of enfranchised utilities by direct competition. The charter city is free to acquire by purchase, and where it chooses so to do, the question of consideration and terms as they relate to all acts of the municipality are not subject to scrutiny by the Commission. This situation involves a mutual voluntary agreement and we do not need to discuss the effect of A.R.S. §9-516(A) and (B) on purchases by a charter city.

4. Municipalities have not been given legislative grant to carry into effect the constitutional privilege of regulation of private utility within its boundaries. (Art. 15, Sec. 3). As a result municipalities are not authorized to exercise any direct supervision over the manner of doing business of public service corporations within its city limits. They may not by agreeing to purchase the assets of the utility, oust the Commission of its jurisdiction under A.R.S. §40-285. The Corporation Commission must give permission to a utility before it may dispose of its assets by agreement to a municipality or any other purchaser.

5. This statute is a permissive statute passed for the protection of the public interest. The Corporation Commission may only concern itself with questions relating to whether or not the proposed transfer will be injurious to the rights of the public. The Commission has nothing to do with the rights of the intended purchaser and has no power to determine the validity of the contract, fairness of the purchase price, or feasibility of the project.

6. When the municipality acquires the assets of a private public service corporation through purchase it necessarily requires that the private utility must voluntarily agree to sell to the municipality in this manner. The municipality is therefore on notice as to the requirement under A.R.S. §40-285 that the public service corporation must obtain permission of the Corporation Commission to sell. They are bound to honor the order made by the Commission in approving the sale.

7. In the situation where only part of the assets of the private utility are being conveyed to a municipality and the utility will continue to serve, after the sale, some customers, the Commission shall make its order relative to those customers which will not be served by the municipality, and the private utility may not then dispose of the assets that the Commission finds are necessary to meet the needs of those customers remaining.

8. In the situation when the entire assets of the private utility are acquired by a municipality and all the customers are to be served by it, the utilities' public service function is ended. The

Corporation Commission cannot prohibit the sale of its assets. The hearing and order must be directed only to a determination that there are no other customers or persons who have been served by the private utility and that it will, in fact, have been relieved of all its duties to serve such customers. The Commission's determination is to be made relating only to these matters. They may not enter an order denying the public utility the right to dispose of its assets, except upon the grounds that the utility is not in fact terminating its function in the service of its customers. This is the effect of A.R.S. §40-285(C).

9. The Corporation Commission in its order approving any sale under A.R.S. §40-285, must give effect to §9-516(C) to the extent that it shall protect from encroachment by additional certification the rights of the holder of the certificate of convenience and necessity of the utility being purchased and can only terminate the certificate of the privately owned public utility being purchased and relieve it from the duties of a public service corporation after it is apparent that the municipal corporation has not and will not refuse "to provide utility service to a portion or part of the area or territory previously authorized to the public utility."

10. If the municipality refuses to serve customers in the area taken over, the Corporation Commission then may issue a new certificate of convenience and necessity to a public utility to provide service to that portion of the area or territory which the municipality has refused to service. Its power of investigation to determine the necessary facts is preserved. To perform these duties the Commission retains jurisdiction over the utility after sale and has full power to investigate completion of sale.

WILLIAM CLARK KENNEDY
Chief Assistant Attorney General
Robert W. Pickrell
By Clark Kennedy
ROBERT W. PICKRELL
The Attorney General

WCK:RWP:vbk

ATTACHMENT 3

ZONA REVISED STATUTES. (Emphasis added).

Based on the language of subsection (C) and the Title to the amendment, it is clear to us that the legislature intended to grant a right to those persons living outside the boundaries of a city, who are users of a city's water service, to require the continuation of such water service by the City once it has been established. Such a public policy did not exist at the time *City of Phoenix v. Kasun, supra,* was decided. Now, an obligation to furnish continued water services to appellants exists by virtue of A.R.S. § 9-516(C) and the *City of Phoenix v. Kasun, supra,* is inapplicable to the claims asserted here by appellants.

The judgment of dismissal is reversed and this matter is remanded to the trial court for further proceedings.

GRANT and HAIRE, JJ., concur.

160 Ariz. 38

Barney JUNG; James R. Fiddler; Harry Thurston, d/b/a Harry Thurston's Saddle Shop; Lawrence L. Lake, Plaintiffs/Appellants

v.

The CITY OF PHOENIX; Terry Goddard, Mayor of the City of Phoenix; Council of the City of Phoenix; William Parks, Duane Pell, Barry Starr, John Nelson, Howard Adams, Ed Korrick, Mary Rose Wilcox, and Calvin Goode, City Council Members; Phoenix Water and Wastewater Department; William E. Korbitz, Director of the Phoenix Water and Wastewater Department; Marvin Andrews, City Manager; City of Phoenix Water System, Defendants/Appellees.

No. CV-87-0199-PR.

Supreme Court of Arizona,
En Banc.

Jan. 12, 1989.

Nonresident customers of city water department brought civil rights action against city seeking damages and injunctive relief on ground that their water rates were twice those charged to city residents. The Superior Court, Maricopa County, No. C-543809, James Moeller, J., granted city's motion to dismiss, and appeal was taken. The Court of Appeals, 160 Ariz. 35, 770 P.2d 339, reversed and remanded, and city petitioned for review. The Supreme Court, Holohan, J., (Retired), held that: (1) plaintiff's allegations did not support claim under federal civil rights statute, and (2) statute limiting water rates city could charge nonresidents limited damages and injunctive relief nonresidents could recover from city in action challenging allegedly discriminatory rates, but did not affect claims of nonresidents for period before statute's effective date.

Opinion modified, remanded.

Feldman, V.C.J., filed concurring opinion.

1. Civil Rights ⇐13.12(3)

Allegations by nonresident customers of city's water department, that rates charged nonresidents were twice those charged to residents, did not support claim under federal civil rights statute; any remedy available to nonresidents was under state law. 42 U.S.C.A. § 1983.

2. Waters and Water Courses ⇐205

Statute requiring city to continue water service to nonresidents also required city to charge reasonable rate for such service. A.R.S. § 9-516, subd. C.

3. Waters and Water Courses ⇐203(3)

Generally, municipally owned waterworks system supplying water outside its corporate limits may charge more for that service than it charges users who reside within corporate limits. A.R.S. § 9-516, subd. C.

4. Municipal Corporations ⇐277

In all cases, city must have reasonable basis for discrimination in its charges for

utility services between residents and nonresidents; proof that service of nonresidents involves greater expense is sufficient to show city acted reasonably in charging higher rates for nonresidents. A.R.S. § 9-516, subd. C.

5. Waters and Water Courses ⇐182, 203(12)

Statute limiting water rates city could charge nonresidents limited damages and injunctive relief nonresidents could recover from city in action challenging allegedly discriminatory rates, but did not affect claims of nonresidents for period before statute's effective date. A.R.S. § 9-511, subd. A.

Friedeman & O'Leary by John Friedeman and Charles L. Eger, Phoenix, for plaintiffs/appellants.

Roderick G. McDougall, Phoenix City Atty. by Jesse W. Sears and Philip M. Haggerty, Asst. City Attys., Phoenix, for defendants/appellees.

Johnson & Shelley by LaMar Shelley, Mesa, for amicus curiae Leage of Arizona Cities and Towns.

Charles G. Ollinger, III, Paradise Valley Atty., Paradise Valley, for amicus curiae Town of Paradise Valley.

HOLOHAN, Justice (Retired).

The plaintiffs, appellants, brought an action under 42 U.S.C. 1983 against the City of Phoenix seeking damages and injunctive relief because of alleged discrimination by the defendant city in charging different water rates for customers residing outside its exterior boundaries. The plaintiffs also sought to maintain the action as a class action upon behalf of all customers of the defendant city similarly affected by the water rates.

The superior court granted the city's motion to dismiss which also mooted the question of maintaining the action as a class action. On appeal, the Court of Appeals reversed the judgment of dismissal and remanded the case to the superior court for further proceedings. *Jung v. City of Phoenix*, 160 Ariz. 35, 770 P.2d 339 (App. 1987) (1 CA-CIV 8692, filed Feb. 24, 1987). We granted the city's petition for review to clarify the nature of the plaintiffs' remedies in this utility rate litigation.

The essential facts, briefly stated, are that prior to 1985, the City of Phoenix maintained a water rate for nonresidents that was the same as that for residents. In 1985 the City of Phoenix enacted an ordinance which doubled the water rates for those residing outside the geographical boundaries of the city. The plaintiffs challenged the increased water rate, alleging that it constituted unconstitutional discrimination by the City against nonresidents.

DISCUSSION

[1] Although we agree with most of the analysis in the opinion of the Court of Appeals, we believe that the opinion suggests, at least by implication, that the plaintiffs' allegations support a civil rights action under 42 U.S.C. § 1983. We believe that any suggestion that the allegations of the complaint support a civil rights action must be corrected. Not every denial of a right conferred by state law involves a denial of equal protection. *See Snowden v. Hughes*, 321 U.S. 1, 8, 64 S.Ct. 397, 401, 88 L.Ed. 497 (1944). The plaintiffs have no constitutional right to receive water at a particular rate. *City of Phoenix v. Kasun*, 54 Ariz. 470, 97 P.2d 210 (1939). The city, in providing water service to nonresidents, is acting in its proprietary capacity and, *absent a statute*, has no duty to provide water to the nonresidents. *Id.* If the city has violated a state statute in its charges for water provided to nonresidents, the plaintiffs' remedy is under state law, not under § 1983 of the Civil Rights Act.

Nature of the Remedy

Almost fifty years ago this court noted in *Kasun* that the legislature was the body which had the right to regulate the rates charged by a municipal corporation operating a public utility. 54 Ariz. at 474, 97 P.2d at 214. Since *Kasun* the legislature has enacted legislation specifically governing

water service to nonresidents by a municipality.

The relevant statute, A.R.S. § 9-516, prohibits a city from discontinuing water service to nonresidents. The statute provides in part:

> C. A city or town acquiring the facilities of a public service corporation rendering utility service without the boundaries of such city or town, or which renders utility service without its boundaries, ***shall not discontinue such service, once established, as long as such city or town owns or controls such utility***....

A.R.S. § 9-516(C).

[2] The city argues that neither the cited statute, nor any other for that matter, authorize a court to set municipal water rates. We agree with the city, and the opinion of the Court of Appeals does not indicate disagreement with that position. As the Court of Appeals indicates, the resolution of this case depends upon the proper construction and enforcement of the controlling statute. At the outset we point out that A.R.S. § 9-516(C) speaks in terms of the city *rendering utility service* without its boundaries. The furnishing of utility service by a public service corporation is regulated by the Corporation Commission, and such utility service must be provided at reasonable rates. Although the Corporation Commission has no jurisdiction over municipal charges for utility service, we believe that the implication of reasonable rates for utility service must be read into A.R.S. § 9-516(C). If such a construction is not adopted, a city could charge any rate it wished despite its effect on the nonresidents' need for utility service. The legislature did not intend to place nonresidents of a city in such an impossible situation. The obligation of a city to continue utility service as required by A.R.S. § 9-516(C) necessarily implies that the charges for such services will be at reasonable rates.

Additionally, the requirement that a city charge reasonable rates where a service has been required to be performed by law is a principle recognized by many authorities. *See* McQuillan, *Municipal Corporations* § 35.376A. The principle was recognized in *Kasun* when the court stated:

> Was the service which the City of Phoenix rendered to plaintiffs and those in like situation with them, based upon contract or law? ***If it was based upon a legal right regardless of contract, by all the decisions the courts may determine whether the terms on which he obtains this service are reasonable or not.*** On the other hand, if his right to receive service is based solely on a voluntary contract with the city, then that contract is subject to review by the courts only in the same manner as any other private contract, and it is not for them to determine whether its provisions are arbitrary, unreasonable or discriminatory. (Emphasis supplied).

Kasun, 54 Ariz. at 476, 97 P.2d at 216.

The City does not contend that it does not have a legal duty to continue water service to the nonresidents. The statute at issue clearly mandates such duty. As a consequence of that duty we hold that the city must provide water service at a reasonable rate.

[3] The city points out that a standard of reasonableness is not really a standard because it is subject to various interpretations. Application of a reasonableness standard is not a new concept. It has been applied over the years in a number of cases by various courts. Some general principles abstracted from the cases are helpful in providing guidance about what is reasonable. As a general rule a municipally owned waterworks system supplying water outside its corporate limits may charge more for that service than it charges the users who reside within the corporate limits. *See* McQuillan, *Municipal Corporations Extraterritorial Rates* § 35.37(3d ed.); 4 A.L.R.2d 590, 598; 64 Am Jur.2d *Public Utilities* § 120 at 647 (1972); *Pompano Beach v. Oltman*, 389 So.2d 283, petition denied (Fla.) 399 So.2d 1144. "A city's first duty is to its own inhabitants who ordinarily pay for the municipal plant directly or indirectly, and who therefore have a preferred claim to the benefits resulting from public ownership." *Delony v.*

Rucker, 302 S.W.2d 287 (1957). The burden of proving the city's rate schedule to be arbitrary and unreasonable rests upon the plaintiffs, for the ordinance is entitled to the presumption of validity that legislative enactments ordinarily receive. A city may "permissibly serve residents at cost and glean a profit from outsiders." *Id.*

[4] In all cases, the city must have a reasonable basis for the discrimination in its charges. *Delony v. Rucker*, 302 S.W.2d 287 (1957). Proof that service of nonresidents involves greater expenses is sufficient to show a city acted reasonably in charging high rates for nonresidents. *See id.* at 290, *Collins v. Goshen*, 635 F.2d 954 (2d Cir.1980). The foregoing examples are provided as illustrations, not as limitations, and other factors may also bear upon the question of reasonableness.

[5] The city asserts that the construction of A.R.S. § 9-516(C) by the Court of Appeals is flawed because the legislative intent on rates to nonresidents was clarified by A.R.S. § 9-511 as amended by Laws 1986.

The city asserts that the disposition of this case by the Court of Appeals is improper because it violates the clear requirements of A.R.S. § 9-511 as amended by Laws 1986. The cited statute provides:

> If a municipality provides water to another municipality, the rates it charges for the water to the public in the other municipality shall be one of the following:
>
> 1. The same or less than the rates it charges its own residents for water.
>
> 2. The same or less than the rates the other municipality charges its residents for water.
>
> 3. If the other municipality does not provide water, the average rates charged for water to the residents in the other municipality by private water companies.
>
> 4. Rates determined by a contract which is approved by both municipalities and in which such rates are justified by a cost of service study or by any other method agreed to by both municipalities.

A.R.S. § 9-511(A).

The city argues that the water rates to be charged the plaintiffs must be based on the new statute. Further, A.R.S. § 9-511(A) sets the standard for the rates to be charged, and the rates are not to be tested by a reasonableness standard. We agree in part with the city's contention. From and after the effective date of A.R.S. § 9-511(A), any of the plaintiffs who reside in a municipality to which the City of Phoenix provides water, the charges for the water will be made in accordance with the above statute. We disagree with the city that the amended statute affects the claims of the plaintiffs for the period before the effective date of the amendment, and we do not conclude that all the named plaintiffs are affected by the amended statute because some of them may receive water service from the city and be residents of an unincorporated area of the county. In summary, the enactment of A.R.S. § 9-511(A) affects the plaintiffs in their claims for damages for any period after the effective date of the amendment, and any injunctive relief which might be granted by the superior court must not conflict with the water rate structure provided in A.R.S. § 9-511(A) for any plaintiffs coming with the class covered by the cited statute.

As noted earlier, the complaint seeks relief under 42 U.S.C. § 1983 for arbitrary and discriminatory water rates charged by the city. The action may not be maintained under 42 U.S.C. § 1983, but the plaintiffs' allegations in the complaint show that they may be entitled to relief under another legal theory, and they should be allowed to amend the complaint to assert a right to reasonable rates under A.R.S. § 9-516. *State ex rel. Corbin v. Pickrell*, 136 Ariz. 589, 667 P.2d 1304 (1983). The dismissal of the complaint without leave to amend was error.

The opinion of the Court of Appeals is modified in accordance with the views expressed in this opinion. The judgment of the superior court is reversed, and the case

is remanded to that court for further proceedings consistent with this opinion.

CAMERON, J., concurs.

GORDON, C.J., and MOELLER, J., did not participate in the determination of this matter.

FELDMAN, Vice Chief Justice, concurring.

I concur in the result. The trial court granted a motion to dismiss, essentially holding that it had no jurisdiction. Plaintiffs alleged in the complaint that the city had set rates that were both discriminatory and unreasonable for non-residents of the municipality. Basing its argument on *City of Phoenix v. Kasun*, 54 Ariz. 470, 97 P.2d 210 (1939), the city contends that the rates are solely a matter of contract and that the court cannot make rates. In my view, the argument is incorrect—a great deal of difference exists between judicial ratemaking and judicial review of rates set by the utility.

Basically, I agree with the court of appeals. Given A.R.S. § 9-516(C) and (D), which prevent municipal water utilities from discontinuing service to current subscribers located outside the municipality's boundaries, and the corporation commission from granting certificates of convenience and necessity to any potential water utility competitors, *Kasun*'s contract theory—prohibiting judicial review of rates set by the city—is no longer good law.

Because the city chose to serve the subscribers, because the law prevents discontinuance of such service, and because the city has a virtual monopoly in the provision of services, I believe the city subjects itself to the common law duties of those who provide essential services to others. *Village of Niles v. City of Chicago*, 82 Ill.App. 3d 60, 68, 37 Ill.Dec. 142, 147, 401 N.E.2d 1235, 1240 (1980) (common law of utilities law provides that a "city is subject to the same rules that would apply to a privately owned utility, [ ]including those forbidding unreasonableness and discrimination in utility rates[ ]."') (citations omitted); *see generally* E. McQUILLIN, LAW OF MUNICIPAL CORPORATIONS §§ 34.158, at 408, and 35.37a, at 616 (3d ed. 1986). Thus, the city may be enjoined from setting discriminatory or unreasonable rates. Furthermore, under proper circumstances, the city may be responsible in damages.

I believe that all we need to say here is that the plaintiffs have stated a cause of action, and the judgment of dismissal must be reversed. What theories are applicable, and what relief ought to be granted cannot be decided unless and until the facts are proved in the trial court.

160 Ariz. 42

Alfred A. COLBERG and Mildred K. Colberg, husband and wife, Plaintiffs-Appellants,

v.

Orlo RELLINGER and Judi Rellinger, husband and wife, Defendants-Appellees.

No. 1 CA-CIV 8857.

Court of Appeals of Arizona, Division 1, Department C.

July 14, 1988.

Supplemental Opinion Dec. 13, 1988.

Reconsideration Denied Jan. 27, 1989.

Review Denied April 4, 1989.

Homeowner brought action against contractor and contractor's qualifying party to recover damages for alleged faulty construction of residence. The Superior Court, Yavapai County, Cause No. C-41409, James B. Sult, J., awarded judgment for homeowner against contractor, but denied recovery against qualifying parties. Court also awarded attorney fees to homeowner against company and to qualifying parties against homeowner, and appeal was taken. The Court of Appeals, Shelley, P.J., held that: (1) homeowner did not have neg-

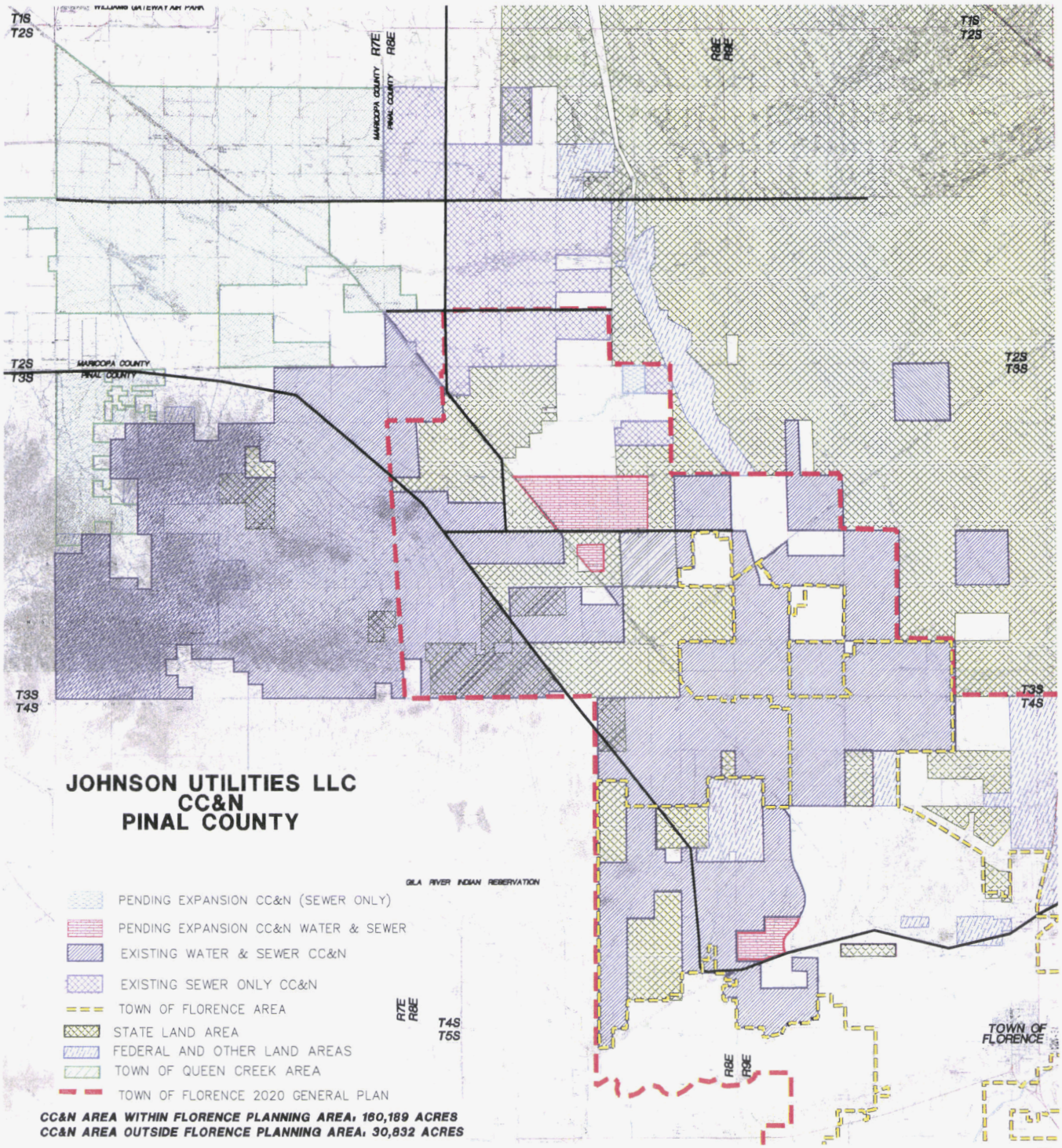

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EXHIBIT
A-6
ADMITTED

MINUTES OF THE FLORENCE TOWN COUNCIL WILL HOLD A MEETING OPEN TO THE PUBLIC ON WEDNESDAY, MARCH 26, 2014, AT 5:00 P.M., IN THE CHAMBERS OF TOWN HALL, LOCATED AT 775 NORTH MAIN STREET, FLORENCE, ARIZONA.

EXHIBIT
A-8
ADMITTED

1. CALL TO ORDER

Mayor Rankin called the meeting to order at 5:04 pm.

2. ROLL CALL:

Present: Rankin, Smith, Celaya, Hawkins, Montaño, Walter, Woolridge

3. CALL TO THE PUBLIC

Call to the Public for public comment on issues within the jurisdiction of the Town Council. Council rules limit public comment to three minutes. Individual Councilmembers may respond to criticism made by those commenting, may ask staff to review a matter raised or may ask that a matter be put on a future agenda. However, members of the Council shall not discuss or take action on any matter during an open call to the public unless the matters are properly noticed for discussion and legal action.

There were no public comments.

4. ADJOURN TO EXECUTIVE SESSION

For the purpose of discussion of the public body with the Town Attorney in accordance with A.R.S. § 38-431.03(A)(4) and A.R.S 38-431.03(A)(7) regarding negotiations for the purchase of water and wastewater infrastructure including real property related thereto.

On motion of Councilmember Walter, seconded by Councilmember Hawkins, and carried to adjourn to Executive Session.

5. ADJOURN FROM EXECUTIVE SESSION

On motion of Councilmember Hawkins, seconded by Councilmember Walter, and carried to adjourn from Executive Session.

6. WORK SESSION REGARDING ACQUISITION OF THE ASSETS OF JOHNSON UTILITIES, LLC, AND SOUTHWEST ENVIROMENTAL UTILITIES, LLC.

Mr. Charles A. Montoya, Town Manager, gave a brief overview as to why Florence would benefit from the purchase of the utility company. He said having two water providers service the Florence residents can be problematic at times with regards to communication, separate billings, etc.

Mr. Montoya stated that discussions have occurred and the conclusion is that it would be more feasible and economically viable to purchase the entire utilities from Johnson

Utilities. He said the Town has a number of independent consultants working on behalf of the Town to do the evaluation to ensure that Council has the information needed to make an informed decision.

Mr. Dan Jackson, Managing Director and Acting Chief Executive of Economists.com, stated that when Florence is considering such a large acquisition, it must ask the following:

- Is the price being asked a reasonable price? Is it too high/low?
- Can the Town afford it?
- Once you acquire the utility, will the revenues that you will get from the accounts that you acquired will be enough to pay all of the expenses of operating the system?
- What general benefits does the Town accrue by making such an acquisition?
- What are the risks involved in an acquisition like this?

Mr. Jackson provided a Power Point presentation which outlined the following:

- Basic terms of the deal
  - Purchase price is approximately $121,000,000
  - Funded by bonds purchased from the seller
  - Closing date is to be mid to late 2014
  - Five year management agreement after the acquisition
- Acquiring approximately 56,000 accounts
  - Price per account is approximately $2,162
    - Price is reasonable when compared to what the purchase price was for other companies since 2004
    - Average purchase price was $3,209 per account
- Forecast of future revenues and expenses under Town ownership
  - Town staff and consultants developed a 25 year comprehensive long-term forecast of future revenues and expenses under ownership and operation by the Town of Florence
  - Forecast was based on a series of very conservative assumptions about future events:
    - Only modest annual account growth
    - Many expenses continue to increase each year
    - Annual 3.0% rate adjustments in the next to 10 to 20 years (less than industry average rate increase which is approximately 5-6% annually)
  - Key was to determine whether the Town could operate the acquired utility at a reasonable cost to ratepayers while still deriving a financial benefit to the Town
- Notes on Financial Forecast
  - The forecast is not a guarantee. It is a prediction based on a set of reasonable assumptions that may or may not turn out to be correct
  - Because no one can predict the future with perfect accuracy, there remains a possibility that unexpected expenses will occur or expenses will be greater than forecast
  - The risk of unexpected and /or higher expenses is common in the purchase of any business

    - Town alone must be willing to accept the risk as a cost of doing business and of making this deal
- Forecast of water accounts
    - Johnson Utilities had significant growth in the last 15 years
    - Water – 1,000 per year
    - Wastewater - 1,300 accounts per year
    - Will reach approximately 43,000 accounts by 2033
- Year 1-20 financial Forecast 3.0% annual rate adjustments
    - Revenues are forecast to be sufficient to fund all acquisitions and operating costs including debt service payments and all operating costs
- Potential financial benefits of purchase
    - Increased efficiencies of Town staff and work force in operating two systems.
    - Annual financial contribution for acquired utility to General Fund, thus limiting the need for additional taxes
        - Approximately 10% of the revenues will go to General Fund
    - Elimination of 5% franchise fee to existing Town residents
    - Net cash flow could be used to improve the quality of both existing and acquired utilities
    - Net cash flow could also be used to limit future rate increases on both existing and acquired utilities
- Risks of additional rate increases
    - While potential benefits are significant, there is also the risk that additional rate increases would be required if any of the following occurs:
        - Annual account growth is lower than 1,000 water and 1,300 wastewater Town personnel requirements are greater than expected
        - Operating expenses or CAGRD are greater than forecasted
        - Capital improvement needs are greater than forecasted
        - Major economic disruption – recession, terrorist attack, weather event, etc.
- Summary
    - Acquisition price is reasonable and affordable compared to other utilities
    - As with any deal of this magnitude, there are risks associated with this transaction that must be recognized and accepted
    - Economic and financial forecast indicates that this acquisition has numerous potential financial benefits to the Town of Florence

Mayor Rankin asked Mr. Eckhoff if the projected growth that Mr. Jackson forecasted is the same as what the Community Development Department has forecasted.

Mr. Mark Eckhoff, Community Development Director, stated that growth projections are reasonable.

Mayor Rankin asked for clarification on the growth factors that are not controllable by the Council with regards to forecasted revenues to expenses. He inquired if the cost of the well is one of those costs.

Mr. Jackson stated that the well is one of the costs. He said a lot of the costs that are incurred are beyond one's control, such as inflation, chemicals, electricity, insurances, etc.

Mayor Rankin asked Mr. Wayne Costa, Public Works Director, and Mr. John Mitchell, Utilities Director, if the five year management plan is agreeable and if the amount of time is adequate.

Mr. John Mitchell, Utilities Director, stated the time frame is reasonable.

Vice-Mayor Smith inquired the rates for the first five years of the bonds.

Mr. Montoya said the terms are for 30 years, with the first five years being interest only at approximately 5%. The next twenty five years will be at 8%.

Vice-Mayor Smith inquired what the total cost will be for the duration of the bonds.

Councilmember Walter stated that the term of the bonds are 6.625% for the first five years, and 8% for the next 25 years with maturity in 2024.

Councilmember Celaya said the project will be self-funded.

Councilmember Montaño inquired what the difference in rates are between the Town of Florence and Johnson Utilities.

Mr. Jackson said the Johnson Utilities rates are slightly higher but they are comparable. He inquired if the rates will change.

Mr. Montoya said the goal is to have similar rates. There are ways to save money in the acquisition that will help lower the cost to the consumer.

Mr. George Johnson, Johnson Utilities, stated that the acquisition will position the Town to determine the future plans for responsible growth as the residents see fit. He explained the benefits to the customers if Florence were to obtain Johnson Utilities. He also explained the bonds and said Johnson Utilities is financing 100% of the sale price. The one-time closing fee and annual fees, payable to the Phoenix IDA, have been reduced from approximately $120,000 to $48,000. The project is 25% complete and he looks forward to Florence taking the project forward.

Mr. Dan Hodges, Johnson Utilities, provided a PowerPoint presentation in which he outlined the following:

- Seller Financed Bonds
  - Town of Florence residents are not taking any risk
  - Revenue bonds are secured only by Johnson Utilities revenue
  - Revenues at current rates will pay the financing on the purchase
  - Town of Florence has no liability for the payment of the purchase price

- Town of Florence will receive in excess of $3.5 million in cash assets at closing to fund the reserve accounts
- Purchase does not impact the Town's bonding capacity
- 5% franchise fee currently paid by Johnson Utilities customers who reside within the Town boundaries will no longer be charged

Mr. Hodges explained their service territory. He said they are 25% built out based on the existing territory and it does not include the state land. He explained that the cost per connection is less than half of what Queen Creek purchased H2O for. Water Works Engineers, analyzed the Johnson Utilities system and explained the price variance in building a new system versus acquiring the Johnson Utilities existing system.

Mr. Hodges explained their growth projections. He said they had 16,886 additional connections within seven years, with an average growth of 2,412 connections per year. The estimated connections for their territory at build out are 211,395 connections. He said Florence will be paying for current connections only, and not for future growth or service territory. Financial projections prepared by Johnson Utilities estimated an increase of 500 water and 1000 wastewater connections per year.

Mr. Hodges stated that they have four wastewater treatment plants in operation. He explained what build capacity is and how it is calculated. He said their plants are built to 7.1 Million Gallons per Day (MGD). He said they have permitted with ADEQ for 15.4 MGD; which means they have paid for the engineering for future capacities for wastewater to double the existing MGD. He said they are currently treating 4.77 MGD and have a remaining capacity of 2.33 MGD. He said the remaining capacity will allow for treatment for another 12,460 homes or to sustain them for the next ten years.

Mr. Hodges said when expanding, they duplicate the existing plant which utilizes a standardized system and saves engineering costs. He said the plan is, within the first five years, to build another phase on the Pecan Wastewater Treatment Plant so they may provide the experience to the Town as part of the agreement.

Mr. Hodges discussed the following in his PowerPoint Presentation:

- Engineering Report
    - Cost to build a new phase is approximately $10.00 per gallon.
    - Town of Florence Engineering Report is based on industry standard costs and a 40% contingency added.
    - Johnson Utilities management has over 40 years in building water and sewer systems.
    - From this experience, Johnson Utilities management is able to build facilities at costs lower than industry standards.
    - Johnson Utilities looks forward to sharing this experience and knowledge during our management period.
    - The report assumes that replacement of entire water and sewer facilities at the end of the book stated useful life.
    - Water and sewer facilities are continuously maintained. Entire water and sewer facilities are not replaced at the end of their book stated useful life.

- Lift-stations were shown as a cost to Johnson Utilities. Typically, developers pay all costs associated with connecting to the existing system of the utility.

Mr. Hodges said they have budgeted $5 million in their financials to cover the building of the wastewater treatment facility within the five year period. The money will be placed in the reserve account prior to the start of any construction.

Mr. Hodges continued with his PowerPoint presentation, which outlined the following:

- Remaining Water Capacity
  - Total well productions – 22,367,520 GPD
  - Can serve 67,372 homes per day at 332 GPD
  - Served 22,954 water connections in 2013
  - 44,418 total number of water connections available for growth
- Rate Comparison
  - Current rates based on 7,500 gallons of usage per month with a ¾" meter

	Town of Florence	Johnson Utilities
Water:	$32.68	$31.51
Wastewater	$39.09	$42.00
Total cost:	$71.77	$73.51

- Economists.com Report
  - Based rate comparison on 10,000 gallons water and 5,000 gallons sewer
  - Johnson Utilities rates are set up for water conservation with the Arizona Corporation commission (high users are charged more)
  - Average Anthem resident uses 6,300 gallons of water per month
  - WIFA uses 7,500 gallons of water to compare water companies

Mr. Hodges provided comparisons for various water and sewer companies and stated that Johnson Utilities was below the Arizona Corporation Commission regulated average rates in both water and sewer.

Mr. Hodges continued with his PowerPoint presentation, in which he discussed the following:

- Economists projections
  - Henry and Horne analyzed Johnson Utilities 2013 financial information and the 2013 figures exceeded Johnson Utilities projections
  - Johnson Utilities projections are based on historical and anticipated future performance at a conservative growth number.
  - Economists.com presentation shows this is an excellent opportunity for the Town of Florence.
- 100% Seller Financed Bonds
  - The bonds are backed by Johnson Utilities revenue from the assets.
  - The Town of Florence has no liability for the payment of the purchase price.
  - The Town of Florence residents are not exposed to any risk
  - Johnson Utilities is taking the entire risk of any non-payment of the bonds.

    - Town of Florence does not have to increase rates to pay for the purchase price.
- Phoenix IDA will be issuer of bonds
    - Independent 3rd party issuer of the bonds
    - Fees have been reduced by over 50% to accommodate the Town and JU because of the strength of revenues.
    - These fees are paid from project revenues.
    - Project revenues are more than adequate to cover the fees
    - Use of an IDA to issue bonds has been a seller requirement since initial discussions regarding the sale.
    - The strength of the revenues being produced is the reason the Town of Florence is receiving such an advantageous fee structure from the IDA.
    - The structure was shown in the Economists.com report.
- Management Agreement
    - Management Agreement allows for a smooth transition into the Town of Florence managing the system.
    - Johnson Utilities has a vested interest in making sure the Town is very successful in the management of the system and the retirement of the bonds.

Mayor Rankin inquired about the difference in water connections and wastewater connection totals.

Mr. Jackson said there are certain service areas where the water is serviced by another provider aside from Johnson Utilities.

Mr. Montoya stated the initial report had projected numbers for connections while Mr. Hodges report indicates the final numbers for connections.

Mayor Rankin inquired if they will be required to get CAG's permission before they can expand the plant.

Mr. Hodges outlined their CAG area and stated that it encompasses the entire Johnson Utilities service territory, which is planned at 15.4 MGD. He said the plants are projected at build out with CAG so they would not have to seek the 208 from CAG. The APP Permit for ADEQ has been taken care of as well.

Mayor Rankin stated that the report indicates that high users are charged more. He inquired what is considered a high user.

Mr. Hodges stated that from the Arizona Corporation Commission's (ACC) standpoint, a high user is someone who uses more than the average number when setting rates. Johnson Utilities has a tier system that correlates with the charges.

Mr. James E. Mannato, Town Attorney, acknowledged the following individuals present at the meeting: Juan Salgado, Phoenix IDA Director; Patrick A. Ray, Law Firm of Kutak Rock; George Johnson, Johnson Utilities; Gary Drummond, Law Firm of Salquist and

Drummond; Gary Hays, Arizona Corporation Commission; Dan Hodges, Johnson Utilities; Fred Faith, Law Firm of Dickinson Wright/Mariscal Weeks; Michael Cafiso, Greenberg and Traurig; Paul Gayles, Greenberg and Traurig; Dan Jackson, Economists.com; John Mata, Water Works Engineers; Wayne Costa, Public Works Director, Town of Florence; and John Mitchell, Utilities Director, Town of Florence.

Mr. Mannato stated the transference of responsibility of the utility company from a private sector to governmental sector is very important. The transaction and the cancellation or extinguishment of the certificates of conveyance and necessity will also have to be approved by the Arizona Corporation Commission. He said once this happens, the water and wastewater system will be regulated by the Town of Florence. He explained the differences in the way the utility operates as a government enterprise and in the way it operates as a private enterprise. One major difference is the way the rates are set. The Town of Florence sets its own rates based on utility studies. The Arizona Corporation Commission set the rates for private companies.

Mr. Mannato said much of the contract negotiations have to do with arriving at an acceptable set of contracts that will facilitate the metamorphosis of Johnson Utilities into a government enterprise that will have to be operated pursuant to the Florence Town Code and state law. It must also provide for the necessary assurances that are required to ensure that the utility bond holder will receive the principal and interest on his bonds and the bonds will eventually be retired. He said the negotiations of the contracts are ongoing as the authorizing election approaches on May 20, 2014. Both sides are working toward the same goal that all sides be equally protected.

Mr. Mannato said many of the terms that are contained in the draft contract have not been commented on by Mr. Johnson's team. The Management Agreement is in negotiations and emphasized that they are in draft format only. He explained the process of negotiation.

Mr. Mannato said the Management Agreement is necessary because of the enormity of the utility system. It is not possible for the Town to take over the operations of the utility immediately if the Town receives voter approval. He said the agreement serves several purposes, such as:

- Ensure that a seamless transition occurs
- Ensure that the utility functions in a way that Mr. Johnson will be ensured that it will produce the revenue that is required to meet the projections of Mr. Jackson and Mr. Hodges
- Ensure that there will be no difficulty in servicing the debt service on the bonds while providing enough revenue so that there is remaining revenue for the Town to continue to improve and operate the utility system.

Mr. Mannato stated that the Management Agreement has to be structured in a way that allows the utility to be transitioned into a governmental enterprise. Governmental enterprises have to deal with areas of law that do not necessarily affect Johnson Utilities. He said the Town deals with laws within the Arizona Revises Statutes; utilize a different mechanism for setting rates, and must facilitate and utilize public procurement so the public has an understanding of where the money is being spent. He said the

employees are dealt with differently as well, such as having to adhere to the constitutional requirements that apply to employees of a governmental entity.

Mr. Mannato said the Management Agreement is for five years, and by year two, both sides must arrive at a transitional agreement that will specify how both will facilitate the transfer. The goal for years three, four and five is that the Town will become increasingly more responsible for the day-to-day operations of the utility system. The Management Agreement calls for the payment of $500,000 per year for the continued management of the system by Mr. Johnson's firm. He said the money can be paid from the revenue from the utility system and will ensure that the Town operates the utility system in a way that causes very little or no change to those who rely on the utility system.

Mr. Mannato said there are other issues that need to be reviewed, such as is if it is more advantageous for the Town to insure the assets of the utility system the same way it insures its other assets or if the Town should use other insurance that is procured and provided by the manager.

Councilmember Walter inquired about the expected net revenue total per year. She further inquired about how much revenue would go towards the Management Agreement.

Mr. Mannato stated that when the Town first considered purchasing Johnson Utilities in 2007, they assigned a dollar value to each water connection and each sewer connection. Those fees would be used for the management of the utility. He said the fee was approximately $24.00 for both water and sewer. He said Mr. Johnson's proposal is to have a flat fee of $500,000.

Mr. Johnson stated the $500,000 is slightly more than $9.00 per connection per year. It equates to approximately $0.80 per month.

Mr. Damon Anderson, Holiday Inn Express General Manager and homeowner in Johnson Ranch, inquired about the plans that are in place for the infrastructure of some of the problems they have had with Johnson Utilities and further asked whether the Town of Florence was prepared to handle the problems in improving the issues.

Mr. Montoya stated that throughout the process, Mr. Johnson, Mr. Hodges, and the operations staff have begun to do some of the capital projects that the Town was informed of from the beginning. He said throughout the evaluation period they have identified things that will need to change such as where growth has occurred.

Mr. John Mitchell, Utilities Director, said that in the transition period, the items will be identified and a plan will be devised to do the repairs.

James Curley, San Tan Valley Resident, stated that he has lived in Johnson Ranch for approximately ten years and is concerned about the annual increase. He understands the average to be approximately 5% of the $21.62 per year, which equates to approximately $108 per year.

Mr. Jackson said the $21.62 is capital cost to acquire the system and is not related to the annual increase.

Mr. Curley inquired about the 3% cost of living increase per year. He said he only receives 1.5% cost of living increase per year.

Mayor Rankin stated that there will be an increase; however, they will try to keep it as low as possible. He said the Council does not have control over certain costs, and those costs are what cause the increase.

Mr. Jackson stated the Town will not have to raise the rates to acquire the system. He said increases will happen in the future, and it is inevitable. The average increase in costs is approximately 3% per year due to inflation. The increase is due to the price increase of commodities. It is important to ensure that the revenues meet the expenses.

Councilmember Celaya said the rates will increase regardless of who the owner is. He said the operation costs will increase.

Councilmember Montaño inquired about the 5% cost for franchise fees.

Mr. Jackson stated that currently the Johnson Utilities customers who are within the Town of Florence pay a 5% franchise fee tax to the Town of Florence. This fee will be eliminated once the Town acquires the system.

7. NEW BUSINESS

a. Discussion/Approval/Disapproval of authorizing the Town Manager to finalize all agreements with Johnson Utilities LLC, and Southwest Environmental Utilities, LLC, and bring back to Council for action at a later date.

Mayor Rankin said the Town Manager is seeking authorization to continue with negotiations and to finalize the agreements. The authorization does not authorize the Town to purchase the utility.

Councilmember Celaya stated the agreement is in draft format and is continually being worked on. He inquired if the final documents will come back before Council.

Mr. Montoya said the documents will come back before Council.

Councilmember Woolridge requested that a public notice be sent out advertising the meeting so that the public can attend.

Mr. Montoya said the PowerPoint presentations will be available on the website for those who were not able to attend.

On motion of Councilmember Montaño, seconded by Councilmember Hawkins, and carried to authorize the Town Manager to finalize all agreements with Johnson Utilities LLC, and Southwest Environmental Utilities, LLC, and bring back to Council for action at a later date.

b. **Discussion/Approval/Disapproval of authorizing the filing of a motion to intervene on behalf of the Town of Florence on the docket of the Arizona Corporation Commission, Docket No. WS-02987A-13-0477 with regard to Johnson Utilities, LLC, application for approval of sale and transfer of assets and conditional cancellation of certificate of convenience and necessity.**

On motion of Councilmember Montaño, seconded by Councilmember Celaya, and carried to authorize the filing of a motion to intervene on behalf of the Town of Florence, on Arizona Corporation Commission, Docket No. WS-02987A-13-0477 with regard to Johnson Utilities, LLC, application for approval of sale and transfer of assets and conditional cancellation of Certificate of Convenience and Necessity.

8. CALL TO THE PUBLIC

There were no public comments.

9. CALL TO THE COUNCIL

Mayor Rankin thanked the Council.

10. ADJOURNMENT

On motion of Councilmember Celaya, seconded by Councilmember Montaño, and carried to adjourn the meeting at 8:25 pm.

Tom J. Rankin, Mayor

ATTEST:

Lisa Garcia, Town Clerk

I certify that the following is a true and correct copy of the minutes of the Florence Town Council meeting held on March 26, 2014, and that the meeting was duly called to order and that a quorum was present.

Lisa Garcia, Town Clerk

ACTION MINUTES

MINUTES OF THE FLORENCE TOWN COUNCIL MEETING HELD ON MONDAY, MAY 5, 2014, AT 5:00 P.M., IN THE CHAMBERS OF TOWN HALL, LOCATED AT 775 NORTH MAIN STREET, FLORENCE, ARIZONA.

1. CALL TO ORDER

EXHIBIT
A-9
ADMITTED

Mayor Rankin called the meeting to order at 5:04 pm.

2. ROLL CALL:

Present: Rankin, Smith, Celaya, Hawkins, Walter, Woolridge
Absent: Montaño

3. ADJOURN TO EXECUTIVE SESSION

For the purpose of discussion and consultation of the public body in accordance with A.R.S. 38-431.03(A)(3) and A.R.S. 38-431.03(A)(4) to obtain legal advice from the Town Attorney and to discuss and consider the settlement of pending litigation. For the purpose of discussion and consultation of the public body in accordance with A.R.S. 38-431.03(A)(4) and A.R.S. 38-431.03(A)(7) to consider the purchase of water and wastewater infrastructure and discuss negotiations related thereto.

On motion of Councilmember Hawkins, seconded by Vice-Mayor Smith, and carried to adjourn to Executive Session.

4. ADJOURN FROM EXECUTIVE SESSION

On motion of Councilmember Walter, seconded by Vice-Mayor Smith, and carried to adjourn from Executive Session.

5. INVOCATION

6. PLEDGE OF ALLEGIANCE

7. CALL TO THE PUBLIC

Call to the Public for public comment on issues within the jurisdiction of the Town Council. Council rules limit public comment to three minutes. Individual Councilmembers may respond to criticism made by those commenting, may ask staff to review a matter raised or may ask that a matter be put on a future agenda. However, members of the Council shall not discuss or take action on any matter during an open call to the public unless the matters are properly noticed for discussion and legal action.

8. PUBLIC HEARINGS AND PRESENTATION

a. Public hearing on a zone change request by the Town of Florence to change existing zoning on multiple properties from Neighborhood Office to Downtown Commercial and first reading of ORDINANCE NO. 610-14: AN

ORDINANCE OF THE TOWN OF FLORENCE, PINAL COUNTY, ARIZONA, APPROVING THE DOWNTOWN COMMERCIAL (DC) ZONE CHANGE LOCATED IN AN AREA GENERALLY BOUND BY RUGGLES STREET TO THE NORTH, BUTTE AVENUE TO THE SOUTH, BAILEY STREET TO THE WEST AND PINAL STREET TO THE EAST AND INCLUDING PROPERTY LOCATED AT THE SOUTHEAST CORNER OF PINAL STREET AND 8TH STREET (PZC-11-14-ZC).

Mayor Rankin opened the public hearing. Mayor Rankin closed the public hearing.

b. Public hearing on Ordinance No. 606-13: AN ORDINANCE OF THE TOWN OF FLORENCE, PINAL COUNTY, ARIZONA AMENDING THE TOWN OF FLORENCE CODE OF ORDINANCES, TITLE XV LAND USAGE, CHAPTER 150 DEVELOPMENT CODE, SECTION 150.047 DISTRICT USE REGULATIONS TABLES (A) AND ESTABLISHING A NEW RURAL RESIDENTIAL EQUESTRIAN SUBDIVISION (RRES) ZONING DISTRICT SECTION (PZC-34-13-ORD).

Mayor Rankin opened the public hearing. Mayor Rankin closed the public hearing.

c. Presentation on Southeast Valley Transit System Study.

9. CONSENT: All items indicated by an (*) will be handled by a single vote as part of the consent agenda, unless a Councilmember or a member of the public objects at the time the agenda item is called.

a. *Approval of accepting the register of demands ending March 31, 2014, in the amount of $1,616,075.05.

b. *Authorization to enter into an intergovernmental agreement for provisions of services with the Pinal County Recorder for elections and voter registration services.

c. *Resolution No. 1432-14: Adoption of A RESOLUTION OF THE TOWN OF FLORENCE, PINAL COUNTY, ARIZONA, AUTHORIZING THE SUBMISSION OF AN APPLICATION FOR STATE HOUSING FUNDS (WHICH MAY INCLUDE FEDERAL FUNDING THROUGH THE HOME INVESTMENT PARTNERSHIP PROGRAM OR STATE HOUSING FUNDS), CERTIFYING THAT SAID APPLICATION MEETS THE COMMUNITY'S HOUSING AND COMMUNITY DEVELOPMENT NEEDS AND THE REQUIREMENTS OF THE STATE HOUSING PROGRAMS, AND AUTHORIZING ALL ACTIONS NECESSARY TO IMPLEMENT AND COMPLETE THE ACTIVITIES OUTLINED IN SAID APPLICATION.

On motion of Councilmember Walter, seconded by Vice-Mayor Smith, and carried to approve the Consent Agenda, as written.

10. NEW BUSINESS

a. Discussion on the development of a Town of Florence Art Program.

b. Discussion/Approval/Disapproval of the FY 2014-2015 employee benefit program with Blue Cross/Blue Shield of Arizona for medical; Teladoc for 24/7 physician access benefits; Principal Financial Group for dental and life insurance; Vision Service Plan for vision insurance; EAP Preferred for Employee Assistance Program; AFLAC for supplemental insurance products; and Infinisource to administer our Section 125 flexible benefit account plan.

On motion of Councilmember Hawkins, seconded by Vice-Mayor Smith, and carried to approve the the FY 2014-2015 employee benefit program with Blue Cross/Blue Shield of Arizona for medical; Teladoc for 24/7 physician access benefits; Principal Financial Group for dental and life insurance; Vision Service Plan for vision insurance; EAP Preferred for Employee Assistance Program; AFLAC for supplemental insurance products; and Infinisource to administer our Section 125 flexible benefit account plan.

c. Discussion/Approval/Disapproval of setting a date to approve the Johnson Utility LLC Purchase Agreement and Management Agreement.

On motion of Vice-Mayor Smith, seconded by Councilmember Woolridge, to set a date of May 27, 2014 to approve or disapprove the Johnson Utilities, LLC, Purchase Agreement and Management Agreement.

Roll Call Vote:
Vice-Mayor Smith: Yes
Councilmember Woolridge: Yes
Councilmember Walter: Yes
Councilmember Hawkins: Yes
Councilmember Celaya: Yes
Mayor Rankin: Yes

Motion Carried: Yes: 6; No: 0

11. DEPARTMENT REPORT

a. Manager's Report
b. Department Reports
   i. Community Development
   ii. Courts
   iii. Finance
   iv. Fire
   v. Library
   vi. Parks and Recreation
   vii. Police
   viii. Public Works

ix. Utilities

12. CALL TO THE PUBLIC

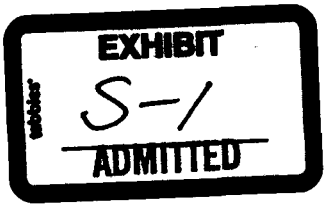
13. CALL TO THE COUNCIL

14. ADJOURNMENT

On motion of Councilmember Walter, seconded by Councilmember Hawkins, and carried to adjourn the meeting at 9:21 p.m.

Posted this 6th day May, 2014, on the Town of Florence website at www.florenceaz.gov by Maria Hernandez, Deputy Town Clerk.

BEFORE THE ARIZONA CORPORATION COMMISSION



BOB STUMP
Chairman
GARY PIERCE
Commissioner
BRENDA BURNS
Commissioner
BOB BURNS
Commissioner
SUSAN BITTER SMITH
Commissioner

IN THE MATTER OF THE APPLICATION OF JOHNSON UTILITIES, LLC DBA JOHNSON UTILITIES COMPANY FOR APPROVAL OF SALE AND TRANSFER OF ASSETS AND CONDITIONAL CANCELLATION OF ITS CERTIFICATE OF CONVENIENCE AND NECESSITY.	)	DOCKET NO. WS-02987A-13-0477

DIRECT

TESTIMONY

OF

ROBERT G. GRAY

EXECUTIVE CONSULTANT III

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

MAY 9, 2014

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EXECUTIVE SUMMARY
JOHNSON UTILITIES, LLC
DOCKET NO. WS-02987A-13-0477

Staff recommends approval of the sale and transfer of assets of Johnson Utilities, LLC ("Johnson") to the Town of Florence.

Staff further recommends that Johnsons' Certificate of Convenience and Necessity ("CC&N") be cancelled, and that the CC&N cancellation will be effective upon the closing of the sale and transfer of assets to the Town of Florence.

Staff further recommends that Johnson shall notify the Commission with a filing in this docket, within 30 days of the closing of this transaction, documentation evidencing the closing of the sale and transfer of assets to the Town of Florence.

INTRODUCTION

Q. Please state your name, occupation, and business address.

A. My name is Robert G. Gray. I am an Executive Consultant III employed by the Arizona Corporation Commission ("ACC" or "Commission") in the Utilities Division ("Staff"). My business address is 1200 West Washington Street, Phoenix, Arizona 85007.

Q. Briefly describe your responsibilities as an Executive Consultant III.

A. In my capacity as an Executive Consultant III, I provide policy analysis and recommendations to the Commission on a variety of natural gas, electric, water, and wastewater matters.

Q. Please describe your educational background and professional experience.

A. In 1988 I graduated from the University of Minnesota – Duluth, receiving a Bachelor of Arts degree in geography. In 1990, I graduated from Arizona State University, receiving a Master of Arts degree in geography. Since joining the Utilities Division Staff in June 1990, I have worked on a wide variety of natural gas, electric, telecommunications, water, and wastewater matters that have come before the Commission. I have also been involved in the National Association of Regulatory Utility Commissioners ("NARUC") for many years, including service as the Chair and Vice Chair of the NARUC Staff Subcommittee on Gas.

Q. What is the scope of your testimony in this case?

A. I will address the application of Johnson Utilities LLC ("Johnson") for Commission approval of the sale and transfer of assets to the Town of Florence ("Florence" or "Town") and cancellation of its Certificate of Convenience and Necessity ("CC&N"). I will provide Staff's recommendations regarding the proposed transaction and cancellation.

Q. Have you reviewed the Direct Testimony of Johnson's witness Daniel Hodges and the Direct Testimony of Florence witness Charles A. Montoya?

A. Yes.

Q. Did you prepare the attached Staff Report which contains Staff's review and analysis of the proposed transaction and cancellation?

A. Yes, it is Attachment RGG-1 of this testimony.

RECOMMENDATIONS AND ENCOURAGEMENTS

Q. Please summarize Staff's recommendations.

1. Staff recommends approval of the sale and transfer of assets of Johnson Utilities to the Town of Florence.
2. Staff further recommends that Johnsons' CC&N be cancelled, and that the CC&N cancellation will be effective upon the closing of the sale and transfer of assets to the Town of Florence.
3. Staff further recommends that Johnson notify the Commission with a filing in this docket, within 30 days of the closing of this transaction, documentation evidencing the closing of the sale and transfer of assets to the Town of Florence.

Q. Has Staff identified any actions that it believes would be beneficial to Florence and its customers to undertake following consummation of the transaction?

A. Yes. While Staff is not making these recommendations to the Commission to order, Staff encourages Florence to take the following actions to help ensure that Johnson's customers outside the Town's municipal boundaries have greater opportunity to be involved in Florence's operation of the utility assets acquired from Johnson.

1. Staff encourages Florence to establish a citizens advisory board to provide customers outside of its municipal boundaries with a greater voice in Town activities that relate to their water and wastewater service.
2. Staff encourages Florence to expand its annual survey of residents regarding how the Town is performing to include utility customers who are not residents of Florence.

Q. Does this conclude your direct testimony?

A. Yes, it does.

STAFF REPORT – THE APPLICATION OF JOHNSON UTILITIES LLC FOR APPROVAL OF THE SALE AND TRANSFER OF ASSETS AND CONDITIONAL CANCELLATION OF ITS CERTIFICATE OF CONVENIENCE AND NECESSITY (DOCKET NO. WS-02987A-13-0477)

On December 31, 2013, Johnson Utilities, LLC dba Johnson Utilities("Johnson"), filed with the Arizona Corporation Commission ("ACC" or "Commission") an application for approval of the sale and transfer of assets to the Town of Florence ("Florence" or "Town") and the conditional cancellation of its Certificates of Convenience and Necessity ("CC&N").

BACKGROUND

Johnson is an Arizona corporation, certificated to provide water and wastewater services in parts of Pinal County, Arizona, pursuant to Decision No. 60223 (May 27, 1997) and subsequent decisions which have expanded Johnson's water and wastewater CC&Ns. Johnson provides service to over 22,100 water customers and 29,200 wastewater customers across approximately 72 square miles in its water CC&N and 87 square miles in its wastewater CC&N. Staff's maps of the CC&Ns are attached as Exhibit 1 to this memo in the form of a memo from Lori Miller.

Following Johnson's filing of the application on December 31, 2013, Swing First Golf LLC filed for intervention on February 4, 2014. Swing First's application to intervene was granted on February 14, 2014. On March 4, 2014, Staff filed a Letter of Sufficiency. On March 10, 2014, the Residential Utility Consumer Office ("RUCO") filed an application to intervene. On March 14, 2014, RUCO's application to intervene was granted. On March 19, 2014, Pulte Home Corporation ("Pulte") filed an application to intervene. On March 31, 2014, Pulte's application to intervene was granted. On March 28, 2014, Johnson filed the Direct Testimony of Daniel Hodges in this proceeding. On April 2, 2014, the Town of Florence ("Florence") filed an application to intervene. On April 4, 2014, Florence's application to intervene was granted. On April 9, 2014, Florence filed the Direct Testimony of Charles A. Montoya. On April 11, 2014, Karen Christian, Todd J. Hubbard, Alden L. Weight, and Steve Pratt filed an application to intervene. On April 14, 2014, the San Tan Heights Homeowners Association ("San Tan HOA") filed an application to intervene. These applications to intervene were granted on April 21, 2014.

In Johnson's initial application, the Company indicated that upon the Utilities Division finding the application sufficient, Johnson would withdraw it pending applications in Docket Nos. WS-02987A-12-0136, WS-02987A-13-0284, and WS-02987A-13-0310 for extensions of its water and wastewater CC&Ns. On March 24, 2014, in the 12-0136 docket, Johnson filed a request for the Commission to take action on this docket, given the additional time it could take for the transaction to occur with Florence putting the transaction up for voter approval. On March 11, 2014, Staff filed a response, indicating that Staff did not oppose Johnson's request, but that it left it to the Administrative Law Judge's discretion whether to issue a Recommended Opinion and Order, given that resolution of WS-02987A-12-0136 might occur around the time the Florence transaction was acted on by the Commission. No further action has occurred regarding the 12-0136 docket since Staff's March 11th filing. Florence witness Montoya's direct testimony indicates the Town plans to serve the extension areas requested by Johnson. Staff believes that such a resolution is reasonable.

Florence has scheduled a special election on May 20, 2014, to allow Florence voters to decide whether to authorize the town council to move forward with the transaction. In the initial application, Johnson indicated that Florence would form a non-profit municipal property corporation to hold the assets acquired from Johnson. Subsequently, Mr. Hodges indicated in his Direct Testimony that Florence has now determined that it will directly hold the assets acquired from Johnson.

A draft copy of the agreement between Johnson and Florence was attached to the May 28, 2014 Direct Testimony of Dan Hodges on behalf of Johnson. Staff's understanding is that a final agreement has not been reached between Johnson and Florence to date, but that there are not expected to be any substantive changes from the draft agreement attached to Mr. Hodges' testimony.

The main provisions of the Agreement are as follows:

1. Florence pays a purchase price of $121,000,000 in the form of non-recourse revenue bonds to acquire all the assets of Johnson and Southwest Environmental Utilities, LLC ("SEU").
2. Johnson will enter into a management agreement with Florence to operate the business for five years.
3. Florence assumes Johnson's obligations under existing main extension agreements and master utility agreements.
4. Florence will assume all existing customer accounts and will receive customer deposits held on account.
5. Florence will receive $2,500,000 cash in the off-site facilities hookup fee account.
6. Florence will receive any balance in the Central Arizona Groundwater Replenishment District ("CAGRD") adjuster fee account, reduced by any shortfall from the October 2013 CAGRD bill advanced by Johnson.

In Mr. Montoya's direct testimony on behalf of Florence, the following commitments are made:

1. Florence will serve all current and future Johnson Utilities customers whether within or without the Town's boundaries.
2. Florence will assume Johnson's obligations under existing line extension agreements.
3. Florence will serve all future customers in the areas covered by current Johnson CC&N extension requests that are before the Commission.
4. Florence does not intend to change the rates charged by Johnson for at least 18 months from the time of the acquisition.
5. Florence will refund customer deposits pursuant to Town Code 50.121.
6. Florence will honor existing water main extension agreements and sewer line extension agreements.

JOHNSON'S FACILITIES

Johnson has two water systems, the Main System and the Anthem System. The Main System has a productive capacity of 12,800 gallons per minute ("GPM") and serves 20,170 customers as of 2012. The Anthem system has a productive capacity of 2,329 GPM and serves approximately 2,000 customers as of 2012. Both systems have adequate production and storage to serve existing customers and reasonable growth.

Johnson has six wastewater treatment systems, with four being active and two being inactive. The active systems include the Section 11 Wastewater Treatment Plant ("WWTP") System, the Pecan Water Reclamation Plant ("WRP") System, the San Tan WRP System, and the Anthem at Merrill Ranch WRP System. The Precision Golf Course WWTP and the Copper Basin System are inactive. Further details on Johnson's water and wastewater systems are contained in Staff's Engineering Report, which is Attachment RGG-2 to Staff Witness Gray's Direct Testimony in this proceeding.

ARIZONA DEPARTMENT OF ENVIRONMENTAL QUALITY ("ADEQ") COMPLIANCE FOR JOHNSON AND FLORENCE

A February 7, 2014 ADEQ status report indicated that Johnson's water systems have no major deficiencies and water delivered meets applicable national and state drinking water regulations.

A February 7, 2014 ADEQ status report indicated that Florence's water system has no major deficiencies and water delivered meets applicable national and state drinking water regulations.

A January 31, 2014 ADEQ status report indicated that Johnson's Pecan and San Tan WRPs were not in violation at a level at which ADEQ will take action or issue a Notice of Opportunity to Correct or Notice of Violation and/or are in compliance with the Order/Judgment and/or are in compliance with an Order/Judgment for the review period of April 1, 2013 to September 30, 2013. The January 31, 2014 ADEQ status report also indicated that Johnson's Section 11 WWTP, Anthem at Merrill Ranch WRP, and Precision Golf Course WWTP are in compliance with ADEQ regulations for the review period of April 1, 2013 to September 30, 2013.

A January 31, 2014 ADEQ status report indicated that Florence's North WWTP was not in compliance with its permits, wastewater regulation, and/or Order/Judgment for the review period of October 1, 2012 to September 30, 2013. The January 31, 2014 ADEQ status report also found that Florence's South WWTP was not in violation at a level at which ADEQ will take action or issue a Notice of Opportunity to Correct or Notice of Violation and/or is in compliance with the Order/Judgment and/or is in compliance with an Order/Judgment for the review period of October 1, 2012 to September 30, 2013.

ARIZONA DEPARTMENT OF WATER RESOURCES ("ADWR") COMPLIANCE FOR JOHNSON AND FLORENCE

A February 14, 2014 ADWR compliance status report indicates that Johnson's Main water system is currently in compliance with ADWR requirements governing water providers and/or community water systems. A February 14, 2014 ADEQ compliance status report indicates that Johnson's Anthem water system is currently out of compliance with ADWR requirements governing water providers and/or community water systems.

A February 14, 2014 ADWR compliance status report indicates that Florence's water system is in compliance with ADWR requirements governing water providers and/or community water systems.

ACC COMPLIANCE

As of April 10, 2014, Johnson has no delinquent compliance items according to the ACC's Compliance Section database. Johnson is in good standing with the Commission's Corporations Division as well.

NOTICE

In Mr. Hodges Direct Testimony he indicates that Johnson provided notice to current and prospective customers via a number of different avenues. The ways notice was provided according to Mr. Hodges include:

1. In the Company's March newsletter that was included in customers' monthly bills, Johnson provided notice to current customers of the proposed sale and transfer of assets.
2. Johnson also made the newsletter and notice available on its website.
3. Johnson also mailed a notice to all current customers via first class mail.
4. Johnson further published the notice in the March 24, 2014 statewide edition of *The Arizona Republic.*
5. Johnson additionally provided notice to landowners in its three proposed CC&N service extension areas.

RATES AND CUSTOMER SERVICE

Johnson Utilities serves customers that are both within and outside the municipal boundaries of Florence. Based on information provided by Johnson, approximately 20,800 water customers are outside Florence's municipal boundaries, with another approximately 2,200 customers within Florence's municipal boundaries as of December 2013. For wastewater service, Johnson serves approximately 28,800 customers who are outside Florence's municipal boundaries, with another approximately 2,100 customers within Florence's municipal boundaries as of December 2013.

Florence has indicated that it intends to continue to charge Johnson customers their existing rates for the first 18 months after the acquisition is completed, while the Town conducts a rate study. It is unclear what current Johnson customers would pay once the rate study would be completed. Staff addressed a number of questions regarding service to customers outside Florence's municipal boundaries in Staff's April 3, 2014 response to Commissioner Bitter-Smith's March 24, 2014 letter in this docket. Staff's response is included as Attachment RGG-3 to Staff's testimony in this proceeding.

Florence currently has separate monthly charges and volumetric rates for water service for customers within its municipal boundaries and outside its municipal boundaries, with the outside municipal boundaries rate being higher. For example, the monthly charge for a 5/8 x 3/4-inch meter is currently $21.28 for customers within the municipal boundary and $27.66 for customers outside the municipal boundary. Current Johnson water rates are relatively similar to current Florence rates for customers within the municipal boundaries. Current Johnson rates are lower than current Florence rates for customers outside the municipal boundaries. The table below shows some example residential monthly bills (reflecting the monthly customer charge and volumetric rate, but excluding other miscellaneous charges).

Monthly Consumption (gallons)	Johnson Rates	Florence Rates – Within Municipal Boundary	Florence Rates – Outside Municipal Boundary
5,000	$26.13	$28.88	$37.36
7,500	$31.51	$32.68	$42.21
10,000	$36.88	$36.48	$47.06
15,000	$44.04	$43.23	$55.66

Note: Johnson estimates are based on a 3/4 inch meter. Florence estimates are based on a 5/8-3/4 inch meter. If Johnson estimates used a 5/8 inch meter instead, the Johnson monthly charge and total bill would be $5.63 lower.

Based on the Florence's February 28, 2012 Notice of Intention to Increase Water, Wastewater, and Solid Waste Rates (available on Florence's website), Florence will have annual rate increases for water and wastewater service each year through 2016. For example, the $21.28 monthly charge cited above for a 5/8 x 3/4-inch meter for a Florence customer within the municipal boundary would rise gradually, reaching $24.63 on July 1, 2016. It is also worth noting that current Johnson customers within Florence's municipal boundaries would no longer pay a 5 percent franchise fee to Florence on their bills once the acquisition is completed.

Wastewater rates are more difficult to compare, as Johnson has a single flat wastewater rate, while Florence has both a flat wastewater rate and a volumetric rate. Johnson provided Staff with an estimated monthly bill comparison for wastewater service for a customer residential customer using 7,500 gallons, with a 3/4-inch meter. In this comparison, a current customer for Johnson would pay $42.00, while a Florence customer would pay $39.09. Florence does not charge different rates for wastewater service based upon whether a customer is located inside its municipal boundaries or not, although it has a separate line item in its rate schedule for residential customers outside the municipal boundaries.

Florence is an experienced water and wastewater utility provider. After the transaction is completed, Johnson will continue to operate the system for five years under a management agreement it would enter into with Florence as part of this transaction. Florence has indicated that it will honor the approximately 274 water main extension agreements and 260 sewer line extension agreements it would inherit from Johnson. Florence would also refund customer deposits pursuant to Town Code section 50.121.

Florence Witness Montoya indicates that Florence endeavors to provide the highest level of service to its utility customers and that Florence sends out an annual survey to residents to find out how the Town is doing. Staff encourages Florence to expand this survey to include utility customers who are not residents of Florence.

Possible Formation of a Citizens Advisory Board

There have been concerns expressed in this proceeding that Johnson customers outside of Florence's municipal boundaries will lack representation, as they cannot vote in Florence municipal elections. One possible solution to this concern would be for Florence to form a Citizen Advisory Board ("CAB") to provide customers outside its municipal boundaries with a voice regarding their water and wastewater service from the Town.

This formation of a CAB has been used in the past in proceedings before the Commission where a municipality was acquiring a public service corporation regulated by the Commission and at least some customers of the utility did not live in the acquiring municipality's boundaries. For example, in Decision No. 69575 (May 21, 2007), the Commission approved the acquisition of Desert Hills Water Company by the Town of Cave Creek. Ordering Paragraph 21 of this order notes that the Town "will establish a Citizens' Water Advisory Committee to review plans, policies, the master plan, the capital program, and rates and fees and advise the Town Engineer, the Manager, and the Council." Decision No. 69575 further notes that Cave Creek intends to model its board after the City of Tucson's Citizens Water Advisory Committee. Staff encourages Florence to establish a CAB to provide customers outside of its municipal boundaries with a greater voice in Town activities that relate to their water and wastewater service.

Customer Complaints

The Utilities Division's Consumer Services Database indicates that as of April 29, 2014, the following number of complaints about Johnson in recent years: 2011 – 45, 2012 – 27, 2013 – 38, 2014 – 6. All complaints have been resolved. Additionally, there have been seven contacts opposing the sale and transfer of assets and two contacts in favor.

RECOMMENDATIONS

Staff recommends approval of the sale and transfer of assets of Johnson Utilities to the Town of Florence.

Staff further recommends that Johnson Utilities' certificate of convenience and necessity be cancelled, and that the CC&N cancellation will be effective upon the closing of the sale and transfer of assets to the Town of Florence.

Staff further recommends that Johnson Utilities shall notify the Commission with a filing in this docket, within 30 days of the closing of this transaction, documentation evidencing the closing of the sale and transfer of assets to the Town of Florence.

MEMORANDUM

DATE: April 15, 2014

TO: Bob Gray
Executive Consultant III

FROM: Dorothy Hains, P. E. DH
Utilities Engineer

RE: The Application of Johnson Utilities, LLC, Doing Business as Johnson Utilities Company for Approval of Sale and Transfer of Assets and Conditional Cancellation of Its Certificate of Convenience and Necessity (Docket No. WS- 02987A-13-0477)

I. BACKGROUND

Johnson Utilities, LLC dba Johnson Utilities ("Johnson" or "Company") filed an application for Approval of Sale and Transfer of Assets and Conditional cancellation of its Certificate of Convenience and Necessity ("CC&N") with the Arizona Corporation Commission ("ACC") on December 31, 2013. The Company is in negotiations with the Town of Florence ("Florence") to sell its assets to Florence. The Company owns and operates a potable water facility and a wastewater treatment and disposal facility. Both potable water and wastewater facilities are located in Pinal County between the Town of Queen Creek to the north and Florence to the south.

II. LOCATIONS OF JOHNSON'S FACILITIES

A. Johnson's Potable Water Systems

The Company provides its water service to approximately 22,200 metered customers within approximately 73 square miles which includes all or portions of Sections 1, 2, 8-17 and 19-36 of Township 7 East and Range 3 South; Sections 6-7, 13, 15-21, 23-24, 27-33 and 36 of Township 8 East and Range 3 South; Sections 1-3, 10-14, 22-25, 27, 34, and 36 of Township 9 East and Range 3 South; Section 31 of Township 8 East and Range 2 South; Section 6 of Township 9 East and Range 5 South and Section 3 of Township 8 East and Range 5 South.

B. Johnson's Wastewater Systems

The Company provides its wastewater service to approximately 29,300 customers within approximately 88 square miles which includes all or portions of Sections 1, 2, 8-17 and 19-36 of Township 7 East and Range 3 South; Sections 2, 5-7, 11, 13-21, 23-24, 27-33 and 36 of Township 8 East and Range 3 South; Sections 1-3, 10-14, 22-25, 27, 34, and 36 of Township 9 East and Range 3 South; Sections 7-9, 16-22, 27-34 of Township 8 East and Range 2 South; Section 6 of Township 9 East and Range 5 South and Section 3 of Township 8 East and Range 5 South.

III. DESCRIPTION OF JOHNSON'S FACILITIES[1]

A. Johnson's Potable Water Systems

The Company owns and operates two individual water systems, Johnson Utilities Main System ("Main System") and Anthem System. Arizona Department of Environmental Quality ("ADEQ") assigned Public Water System ("PWS") Identification No.11-128 to the Main System and PWS No.11-136 to the Anthem System.

1. Main System (PWS No.11-128)

The Main System consists of eighteen active production wells that have 12,800 gallons per minute ("GPM") combined production capacity, thirteen storage tanks with a 7,250,000 gallon storage capacity, a 250 GPM reverse osmosis ("RO") treatment plant for arsenic removal and a distribution system serving approximately 20,170 metered customers. In 2012, the average daily water usage was 309 gallons per day ("GPD") per connection; the peak day demand was 397 GPD per connection; water loss was 7.33 percent which is below Staff's recommended 10 percent allowable limit. This system has adequate production and storage capacity to serve existing customers and reasonable growth.

2. Anthem System (PWS No.11-136)

The Anthem System consists of three active production wells that have 2,329 GPM combined production capacity, two storage tanks with a 1,500,000 gallon storage capacity and a distribution system serving approximately 2,000 metered customers. In 2012 the average daily water usage was 388 GPD per connection; the peak day demand was 561 GPD per connection; water loss was 9.3 percent which is below Staff's recommended 10 percent allowable limit. This system has adequate production and storage capacity to serve existing customers and reasonable growth.

B. Johnson's Wastewater Systems

The Company owns six individual wastewater treatment systems. Each system contains a sewer collection system, lift stations ("LS"), wastewater treatment plant ("WWTP") and disposal system. The six wastewater treatment systems are Section 11 WWTP System, Precision WWTP System, Pecan Water Reclamation Plant ("WRP") System, San Tan WRP System, Copper Basin System and Anthem at Merrill Ranch WRP System. Only four active systems are in service; they are Section 11 WWTP System, Pecan WRP System, San Tan WRP System and Anthem at Merrill Ranch WRP System.

1. Section 11 WWTP

Section 11 WWTP is equipped with headworks, an aeration lagoon and wetland cells for nutrient removal and ultraviolet disinfection units. Final effluent is disposed of in an effluent reuse

[1] Based on the Company's 2012 Annual Report filed with the ACC.

lake. Section 11 WWTP has a 1.6 million gallons per day ("MGD") treatment capacity. The Company operates the plant under ADEQ approved Aquifer Protection Permit ("APP") No. 103081. In 2012 it served 6,755 existing customers with an average daily flow of 139 GPD per connection and the peak day flow was 0.86 MGD.

2. Pecan WRP

Pecan WRP is an extended aeration WWTP that is equipped with clarifiers, filters and ultraviolet disinfection units. Final effluent is disposed of in a recharge basin and on a golf course for irrigation. Pecan WRP has a 2 MGD treatment capacity. The Company operates the plant under ADEQ approved APP No. 105324. In 2012, it served 10,448 existing customers with an average daily flow of 139 GPD per connection and the peak day flow was 1.5 MGD.

3. San Tan WRP

San Tan WRP is an extended aeration WWTP that is equipped with clarifiers, filters and ultraviolet disinfection units. Final effluent is disposed of in a recharge basin and on a golf course for irrigation. San Tan WRP has a 2 MGD treatment capacity. The Company operates the plant under ADEQ approved APP No. 105325. In 2012, it served 7,319 existing customers with an average daily flow of 139 GPD per connection and the peak day flow was 0.91 MGD.

4. Anthem at Merrill Ranch WRP

Anthem at Merrill Ranch WRP is an extended aeration WWTP that is equipped with clarifiers, filters and ultraviolet disinfection units. Final effluent is disposed of in a recharge basin and on a golf course for irrigation. Anthem at Merrill Ranch WRP has a 1.5 MGD treatment capacity. The Company operates the plant under ADEQ approved APP No. 105646. In 2012, it served 4,713 existing customers with an average daily flow of 119 GPD per connection and the peak day flow was 0.58 MGD.

5. Precision Golf Course WWTP

Precision Golf Course WWTP is an extended aeration WWTP that has a 0.3 MGD treatment capacity. In the Company's 2012 Annual Report filed with the ACC the Company reported that this facility was inactive.

IV. ADEQ COMPLIANCE

A. Johnson's Potable Water Systems

Staff received a compliance status report from ADEQ dated February 7, 2014, in which ADEQ stated that both the Main System (PWS No. 11-128) and the Anthem System (PWS No. 11-136) have no major deficiencies and are delivering water that meets water quality standards required by 40 CFR 141 (National Primary Drinking Water Regulations) and Arizona Administrative Code, Title 18, Chapter 4.

B. Florence's Potable Water System

Staff received a compliance status report from ADEQ dated February 7, 2014, in which ADEQ stated that Florence System (PWS No. 11-017) has no major deficiencies and is delivering water that meets water quality standards required by 40 CFR 141 (National Primary Drinking Water Regulations) and Arizona Administrative Code, Title 18, Chapter 4.

C. Johnson's Wastewater Systems

1. Section 11 WWTP

Staff received a compliance status report from ADEQ dated January 31, 2014, in which ADEQ stated that Section 11 WWTP (Aquifer Protection Permit ("APP") No. 103081) was in compliance with ADEQ regulations for the review period of April 1, 2013 to September 30, 2013.

2. Pecan WRP

Staff received a compliance status report from ADEQ dated January 31, 2014, in which ADEQ stated that Pecan WRP (APP No. 105324) was not in violation at a level at which ADEQ will take an action or issue a Notice of Opportunity to Correct or Notice of Violation and/or is in compliance with the Order/Judgment for the review period of April 1, 2013 to September 30, 2013.

3. San Tan WRP

Staff received a compliance status report from ADEQ dated January 31, 2014, in which ADEQ stated that San Tan WRP (APP No.105325) was not in violation at a level at which ADEQ will take an action or issue a Notice of Opportunity to Correct or Notice of Violation and/or is in compliance with the Order/Judgment for the review period of April 1, 2013 to September 30, 2013.

4. Anthem at Merrill Ranch WRP

Staff received a compliance status report from ADEQ dated January 31, 2014, in which ADEQ stated that Anthem at Merrill Ranch WRP (APP No. 105646) was in compliance with ADEQ regulations for the review period of April 1, 2013 to September 30, 2013.

5. Precision Golf Course WWTP

Staff received a compliance status report from ADEQ dated January 31, 2014, in which ADEQ reported that the Precision Golf Course WWTP (APP No. 105004) was in compliance with ADEQ regulations for the review period of April 1, 2013 to September 30, 2013.

D. Florence's Wastewater Systems

1. Florence's North WWTP("North WWTP")

Staff received a compliance status report from ADEQ dated January 31, 2014, in which ADEQ stated that the North WWTP was not in compliance with its permit(s), wastewater regulation, and/or Order/Judgment for the review period of October 1, 2012 to September 30, 2013.

2. Florence's South WWTP("South WWTP")

Staff received a compliance status report from ADEQ dated January 31, 2014, in which ADEQ stated that the South WWTP was not in violation at a level at which ADEQ will take an action or issue a Notice of Opportunity to Correct or Notice of Violation and/or is in compliance with the Order/Judgment for the review period of October 1, 2012 to September 30, 2013.

V. ARIZONA DEPARTMENT OF WATER RESOURCES ("ADWR") COMPLIANCE

A. Johnson's Potable Water Systems

1. Main System (PWS No.11-128)

The Company's Main System is located in ADWR's Phoenix Active Management Area. According to ADWR compliance status report dated February 14, 2014 ADWR has determined that this water system is currently compliant with departmental requirements governing water providers and/or community water systems.

2. Anthem System (PWS No.11-136)

The Company's Anthem System is located in ADWR's Pinal Active Management Area. According to ADWR compliance status report dated February 14, 2014 ADWR has determined that this water system is currently in non-compliance with departmental requirements governing water providers and/or community water systems[2].

B. Florence's Potable Water System

The Florence's System is located in ADWR's Pinal Active Management Area. According to ADWR compliance status report dated February 14, 2014 ADWR has determined that this water system is currently compliant with departmental requirements governing water providers and/or community water systems.

[2] The Company's six wells exceeded permitted pumping limits from 2008 to 2012.

VI. ACC COMPLIANCE

A check of the ACC Compliance Section database dated April 10, 2014, indicates there are no delinquent compliance items for Johnson.

SUMMARY

Conclusions

1. A compliance status report was issued by ADEQ dated February 7, 2014, in which ADEQ stated that both Johnson water systems, the Main System (PWS No. 11-128) and the Anthem System (PWS No. 11-136), have no major deficiencies and are delivering water that meets water quality standards required by 40 CFR 141 (National Primary Drinking Water Regulations) and Arizona Administrative Code, Title 18, Chapter 4.

2. A compliance status report was issued by ADEQ dated February 7, 2014, in which ADEQ stated that Florence System (PWS No. 11-017) has no major deficiencies and is delivering water that meets water quality standards required by 40 CFR 141 (National Primary Drinking Water Regulations) and Arizona Administrative Code, Title 18, Chapter 4.

3. ADWR has determined that the Company's Main System (PWS No. 11-128) is currently compliant with departmental requirements governing water providers and/or community water systems.

4. ADWR has determined that the Company's Anthem System (PWS No. 11-136) is currently in non-compliance with departmental requirements governing water providers and/or community water systems.

5. Staff concludes that Johnson's water systems have adequate production and storage capacity to serve existing customers and reasonable growth.

6. ADWR has determined that the Florence water system is currently compliant with departmental requirements governing water providers and/or community water systems.

7. Wastewater compliance status reports had been issued by ADEQ dated January 31, 2014, in which ADEQ stated that (1) the Section 11 WWTP, the Anthem at Merrill Ranch WRP and the Precision Golf Course WWTP are in compliance with ADEQ regulations; (2) the Pecan WRP and the San Tan WRP were not in violation at a level at which ADEQ will take an action or issue a Notice of Opportunity to Correct or Notice of Violation and/or are in compliance with the Order/Judgment for the review period of April 1, 2013 to September 30, 2013.

8. ADEQ's compliance status report was issued for Florence's South WWTP on January 31, 2014, in which ADEQ stated that Florence's South WWTP was not in violation at a level at which ADEQ will take an action or issue a Notice of Opportunity to Correct or Notice of Violation and/or is in compliance with the Order/Judgment for the review period of April 1, 2013 to September 30, 2013.

9. ADEQ's compliance status report was issued for Florence's North WWTP on January 31, 2014, in which ADEQ determined that the North WWTP was not in compliance with its permit(s), wastewater regulation, and/or Order/Judgment for the review period of October 1, 2012 to September 30, 2013.

10. A check of the ACC Compliance Section database dated April 10, 2014, indicates there are no delinquent compliance items for Johnson.

BEFORE THE ARIZONA CORPORATION COMMISSION

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AZ CORP COMMISSION
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COMMISSIONERS

BOB STUMP - CHAIRMAN
GARY PIERCE
BRENDA BURNS
BOB BURNS
SUSAN BITTER SMITH

RECEIVED
APR 03 2014

IN THE MATTER OF THE APPLICATION OF JOHNSON UTILITIES, LLC, DOING BUSINESS AS JOHNSON UTILITIES COMPANY, FOR APPROVAL OF SALE AND TRANSFER OF ASSETS AND CONDITIONAL CANCELLATION OF ITS CERTIFICATE OF CONVENIENCE AND NECESSITY.	DOCKET NO. WS-02987A-13-0477 **STAFF'S RESPONSE TO COMMISIONER BITTER SMITH'S LETTER DATED MARCH 24, 2014**

The Utilities Division ("Staff") of the Arizona Corporation Commission ("Commission") hereby files its response to Commissioner Susan Bitter Smith's letter of March 24, 2014, to the parties to the above-referenced docket.

1. **Do the parties agree that Johnson Utilities currently serves customers who reside or are located outside the municipal boundaries of the Town of Florence? If so, please provide an estimate of the number of such customers.**

Response: There are customers who reside or are located outside the municipal boundaries of the Town of Florence. According to the recently filed Direct Testimony of Daniel Hodges, as of December 2013, Johnson Utilities served approximately 20,780 water connections and 28,825 sewer connections that were outside the municipal boundaries of the Town of Florence.

2. **Should provisions be made to ensure that existing customers who reside or are located outside the municipal boundaries of the Town of Florence will be served by the Town of Florence? Why or why not?**

Response: By statute, a municipal utility has certain responsibilities to its non-resident customers. A.R.S. § 9-516 was enacted, in part, by the legislature to govern water service to non-residents by a municipality. The statute prohibits a city from discontinuing water service to non-residents.

The court in *Jung v City of Phoenix*, 160 Ariz. 38, 770 P.2d 342 (1989), interpreted A.R.S. §9-516(C) to hold a municipality to a reasonableness standard in the setting of rates. In *Jung*, the plaintiffs were nonresident customers of the City of Phoenix water department, challenging the validity of an ordinance that was enacted in 1985, which doubled water rates for those residing outside of the geographical boundaries of the city.

The court in *Jung*, found that the implication of reasonable rates must be read into A.R.S. § 9-516(C), and that the statute placed upon a city the legal duty to continue water service to non-residents at a reasonable rate.

The reasonableness standard was codified by A.R.S. § 9-511.01(D), which provides that rates must be just and reasonable, any increases must be justified in a written report available to the public and a hearing must be held. Non-resident customers are protected by statute from being charged unreasonable rates.

In Arizona Attorney General Opinion No. 62-7 (January 8, 1962) ("AG Opinion"), the Arizona Attorney General ("AG") responded to Commission questions about the Commission's jurisdiction to hold a hearing regulating the transfer of assets from a privately owned water utility to a municipality and to enter an order approving or disapproving such a transfer. The Commission also asked about the scope of the Commission's inquiries, if such a hearing were permissible, and about the effect of what is now A.R.S. § 9-516(D) on the Commission's jurisdiction. The AG determined that the Commission has jurisdiction over a public service corporation's sale of assets to a municipality because A.R.S. § 40-285 requires a public service corporation to obtain Commission approval before it may dispose of its assets, but that the Commission's inquiries essentially must be limited to whether the proposed transfer will be injurious to the rights of the public and whether any person will thereby be left without service.

The AG Opinion further stated that the voluntary agreement by a municipality to purchase a privately owned public utility does not subject that municipality to the jurisdiction of the Commission. The seller-utility must obtain Commission approval to make the transfer, the purpose being to permit the Commission to make sure that the rights of the customers of the utility will be

adequately protected. The duties and powers of the Commission are limited to the necessary hearings and orders to make sure that sale by the utility will not leave persons without service by the utility or the municipality.

The AG Opinion concluded that by virtue of A.R.S. § 9-516, the Commission still retains jurisdiction over the utility and the utility still has an interest as holder of a certificate of convenience and necessity, until the sale has been approved and the municipality is servicing the entire area and there is no area requiring certification or service by any private utility. The AG Opinion concluded that a municipality is bound to honor the order of the Commission with respect to the sale and that the Commission may not enter an order denying the public utility the right to dispose of its assets except upon the grounds that the utility is not in fact terminating its function in the service of its customers, the effect of A.R.S. § 40-285(C). If the municipality refuses to serve customers in the area taken over, the Commission retains the power to investigate such refusals and issue a new certificate if necessary to provide service.

3. If customers outside the municipal boundaries will be served by the Town of Florence, should provisions be made to ensure that such are treated on an equal footing with those customers who reside or are located within the municipal boundaries? Why or why not?

Response: The Commission has considered several cases where a municipality acquires the assets of a water or wastewater provider and has customers who reside outside of the municipal boundaries. Most recently, the Commission approved the transfer of assets of H20, Inc. to the Town of Queen Creek. In that matter, there were H20 customers who resided outside of the Queen Creek municipal boundaries. The Town of Queen Creek committed to provide the same level of service to the non-resident customers, as is provided to its residents. The Town of Queen Creek proposed to charge the H20 customers its then current rates, which resulted in a minimal increase for customers who use up to 10,000 gallons. H20 customers who use more than 10,000 would see a slight decrease. In Decision No. 74085 (September 23, 2013), the Commission approved the transfer.

In 2006 Desert Hills Water, filed an application to transfer its assets to the Town of Cave Creek, Arizona.[1] Desert Hills provided water service to approximately 1,600 customers. The Desert Hills customers were outside the boundaries of the Cave Creek. Cave Creek intended to form a citizens advisory board, consisting of four members from the Desert Hills area, five from Cave Creek, and one from the Carefree area (an area that is being served by Cave Creek Water, soon to be purchased by the Town), and their meetings would be open to the public.[2] It was the Town's intention to model the board after the Citizens Water Advisory Committee of the City of Tucson. Cave Creek also committed to provide notice and hold a public hearing in Desert Hills if a rate change was being contemplated. Cave Creek had agreed to freeze the current rates for one year following the close of the transaction. The Commission found that with the commitments made by Cave Creek, the transfer was in the public interest.[3]

4. If such provisions should be made, please provide some recommendations regarding the nature and substance of methods or processes to ensure equal treatment.

Response: The City of Tucson, as a part of its overall water management strategy, created the Citizens Water Advisory Committee (Tucson Code, Sec. 27-60 et. seq.). The Committee advises and assists the Mayor and City Council in the development of policies and the setting of rates. City residency is not required and the members are appointed by the Mayor and Council and are also nominated by the City Manager. If the Town of Florence models its board after the Tucson model, the non-resident customers of its water systems should have an adequate voice to promote the concerns of the non-residents.

If the Commission is concerned about the ability of non-residents to have a voice in utility rates, Staff suggests that the Town of Florence create a citizens advisory board as has been done in other cases where a similar concern arose.

5. I note that in the application, Johnson Utilities states "For a period of 18 months following the acquisition the Town has no plans to change the rates charged to existing customers of Johnson Utilities." Please provide comments regarding the duration and specific terms of this commitment.

---

[1] Docket No. W-02124A-06-0717.
[2] Decision No. 69575 (May 21, 2007) at 9.
[3] *Id.* at 11.

Response: Staff notes that in the Desert Hills matter, the Town of Cave Creek committed to no change in rates for 1 year following the approval of the transaction. In the H20 matter, the Town of Queen Creek charged the H20 customers the Town of Queen Creek's current rates.

RESPECTFULLY SUBMITTED this 3rd day of April, 2014.

Robin R. Mitchell
Brian E. Smith
Attorneys, Legal Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007
(602) 542-3402

Original and thirteen (13) copies of the foregoing filed this 3rd day of April, 2014, with:

Docket Control
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

Copy of the foregoing mailed this 4th day of April, 2014, to:

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Attorneys for Pulte Home Corporation

MEMORANDUM

TO: Bob Gray
Executive Consultant III
Utilities Division

FROM: Lori H. Miller
GIS Specialist
Utilities Division

THRU: Del Smith
Engineering Supervisor
Utilities Division

DATE: January 23, 2014

RE: **JOHNSON UTILITIES, LLC (DOCKET NO. WS-02987A-13-0477)**

Johnson Utilities has filed an application to cancel its CC&N. The Town of Florence will be serving this area.

Attached are copies of the maps for your files.

/lhm

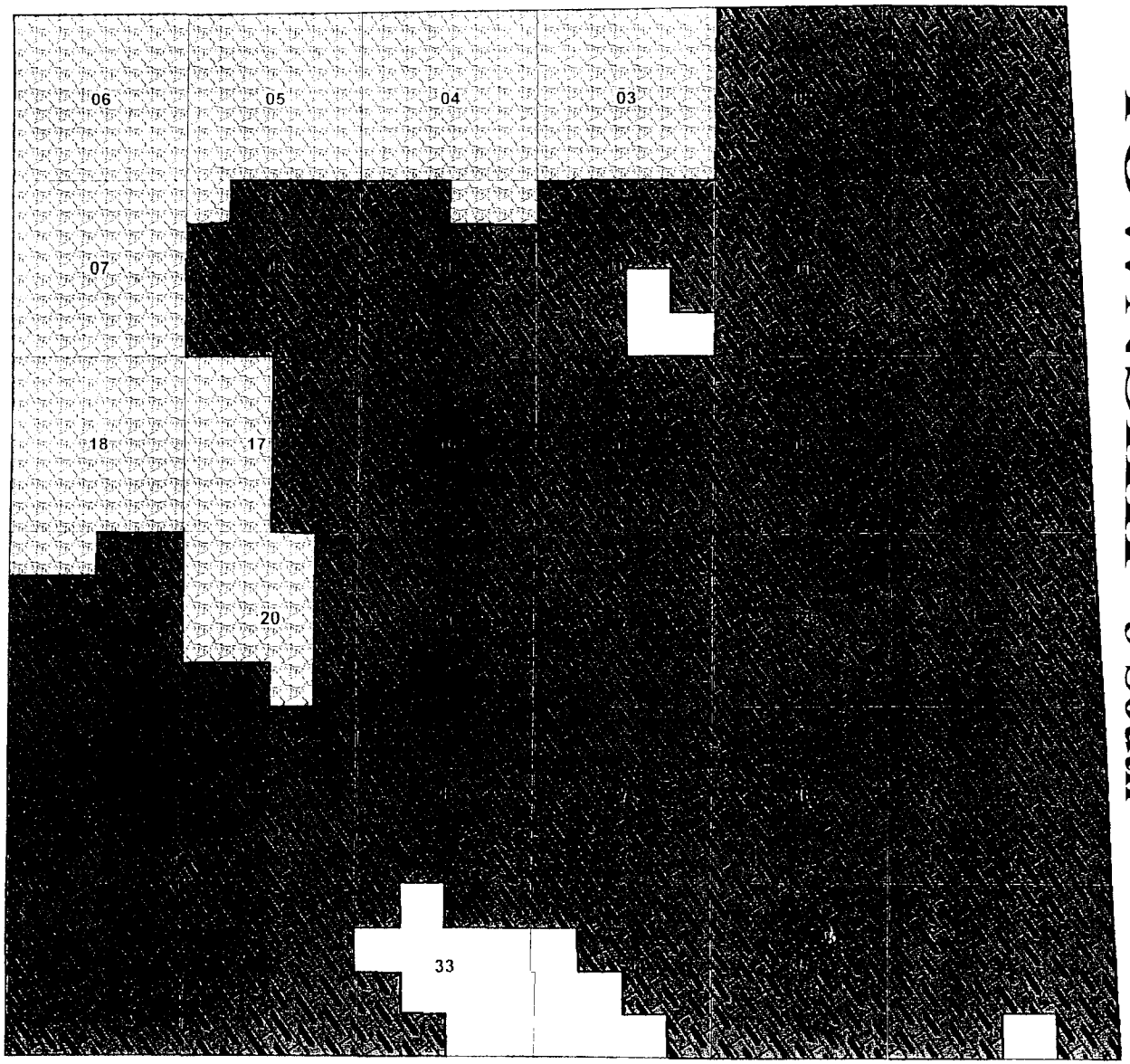
Attachments

cc: Mr. George H. Johnson
Mr. Jim Mannato
Ms. Deb Person (Hand Carried)
Ms. Dorothy Hains
File

PINAL COUNTY

Map No. 10

RANGE 7 East



TOWNSHIP 3 South

WS-02987A (8)

Sewer

Johnson Utilities, LLC

(2)

Town of Queen Creek (Nonjurisdictional)

Johnson Utilities, LLC (Water and Sewer)
Docket No. WS-02987A-13-0477
Application for Cancellation
To Town of Florence

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W E
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Prepared by:
Arizona Corporation Commission
Utilities Division
Engineering Section\GIS Mapping
602-547-4251

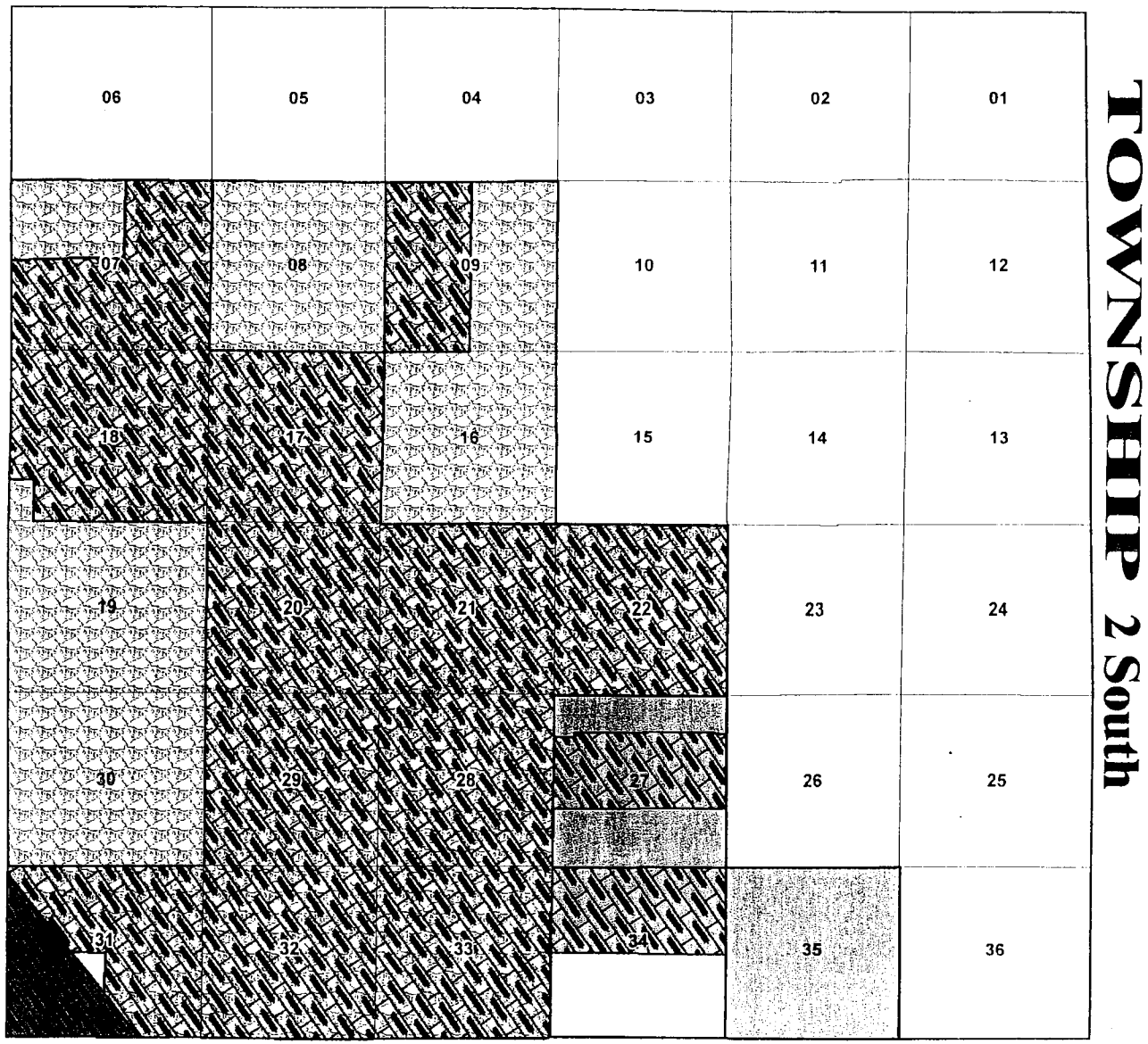
TK 20 MAR 2008

Pursuant to AR.)-121.03 this map is 'Not for Commercial Use'

Map No. 6

PINAL COUNTY

RANGE 8 East



TOWNSHIP 2 South

W-02859A (2)
Diversified Water Utilities, Inc.

WS-02987A (8)
Johnson Utilities, LLC

Sewer

W-02425A (2)
Sun Valley Farms Unit VI Water Company

(2)
Town of Queen Creek (Nonjurisdictional)

Johnson Utilities, LLC (Water and Sewer)
Docket No. WS-02987A-13-0477
Application for Cancellation
To Town of Florence

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W E
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Prepared by:
Arizona Corporation Commission
Utilities Division
Engineering Section\GIS Mapping
602-542-4251

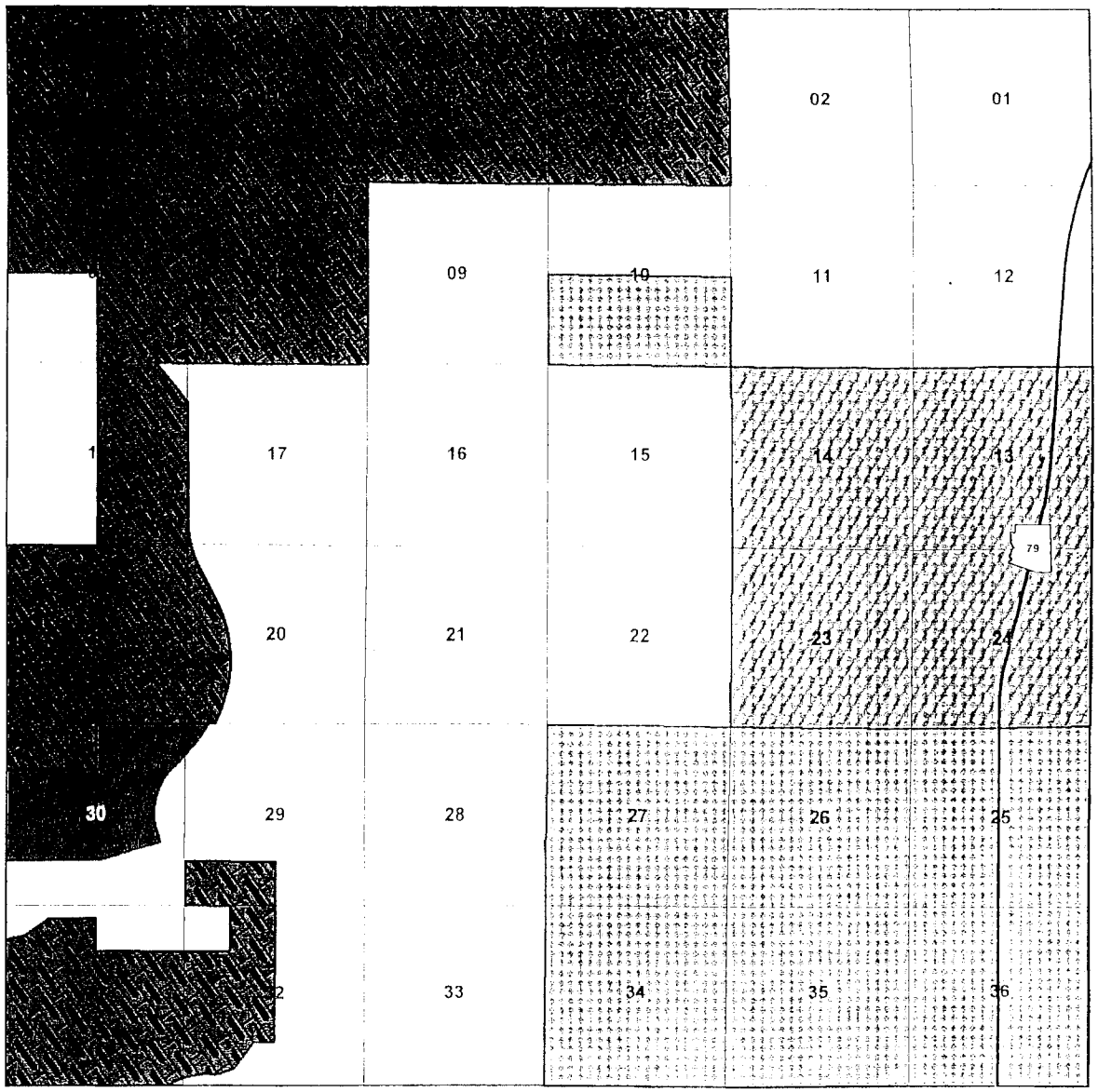
Pursuant to ARS § 39-121.03 this map is 'Not for Commercial Use'

TR2S8E 23 SEP 2013

Map No. 12

PINAL COUNTY

RANGE 9 East



TOWNSHIP 4 South

WS-02987A (8) — Sewer
Johnson Utilities, LLC

(4) — Sewer
City of Florence (Nonjurisdictional)

(2) — Sewer
Johnson Utilities, LLC
Docket No. WS-02987A-12-0136
2nd Amended Application for
Extension for Water & Sewer

Johnson Utilities, LLC (Water and Sewer)
Docket No. WS-02987A-13-0477
Application for Cancellation
To Town of Florence

N W E S

Prepared by:
Arizona Corporation Commission
Utilities Division
Engineering Section\GIS Mapping
602-54

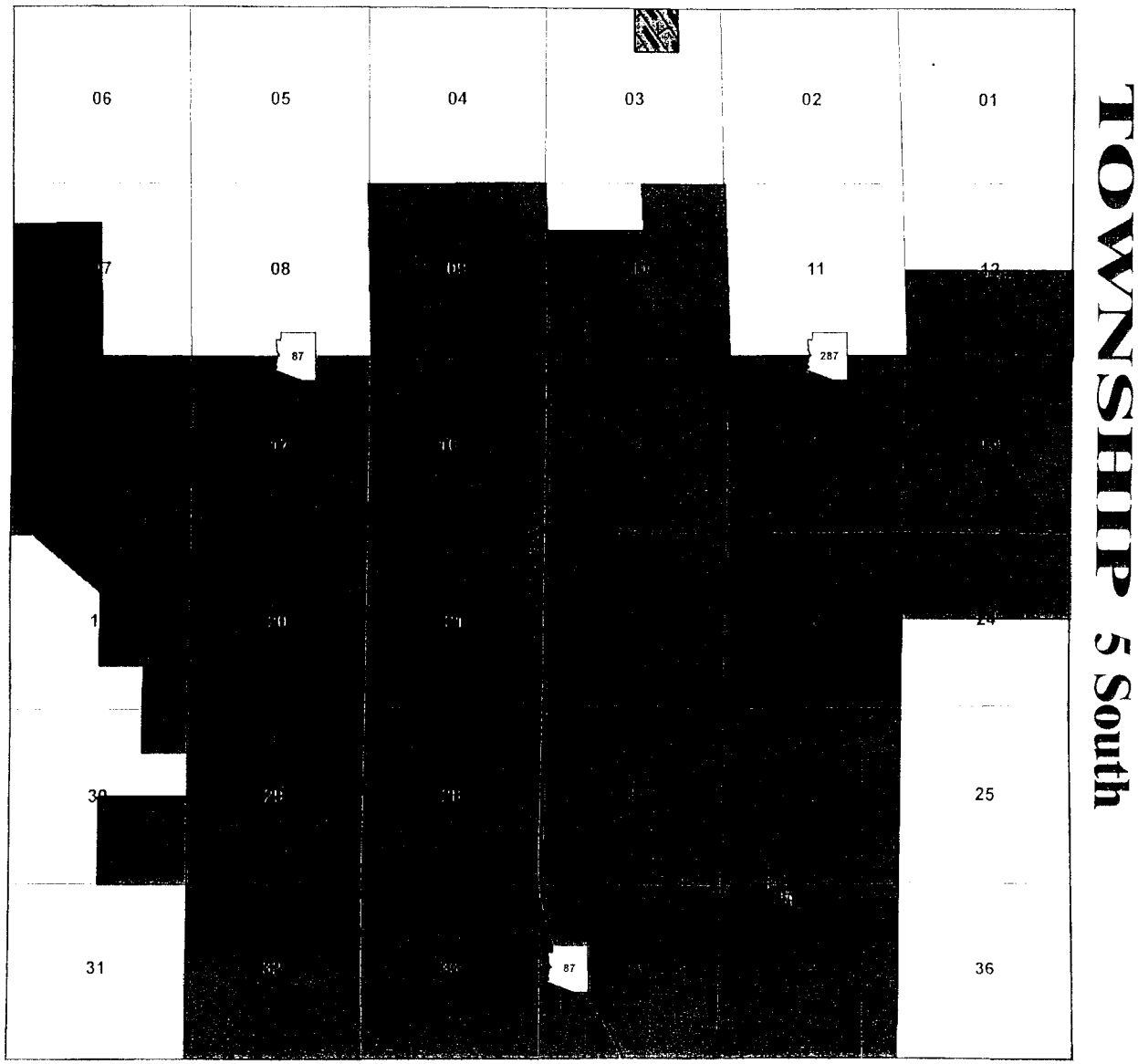
T. 03 JUL 2008

Pursuant to AR. 9-121.03 this map is 'Not for Commercial Use'

Map No. 20

PINAL COUNTY

RANGE 8 East



W-01445A (40)(4)
Arizona Water Company (Coolidge)

WS-02987A (8)
Johnson Utilities, LLC

Sewer

Johnson Utilities, LLC (Water and Sewer)
Docket No. WS-02987A-13-0477
Application for Cancellation
To Town of Florence

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Prepared by:
Arizona Corporation Commission
Utilities Division
Engineering Section\GIS Mapping
602-542-4251

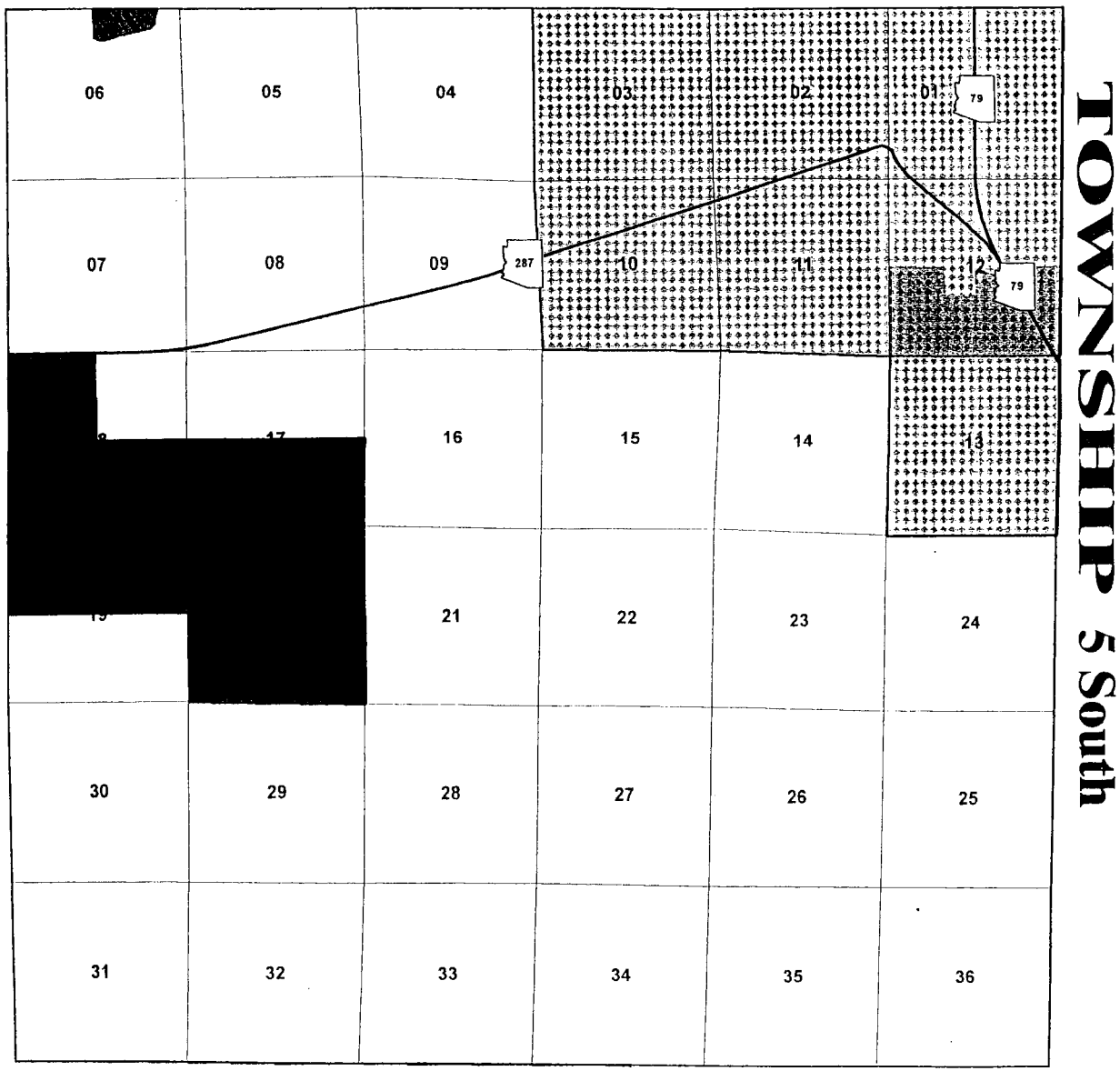
Pursuant to ARS § 39-121.03 this map is 'Not for Commercial Use'

TR5S8E 03 JUL 2008

Map No. 21

PINAL COUNTY

RANGE 9 East



TOWNSHIP 5 South

W-01445A (40)(4)
Arizona Water Company (Coolidge)

WS-02987A (8)
Sewer
Johnson Utilities, LLC

(4)
City of Florence (Nonjurisdictional)

(2)
Southwest Environmental Utilities, LLC
Docket No. WS-20878A-13-0065
(Amended Application for CC&N for Water & Wastewater)

Johnson Utilities, LLC (Water and Sewer)
Docket No. WS-02987A-13-0477
Application for Cancellation
To Town of Florence

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Prepared by:
Arizona Corporation Commission
Utilities Division
Engineering Section\GIS Mapping
602-54[illegible] [illegible]251

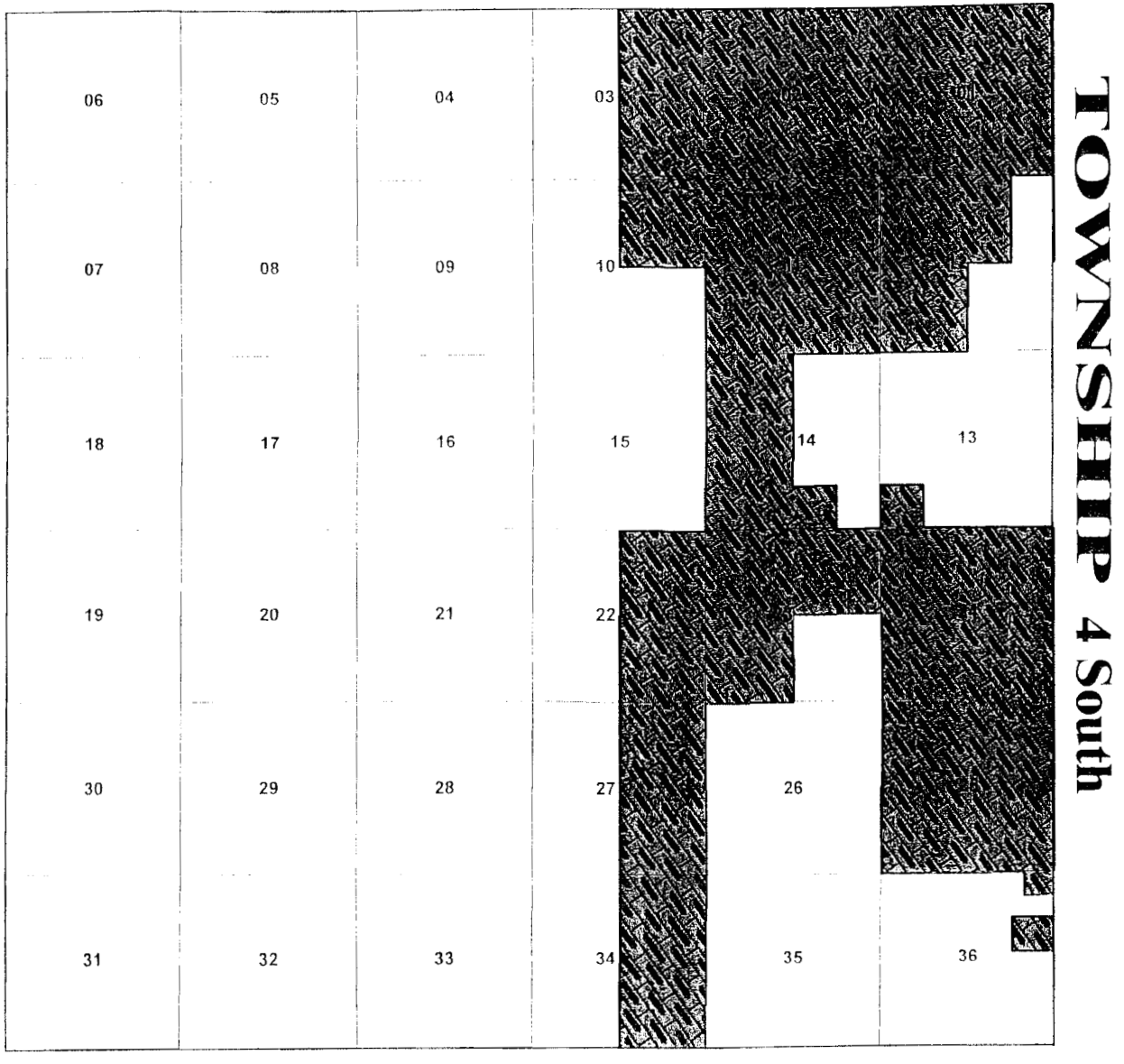
T[illegible] [illegible] 03 JUL 2008

Pursuant to AR[illegible]-121.03 this map is 'Not for Commercial Use'

Map No. 51

PINAL COUNTY

RANGE 8 East



WS-02987A (8)

Sewer

Johnson Utilities, LLC

Johnson Utilities, LLC (Water and Sewer)
Docket No. WS-02987A-13-0477
Application for Cancellation
To Town of Florence

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Prepared by:
Arizona Corporation Commission
Utilities Division
Engineering Section\GIS Mapping
602-542-4251

TR4S8E 03 JUL 2008

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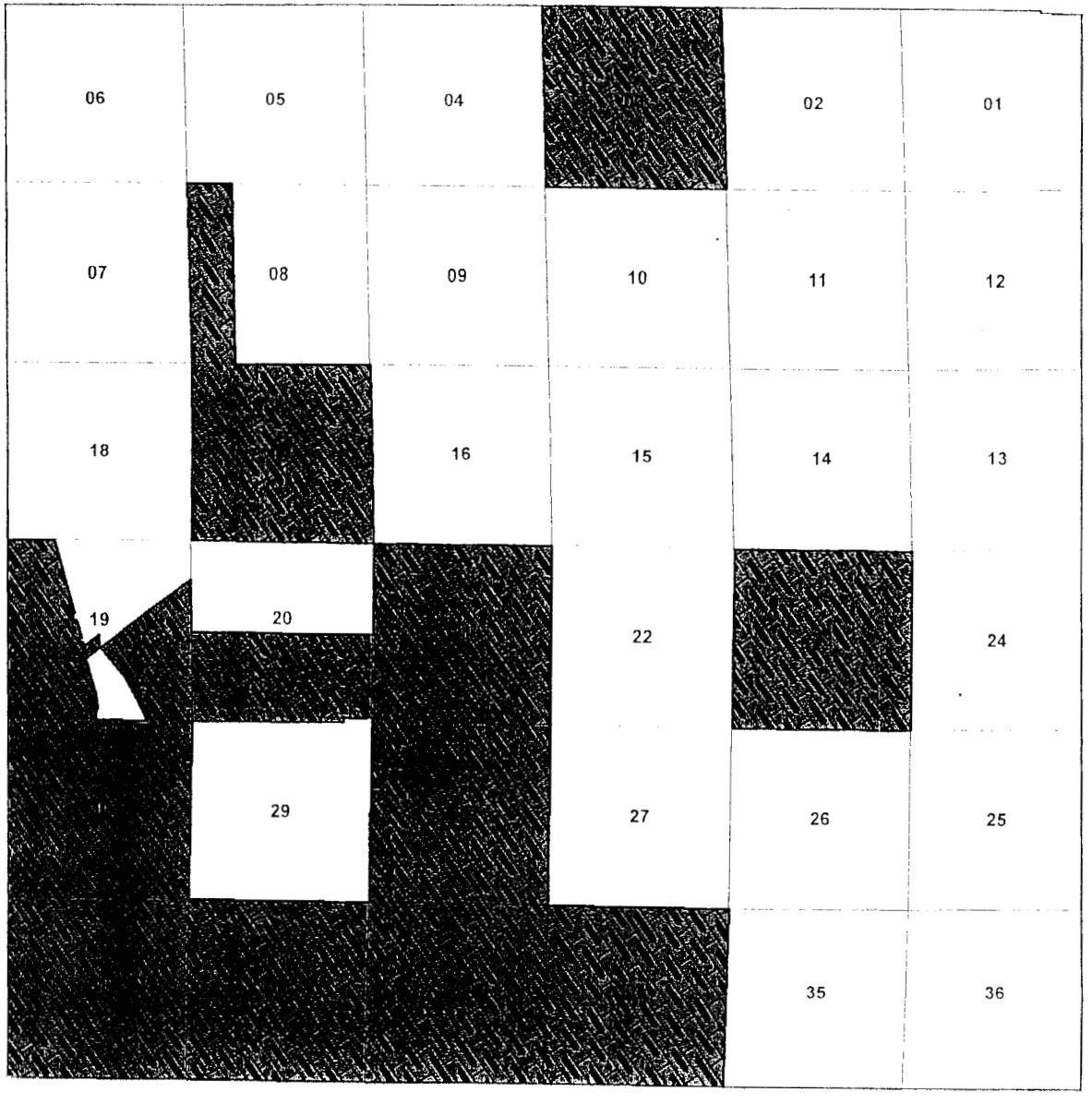
PINAL COUNTY

Map No. 53

RANGE 9 East



TOWNSHIP 3 South

WS-02987A (8)

Sewer

Johnson Utilities, LLC

Johnson Utilities, LLC (Water and Sewer)
Docket No. WS-02987A-13-0477
Application for Cancellation
To Town of Florence

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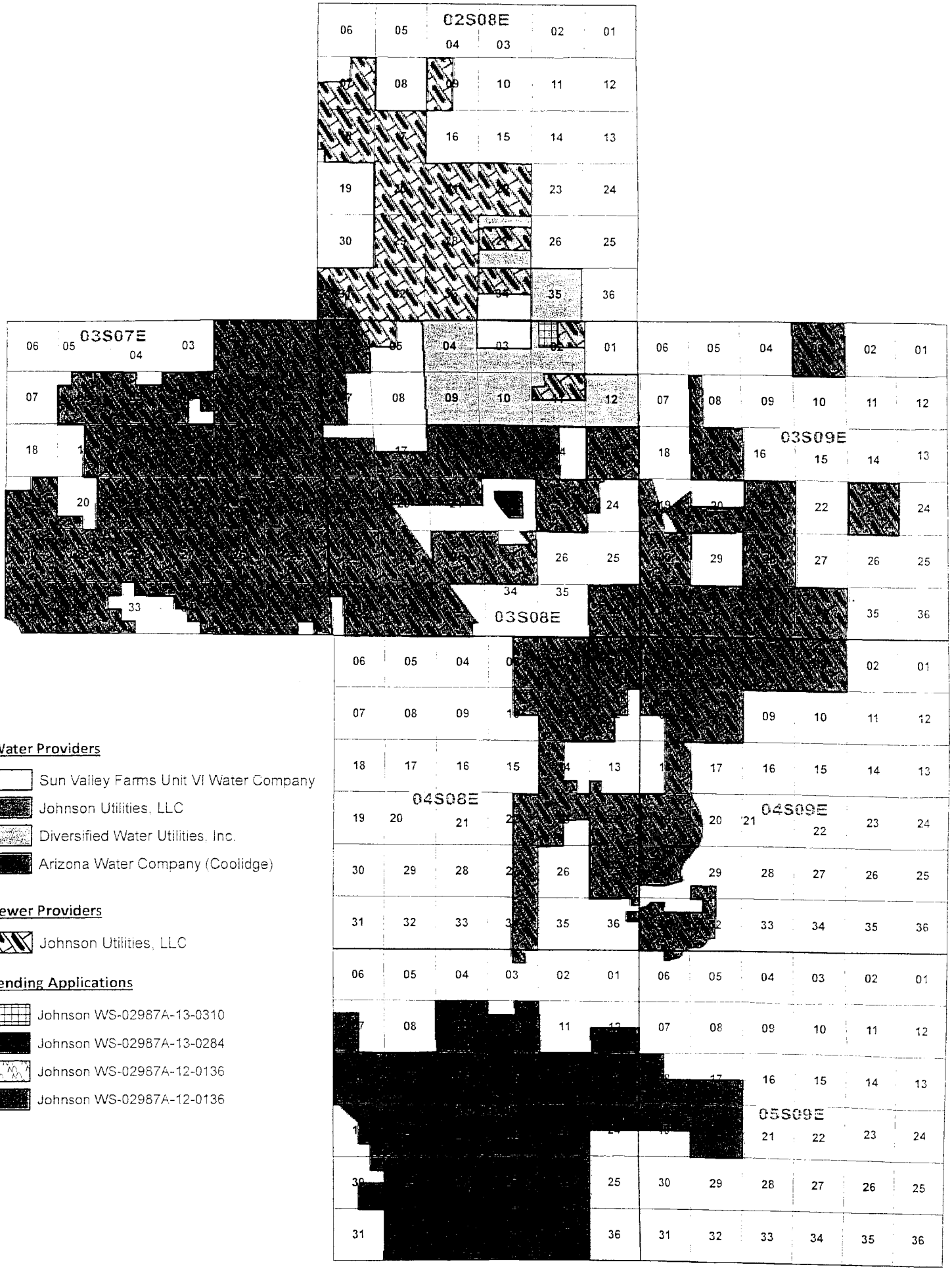
Prepared by:
Arizona Corporation Commission
Utilities Division
Engineering Section\GIS Mapping
602-542-4251

TI 26 JUN 2012

Pursuant to ARS -121.03 this map is 'Not for Commercial Use'



Water Providers

- Sun Valley Farms Unit VI Water Company
- Johnson Utilities, LLC
- Diversified Water Utilities, Inc.
- Arizona Water Company (Coolidge)

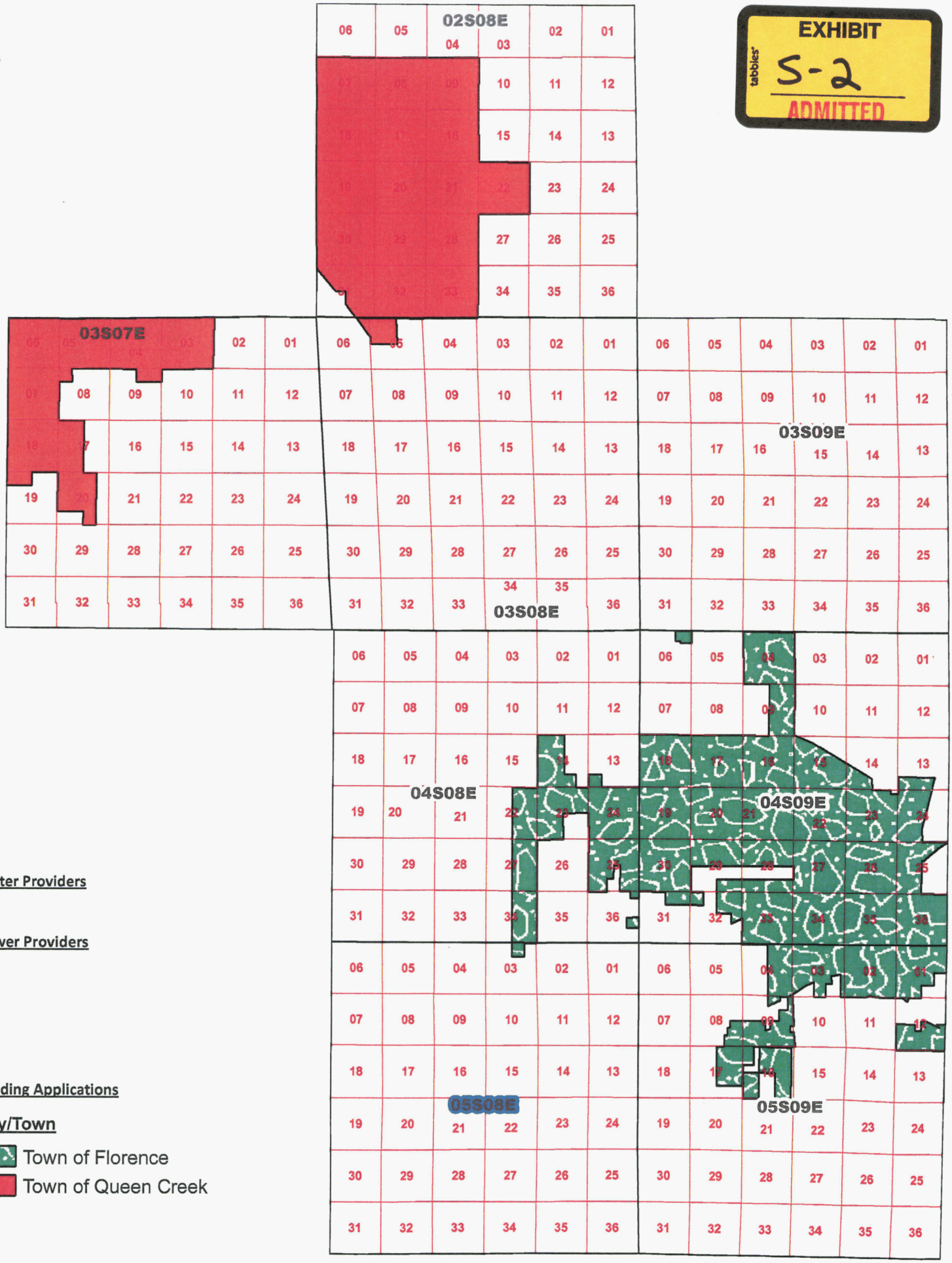
Sewer Providers

- Johnson Utilities, LLC

Pending Applications

- Johnson WS-02987A-13-0310
- Johnson WS-02987A-13-0284
- Johnson WS-02987A-12-0136
- Johnson WS-02987A-12-0136

EXHIBIT
S-2
ADMITTED



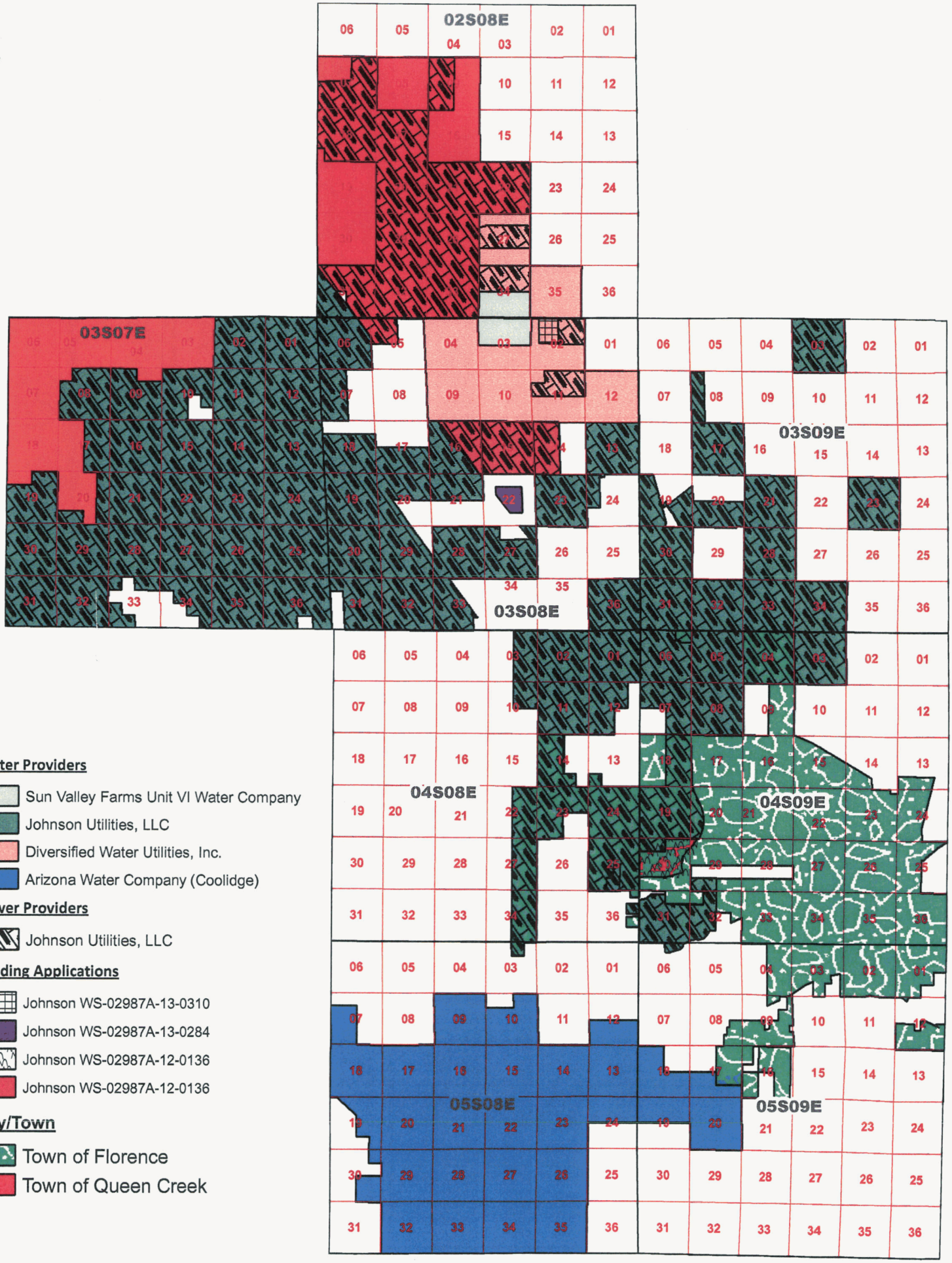
Water Providers

Sewer Providers

Pending Applications

City/Town

- Town of Florence
- Town of Queen Creek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05S09E
Water Providers
Sun Valley Farms Unit VI Water Company
Johnson Utilities, LLC
Diversified Water Utilities, Inc.
Arizona Water Company (Coolidge)
Sewer Providers
Johnson Utilities, LLC
Pending Applications
Johnson WS-02987A-13-0310
Johnson WS-02987A-13-0284
Johnson WS-02987A-12-0136
Johnson WS-02987A-12-0136
City/Town
Town of Florence
Town of Queen Creek

DRAFT

EXHIBIT
S-3
ADMITTED

MANAGEMENT AGREEMENT

between

The Town of Florence, an Arizona municipal corporation
as Owner

and

Johnson Utilities, L.L.C.,
as Manager

Dated as of June , 2014

4841-6016-4886.1

DRAFT

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DRAFT

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SCHEDULE 1 MANAGEMENT FEES

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MANAGEMENT AGREEMENT

THIS MANAGEMENT AGREEMENT (this "Agreement") was duly executed as of the ___ day of June, 2014, between The Town of Florence, an Arizona municipal corporation (the "Town" or "Owner"), and Johnson Utilities, L.L.C. (the "Manager" or "Seller"), an Arizona limited liability company.

RECITALS

WHEREAS, the Owner has purchased the Assets and properties (collectively, the "Assets") used in a public utility company (the "Business") from Seller pursuant to an Asset Purchase Agreement (the "Asset Purchase Agreement") dated as of June __, 2014 between the Owner and the Seller; and

WHEREAS, the Business provides domestic water and sewer service within the municipal boundaries of the Town and adjacent areas in Pinal County, Arizona (the "County"); and

WHEREAS, Owner financed the purchase of the Assets from the Seller with the proceeds of loan made to the Owner by The Industrial Development Authority of the City of Phoenix, Arizona (the "Issuer"), which issued its The Industrial Development Authority of the City of Phoenix, Arizona Water and Sewer Revenue Bonds (Florence Project), Series 2014 (the "Bonds") pursuant to that certain Trust Indenture between the Issuer and Zions First National Bank, as Trustee, dated as of June __, 2014 (the "Trust Indenture") in order to provide financing for, among other things, the purchase by the Owner of the Business;

WHEREAS, the Seller operates the Business pursuant to a Certificate of Public Convenience and Necessity ("CC&N") issued by the Arizona Corporation Commission ("ACC"); and

WHEREAS, Manager is in the business of managing water and sewer utility businesses and desires to provide management services to the Owner in connection with the operation of its Business;

WHEREAS, Seller has operated the Business, which provides water and sewer services to approximately 30,000 customers within the municipal boundaries of the Town and adjacent areas of the County;

WHEREAS, the Assets being acquired by the Owner include Real Estate, Personal Property, Contracts, Records, cash, Proprietary Rights and other benefits, both tangible and intangible, as set out, and defined, in the Asset Purchase Agreement, and additionally described in Exhibits I, J, K and L to the Asset Purchase Agreement; ASSETS

WHEREAS, the water and sewer services provided by the Seller to its customers are essential to the health and well-being of the customers, including families and businesses, and to the ability of those customers to enjoy, occupy and use their homes and properties;

WHEREAS, Seller has represented that the provision of the utility services by the Seller is a complex and highly technical endeavor;

WHEREAS, the Owner believes it to be in the best interests of all stakeholders that the Owner not immediately operate the utility business of the Seller without professional management assistance followed by a transition period;

WHEREAS, the Seller has managed the Business which is Assets being purchased by Owner for approximately 17 years;

WHEREAS, the Seller believes that the Assets being purchased by Owner may have a vastly diminished value and use if not properly managed within the operations of the Business;

WHEREAS, the Owner desires to gain the experience and expertise to operate the Assets being acquired as a utility enterprise for the benefit of the Town and the public, with the intention that full management control be turned over to the Owner as soon as reasonably practicable ;

WHEREAS, due to the complexity of operating the Assets and Business being acquired by Owner, it is desirable to have a transition period in which Seller continues to operate the Assets and the Business and Owner transitions into the operation of the Assets and the Business;

WHEREAS, successful operation of the Assets and the Business is believed to be necessary to protect the health and welfare of all present and future recipients of the services provided by the Business ;

WHEREAS, successful operation of the Assets and the Business as a utility business is necessary to pay for both the operation and maintenance of the water and sewer operations and the purchase price of the Assets;

WHEREAS, Seller's continued management of the Assets and the Business has been determined by the Town to be an efficient, lawful and practical way to endeavor to ensure the value and successful operation of the Assets;

WHEREAS, the Town and Seller have declared that this Agreement is a material term and condition of the sale of the Assets to the Owner due to the perceived importance of the water and sewer services provided, and to be provided, by the Assets being acquired;

WHEREAS, the Town has determined that this Agreement is for a public purpose, is in the public interest and is a material term of the Asset Purchase Agreement and part of the consideration to be provided to the Seller thereunder and that the Seller is the only current provider of such services, given the Seller's previous experience in operating the Assets and the Business;

WHEREAS, the Town has determined that due to the unique nature of the Business and the management thereof, Seller is the sole source available to manage the Business Assets being purchased;

WHEREAS, the Town and the Owner declare and determine that if public procurement were ever determined to be required for the services contemplated by this Agreement, that this is a sole source procurement pursuant to A.R.S. § 41-2536;

WHEREAS, the Town has determined that there is no reasonable alternative source for the management services to be provided pursuant to this Agreement;

WHEREAS, the qualified electors of the Town authorized the Town to enter into the Asset Purchase Agreement on May 20, 2014;

WHEREAS, the Town has found that the transition of management of the Business and Assets as provided for in this Agreement is in the public interest, is intended to be efficient, is intended to result in proper water and sewer service to existing and future customers and is intended to preserve and maintain the value of the Assets being acquired by the Owner for the benefit of the Town and the public;

WHEREAS, the Parties believe that Manager's expertise and experience is an important factor to the successful operation of the Business after the date hereof and through the end of said transition period, and Owner desires to obtain the services of Manager to assist in the operation of the Business for the duration of this Agreement.

NOW, THEREFORE, for good and valuable consideration, the receipt of which is hereby acknowledged, and in consideration of the mutual covenants contained herein,

IT IS AGREED AS FOLLOWS:

1. **Common Understandings**. Manager and the Owner both acknowledge the following as of the date of this Agreement, and subject, at all times, to the Management Documents (as herein defined):

(a) This Agreement and the rights and obligations of the parties hereunder shall be subject to the terms, provisions and conditions of the Asset Purchase Agreement. In the event of a conflict between the terms of the Asset Purchase Agreement and the terms hereof, the terms of the Asset Purchase Agreement will prevail unless such terms are in conflict with the Town's policies, procedures or state law, in which case the latter shall control and Seller shall follow all such policies, procedures or law.

(b) The Business will be a business as described in the Asset Purchase Agreement, and Manager shall maintain, on behalf of the Owner, in full force and effect any licenses, certifications or permits required for the operation of the Business.

(c) The Manager shall have the authority and responsibility to make contracts and leases for the procurement of services, materials, equipment and supplies and for operation of the Business, subject however to the Town's procurement policies, procedures, state law, or any other limitations set forth in this Agreement and the Asset Purchase Agreement.

(d) The Manager needs to have considerable discretion in the exercise of its responsibilities under this Agreement in order to manage the Business. Subject to the limitations expressly set forth in this Agreement or applicable by law, therefore, Manager shall be entitled to fulfill its obligations hereunder in the manner that it determines is appropriate or necessary within the policies established by the Town or as required by state law, and in a manner consistent with the Asset Purchase Agreement unless in conflict with the Town's policies, procedures or state law, in which case the latter shall control and Seller shall follow all such policies, procedures, or law.

(e) Subject to the limitations expressly set forth in this Agreement, the Manager shall be solely responsible for the establishment of, and shall establish, policy and procedures for the Business in a manner consistent with the policies and procedures of the Town and state law, and in a manner consistent with the terms of the Asset Purchase Agreement unless in conflict with the Town's policies, procedures or state law, in which case the latter shall control and Seller shall follow al such policies, procedures or law.

(f) Capitalized terms used herein without further definition shall have the meanings assigned to such terms in the Asset Purchase Agreement.

(g) The Recitals are incorporated into this Agreement.

(h) **Management Services**. Manager will manage and operate the Business subject to the terms of this Agreement, including but not limited to the terms of the transition management agreement described in Section 10 hereof, and in a manner consistent with the Asset Purchase Agreement unless in conflict with the Town's policies, procedures or state law, in which case the latter shall control and Seller shall follow all such policies, procedures or law.

2. All revenues generated by the Business shall be collected by the Manager and delivered to the Town, who shall make any and all payments to the Trustee in accordance with the terms of the Trust Indenture for deposit by the Trustee into the funds required by the Asset Purchase Agreement or the Trust Indenture or both, as the case may be. Manager shall provide or ensure the provision of the following services in connection with the Business and its operations:

(a) Business administration, including the preparation of an annual budget and business plan (collectively, the "Management Documents") having such forms and with such detail as may be reasonably acceptable to Town (it being understood by the Parties that the initial Management Documents shall control all aspects of the Business at the consummation of the sale of the Assets on a "going forward" basis), financial and other recordkeeping, audits in accordance with governmental accounting practices, and regulatory compliance;

(b) Acquisition of materials, equipment, services and supplies in a manner which is consistent with the Management Documents and with the Town's public

procurement policies and state law. If required by Town policy, acquisition of materials, equipment, services and supplies shall be subject to approval by the Town Manager or the Town Council, as the case may be;

(c) All maintenance, repair and replacement of the Assets;

(d) Management of Business affairs;

(e) Professional consulting services as needed to deal with Business affairs, including but not limited to legal, accounting and engineering services. Such professional services shall be procured according to the Town's public procurement policies and state law. Procurement of legal services shall be subject to review and approval by the Town Attorney;

(f) Payment of all taxes and assessments, if any, on the Assets; and

(g) All other services required in the Asset Purchase Agreement.

Notwithstanding the foreoing: a) if the Seller wishes to conduct any transaction not within the current Management Documents, the Seller shall give notice to the Town of such intention and, as a condition thereto, shall receive the approval of the Town; b) no affiliate of the Seller (including relatives or affiliates of natural persons who are owners or executive employees of the Seller, affiliate being defined in its most broad sense) shall receive any compensation from the Seller which is derived from revenue of the Business or Assets, directly or indirectly, except as set forth in the Management Documents as approved from time to time.

In consideration of the provision of the services described above, Manager shall be paid a Management Fee (as hereinafter defined).

3. **Term**. This Agreement shall be effective as of the ____ day of _____, 2014, and shall continue in effect for five (5) years from such date or until the earlier termination of this Agreement in accordance with the provisions of Section 19 hereof. This Agreement may be renewed with the consent of both parties for up to two (2) consecutive terms of five (5) years each beyond the initial 5-year term.

4. **Personnel**. Except as otherwise required by law, all personnel engaged to operate the Business, other than those provided by the Town pursuant to section 10(c) below, shall be employed or otherwise contracted for by the Manager pursuant to this Agreement, which personnel will include personnel currently employed by Manager. From Business Revenues, Manager shall be reimbursed all personnel costs to operate the Business pursuant to this Agreement, including but not limited to compensation, employment taxes, worker's compensation and employee benefits for employees employed at the Business, as provided in the Trust Indenture. Subject to any limitations imposed by this Agreement, the Asset Purchase Agreement or by applicable law, Manager shall make all decisions regarding hiring, compensation, termination of employment, assignments, and discipline of such personnel in its sole discretion, except as provided for in Section 10 herein.

5. **Purchase of the Business by the Owner.** Under the Asset Purchase Agreement, Owner has agreed to cause the Bonds described therein to be delivered to the Seller in exchange for the Assets of the Business. Manager shall be responsible for taking all necessary steps to ensure that all responsibilities of the Owner related to payment on the Bonds in accordance with Asset Purchase Agreement are fulfilled.

6. **Equipment and Supplies**. Manager shall acquire or provide all equipment and supplies necessary for the operation of the Business pursuant to the requirements of section 2(b) above. Except as otherwise agreed by the parties in writing, as between the Owner and Manager, all such equipment and supplies shall be the property of the Owner, subject to the rights and interests of the owner of the Bonds as provided in the Asset Purchase Agreement.

7. **Financial Matters.**

(a) ***Funds***. The Owner and Manager hereby agree that, for so long as any Bonds remain outstanding under the Trust Indenture, any and all revenues, income and receipts of any nature in any form, derived from the operation and management of the Business ("Business Revenues") shall be deposited in the General Operating Account established under the Trust Indenture, as and when received consistent with the Assignment Agreement by and between Manager and Trustee, and shall be held in certain reserves and also disbursed by the Trustee as provided in the Trust Indenture. Excess funds after application to reserves and for the expenses noted herein shall be the property of Owner and may be withdrawn.

The Manager shall have the right to requisition funds from the Debt Service Reserve Account and the Capital Reserve Account in accordance with the terms of the Trust Indenture and the Management Documents in order to pay for the costs of operating, managing, repairing, maintaining the Business and for expenses pursuant to Section 10, herein.

(b) ***Liability for revenue shortfalls or unbudgeted expenses***. If Business Revenues received in any month are insufficient to pay the Operating Costs for the Business, the Manager will continue to operate the Business under this Agreement and shall provide for the payment of any shortfalls from the Debt Service Reserve Account and the Capital Reserve Account in accordance with the Trust Indenture. If the Debt Service Reserve Account and the Capital Reserve Account shall be depleted, then the Manager shall advance its own funds to cover any shortfalls between Business Revenues received and Operating Costs for the Business. The Owner shall have no obligation, responsibility or liability for any Operating Costs associated with the Business. In the event that there shall be insufficient Business Revenues available, either from the Debt Service Reserve Account or the Capital Reserve Account established under the Trust Indenture, to pay for the Operating Costs of the Business, and the Manager shall advance its own funds to cover any resulting shortfall, such shortfalls shall accumulate and shall be reimbursed to the Manager in accordance with the Trust Indenture if and to the extent that funds become available for the payment of such accumulated shortfalls.

(c) If, for any reason, during the term hereof (i) the Bonds shall be paid in full and no Bonds shall be outstanding, (ii) the Owner shall continue to be the owner of the Business and (iii) the Asset Purchase Agreement shall remain in force, the Owner and Manager shall negotiate in good faith an appropriate amendment to the foregoing provisions of this Section 8 and Section 9 below, to provide for appropriate provisions related to the cost of operating the Business and for the payment of a management fee to the Manager.

8. **Payment for Services**. The Manager shall be reimbursed for all expenditures incurred to operate the Business pursuant to this Agreement, to comply with the terms of the Asset Purchase Agreement and to comply with the terms of the Trust Indenture, from the Business Revenues consistent with the Management Documents. In addition, subject to the availability of funds, the Manager will be entitled to receive, a periodic fixed fee (the "Management Fee") for its services hereunder during each _____ 1 - _____ 31 during the term of this Agreement (a "Period"). THE MANAGER UNDERSTANDS AND AGREES THAT ITS MANAGEMENT FEE IS NOT GUARANTEED AND THAT IT SHALL BE PAYABLE ONLY TO THE EXTENT THAT THERE SHALL BE SURPLUS BUSINESS REVENUES FOLLOWING THE PAYMENT OF DEBT SERVICE ON THE BONDS, OPERATING COSTS AND THE OTHER FEES AND EXPENSES HAVING A PRIORITY OVER THE PAYMENT OF MANAGEMENT FEES TO THE MANAGER AS PROVIDED FOR IN THE TRUST INDENTURE. Such periodic fixed management fee shall be paid in twelve equal monthly installments on the first calendar day of each month during such Period, commencing _____ 1, 2014, as provided in Schedule 1. In the event that there shall be insufficient funds available to pay the Manager its Management Fee in any given month, any shortfall in the payment of the Management Fees to the Manager shall accumulate and shall be reimbursed to the Manager in accordance with the Trust Indenture if and to the extent that funds become available for the payment of accumulated arrearages in the payment of the Management Fee.

9. **Designation of Representatives**. To facilitate decisions by the Manager and the Owner relating to the Business, the Manager agrees to designate a representative (the "Manager Designated Representative") of the Manager to act as a liaison between the Manager and the Owner. The Manager Designated Representative shall be available at all reasonable times to serve as such liaison, it being the intention of this Section 9 to provide the Owner with one individual as the Manager's principal representative with respect to the Business. The initial Manager Designated Representative shall be _____. The Manager Designated Representative may be changed at any time by the Manager giving notice as provided in Section 26. The Owner shall also designate a representative (the "Owner Designated Representative") to act as a liaison between the Owner and the Manager with respect to the Business. The Owner Designated Representative shall be available at all reasonable times to serve as such liaison, it being the intention of this Section 9 to provide the Manager with one individual as the Owner's principal representative with respect to the Business. The initial Owner Designated Representative shall be _____. The Owner Designated Representative may be changed at any time by the Owner giving notice as provided in Section 26.

10. **Transition of Management**.

(a) **Intent.** It is the intention of the parties to transition the management of the Business from the Manager to the Owner during the last three (3) years of the initial term of this Agreement. During the last three years of the initial term of this Agreement, the Owner will progressively assume a more direct role in managing and operating the Business which transition will be detailed in a transition agreement ("the Transition Agreement") to be drafted and approved by the Parties hereto as more fully set forth herein below.

(b) The Recitals are adopted and restated in this Section 10 by this reference.

(c) In order to help expedite the transition of the management of the Business from the Manager to the Owner, the Town agrees to designate professionals and/or Town employees with reasonably appropriate qualifications as (i) a finance manager (the "Finance Manager") to consult with and assist Manager in the finance operations of the Business; (ii) a utility operations manager (the "Utility Operations Manager") to consult with and assist Manager in the utility operations of the Business; and (iii) a customer service manager ("Customer Service Manager") to consult with and assist Manager in the customer service operations of the Business. The Finance Manager, the Utility Operations Manager and the Customer Service Manager shall be employed by the Town. The cost of the employment of the Finance Manager, the Utility Operations Manager and the Customer Service Manager shall be reimbursed to the Town by the Manager from the Business Revenues as to the percentage of their work time spent on the Business.

(d) Notwithstanding anything to the contrary contained in this Agreement, during the first two (2) years of the initial term of this Agreement, all operations of the Business shall be managed by the Manager upon consultation with and assistance from the Finance Manager, the Customer Service Manager and the Utility Operations Manager and in strict accordance with the Management Documents. Any issues arising from Business during the first two (2) years of the initial term of this Agreement shall be resolved by the Owner Designated Representative and the Manager Designated Representative. In the event of disagreement between the Owner Designated Representative and the Manager Designated Representative, issues arising from the Business during the first two (2) years of the initial term of this Agreement shall be resolved by the Manager Designated Representative, unless the operations of the Business fail to meet or exceed budgeted projections in the Management Documents, in which event any disagreements shall be resolved by the Owner Designated Representative. During the last three (3) years of the initial term of this Agreement, all operations of the Business shall be managed by the Manager, other than those which have been assumed by Owner pursuant to section 10(a) above, upon consultation with and assistance from the Finance Manager, the Customer Service Manager and the Utility Operations Manager. All issues arising from the Business during the last three (3) years of the initial term of this Agreement shall be resolved by the Owner Designated Representative and the Manager Designated Representative. In the event of disagreement between the Owner Designated Representative and the Manager Designated Representative, issues arising

from the Business during the last three (3) years of the initial term of this Agreement shall be resolved by the Owner Designated Representative.

(e) At the beginning of each fiscal year of this Agreement, the Manager shall provide a detailed budget for the operation of the Business to the Owner Designated Representative as a portion of the Management Documents. The Manager and the Owner Designated Representative shall work in good faith to agree upon the operation budget. The operation budget shall be consistent with past practices of Seller and from year to year, taking into account growth, changes in costs, other issues as directed by the Owner and any other agreed upon expenditures. Upon agreement, the budget shall be presented to the Town for adoption as a portion of the Management Documents.

(f) During the first two (2) years of the initial term of this Agreement, the Manager, the Finance Manager, the Customer Service Manager and the Utility Operations Manager shall prepare the Transition Agreement which shall detail the transition of management and operation of the business to the Owner during the final three years of this Agreement. The Transition Agreement is subject to approval by the Town and the Manager and Manager's consent thereto shall not be unreasonably withheld, delayed or conditioned.

(g) The Transition Agreement shall contain terms and plans detailing the timing and sequencing of the Owner's assumption of management responsibilities, including but not limited to, transitioning discreet management functions to the Owner; transitioning employees to the Owner or the Town; providing for hiring preferences for all qualified employees of the Manager unless such preferences would be in violation of the Town's Personnel Policy; development of all systems needed to operate the Business in a manner consistent with the Asset Purchase Agreement and the Trust Indenture; providing for a plan for the transition of procurement of items needed for operation of the Business from the Manager to the Owner; providing for any changes needed in the Town's codes, policies or procedures in order to operate the Business; providing for needed capital and operational reserves for the Business in addition to those required by the Asset Purchase Agreement or the Trust Indenture; providing for insurance for the operation of the Business; development of a budget for any excess expenses incurred by the Manager and Owner as a result of implementing the Transition Agreement and a source of monies for such excess expenditures; development of policies, guidelines and thresholds for the transfer of funds not required to be maintained by the Business to the Owner; and other matters deemed necessary or desirable in order to effectuate a smooth transition of management and functions.

(h) Nothing in this Agreement prohibits the Owner from exercising its options to have the Manager continue after the Initial Term or pursuant to Paragraph 19.

11. **Intellectual Property**. As between Manager and the Owner, all rights of any nature, including, without limitation, any copyrights and any trademark or service mark rights (together with any goodwill appurtenant thereto) ("Rights") in and to business or administrative materials created by Manager, and all rights in and to materials created, adapted or modified by

Manager for use in connection with the Business, shall be owned exclusively by Owner. As between Manager and the Owner, all Rights in and to materials created, adapted or modified by Owner employees for use in connection with the Business, shall be owned exclusively by the Owner. As between Manager and the Owner, all Rights in and to materials created, adapted or modified jointly by Owner employees and Manager for use in connection with the Business shall be owned jointly by the Owner and Manager and shall be used solely in connection with the operation of the Business during the term of this Agreement, except as otherwise agreed in writing by the Owner and Manager. Without limiting any of the foregoing, however, Manager hereby grants to the Owner a non-exclusive license, for the term of this Agreement, of the Rights in and to all business and administrative materials owned by or licensed to Manager and used in connection with the Business; provided, however, that such license shall extend only to such uses as are necessary for the operation of the Business and shall not permit any publication, re-sale, sub-license, distribution or other use of such materials for any other purpose.

12. **Insurance**. During the term of this Agreement, Manager will provide an adequate plan of insurance. Although the parties agree that the insurance currently provided for by the Seller is adequate, the Town reserves the right to procure such additional insurance for the Assets as it, in its sole discretion, determines to be necessary. In such case, the insurance provided by Town shall be secondary to the insurance provided by Manager. Manager will purchase and maintain insurance and cause its subcontractors to purchase and maintain throughout the term of this Agreement, all insurance coverages by insurers acceptable to the Owner, as required by the Asset Purchase Agreement and the Loan Agreement, including insuring the value of the Assets of the Business at 100% replacement cost. The Manager shall comply with all provisions of the Asset Purchase Agreement with respect to performance bonds, insurance and indemnification.

The cost of such insurance and performance bond will be included in and paid by the Manager from the Business Revenues. Upon request of the Owner, Manager will provide evidence satisfactory to the Owner of such insurance, including without limitation certificates of insurance and copies of such insurance policies or performance bonds.

The Owner, the Town, and the Trustee, shall be named as an additional insured under all liability insurance policies purchased and maintained by the Manager, and the Trustee shall be named as insured loss payee on all property and casualty insurance policies consistent with the requirements of the Loan Agreement.

In the event that the Owner obtains insurance that covers the Business, the Parties shall cooperate to avoid excess insurance expenses.

13. **Cooperation**. The Owner agrees to reasonably cooperate with Manager, at no material expense to Owner, in filing all forms, notification, reports and information in obtaining all consents, authorizations and approvals required or desirable in connection with this Agreement. The Owner agrees to act reasonably promptly in the event of an emergency or in the event that a major decision with respect to any aspect of the Business must be made immediately. The Owner also agrees to enter into agreements and contracts, either solely or in conjunction with Manager, when reasonably necessary because of the Owner's property ownership or Owner status.

14. **Records**. Manager shall keep current, complete and accurate books, accounts and records in connection with the operation and management of the Business. The original records necessary for the operation and management of the Business shall be the property of the Owner, but shall be in the possession of Manager during the term of this Agreement. Manager and the Owner shall both be entitled to copies of such records at any time. All books, accounts and records shall be retained in accordance with Owner's s record retention policy and state law, subject to any additional requirements which may be set forth in the Asset Purchase Agreement.

15. **Confidentiality**. Manager shall maintain all confidential personnel and contractor records in the manner required by law and shall obtain all necessary approvals and consents for access to such records. The Owner agrees to cooperate with and assist Manager in obtaining such approvals and consents; however, the Parties acknowledge that public record laws and court decisions related thereto may require disclosures of certain or all information and documents contemplated by this Agreement.

16. **Representations and Warranties of Manager**. Manager represents and warrants that it is an Arizona limited liability company in good standing and that the undersigned has full limited liability company authority to execute this Agreement on behalf of Manager; that it holds, and will continue to hold, any necessary licenses and/or permits which are necessary to enable it to provide the services rendered hereunder; and that the performance of the terms and conditions of this Agreement will not constitute a violation of the governing documents or other agreements or obligations of Manager.

17. **Representations and Warranties of Owner**. The Owner represents and warrants that it is an Arizona nonprofit corporation in good standing, that the undersigned has full corporate authority to execute this Agreement on behalf of Owner, and that the performance of the terms and conditions of this Agreement will not constitute a violation of the articles of incorporation, bylaws, governing documents or other agreements or obligations of the Owner.

18. **Indemnification.**

(a) ***Indemnification of the Owner by Manager.*** Manager shall defend in any action at law, indemnify and hold the Owner, the Issuer, the Town, and/or their attorneys, directors, supervisors, officials, agents, advisors, and employees (the "Indemnified Parties") harmless for and against:

(i) Claims arising from:

(A) A breach or default on the part of the Manager in the performance of this Agreement;

(B) A claim or loss for services rendered by Manager, or by any person or firm performing or supplying services, materials or supplies in connection with the performance of this Agreement;

(C) A claim or loss to any person injured or property damaged from the acts or omissions of Manager, its officers, agents, or employees in the performance of this Agreement;

(D) A failure by Manager, its officers, directors, agents, or employees to observe the Constitution, laws, regulations, ordinances or orders of the United States, the State of Arizona, Pinal County, Arizona or the Town; and

(E) A claim or loss proximately caused or permitted by Manager's negligent management or operation of the Business.

(ii) Costs, reasonable attorney's fees, expenses, and liabilities incurred in or about such claim, action, or proceeding brought thereon.

Said indemnification shall not be applicable to any claim, injury, death or damage to property arising out of any act or omission on the part of the Indemnified Parties or independent contractors (other than Manager) who are directly responsible to the Owner. Further said indemnification will not be applicable to any and all events, circumstance, or occurrences which occur at the Business after the expiration of this Agreement.

In case any action or proceeding is brought against the Indemnified Parties by reason of any above listed claim, Manager, upon notice, shall defend against such action. Notice under this section shall be given to Manager within thirty (30) days of receipt of same. Neither the Manager nor the Owner will enter into any settlement with respect to any claim without first obtaining approval of the other party.

(b) ***Indemnification of Manager by the Owner.*** To the extent permitted by law, the Owner shall indemnify and hold Manager, its officers, directors, attorneys, advisors, agents and employees harmless for and against:

(i) A breach or default on the part of the Owner in the performance of this Agreement;

(ii) A claim or loss to any person injured or property damaged from the acts or the omissions of the Owner, its officers, directors, agents, attorneys, advisors, or employees (other than Manager and its directors, officers, agents or employees) in the performance of this Agreement; and

(iii) A failure of the Owner, its officers, directors, attorneys, agents, advisors, or employees to observe the laws of the United States and of the State of Arizona.

19. **Termination**. So long as the Bonds are outstanding and the Manager is not in uncured default hereunder, the Manager shall not be terminated until a replacement Manager approved with the written consent of a majority in aggregate principal amount of the Bonds has been engaged, unless such termination is on account of an event described in subparagraph (a)

below, it being understood by the Parties that the Town, acting as the manager of its own Assets, is hereby approved prospectively by the Seller. Subject to such limitations, this Agreement may be terminated under the following circumstances:

(a) By the Owner: i) for cause. For purposes of this subparagraph 19(a), "cause" is defined as any act of defalcation, fraud, theft, unethical conduct or which constitutes a criminal offense by the Manager or any employee, affiliate or subcontractor of the Manager; (ii) repeated breaches of this Agreement by the Manager or repeated disregard by the Manager of the Town's instructions hereunder; (iii) a material breach of this Agreement by the Manager which is not cured within thirty (30) days after written notice by the Town; or (iv) at any time beginning _____ 1, 2019, without penalty or need to show cause unless this Agreement is renewed in accordance with Section 3 hereof; or

(b) By mutual written consent of the parties.

20. **Effect of Termination**. Subject to Section 19 hereof, in the event this Agreement is terminated by either party for any reason, Manager shall be under no further obligation to begin, continue or complete any undertakings or activities contemplated by this Agreement. The termination of this Agreement shall in no way affect or impair any right which has accrued to either party hereto prior to the date when such termination shall become effective. In order to facilitate an orderly transition, the parties agree that in the event of any such termination, the parties shall reasonably cooperate with each other to develop a mutually agreeable transition plan to assure minimal disruption in the Business.

21. **Amendment**. This Agreement may be amended only by a written instrument executed on behalf of both Manager and the Owner.

22. **Force Majeure**. Notwithstanding any other provision of this Agreement, neither party hereto shall be liable for any delay in performance or inability to perform due to acts of God or the public enemy, war, riot, embargo, fire, explosion, sabotage, flood, accident; or without limiting the foregoing any circumstances of like or different character beyond its reasonable control; or labor trouble from whatever cause arising; or compliance with any order, direction or request of any governmental officer, deputy or agency.

23. **Relationship of the Parties**. The relationship of Manager and the Owner hereunder shall be solely that of independent contractors and nothing herein shall be construed to create or imply any relationship of employment, agency or partnership or any relationship other than that of independent contractors. Manager and the Owner acknowledge and agree that each of them is engaged in a separate and independent business and neither shall state, represent or imply any interest in or control over the business of the other.

24. **Governing Law**. This Agreement shall be governed by and construed in accordance with the laws of the State of Arizona without giving effect to the principles of conflict of laws.

25. **Entire Agreement**. This Agreement constitutes the entire agreement of the parties hereto and supersedes all prior agreements and understandings, written or oral, between the parties relating to the subject matter hereof.

26. **Notices**. All notices, requests, demands and other communications hereunder shall be in writing and shall be deemed to have been duly given if: (i) delivered by hand, (ii) sent by overnight courier service, or (iii) sent by certified or registered mail, postage prepaid, return receipt requested, to the party to whom such notice is intended to be given at the addresses set forth herein. Any notice delivered in the manner provided above will be deemed given at the time of receipt. Until changed by notice in the manner provided above, the addresses of the parties are as follows:

If to Owner, addressed to:

Town of Florence
775 N. Main Street
P.O. Box 2670
Florence, Arizona 85132
Attn: Town Manager

with a copy to: Florence Town Attorney

775 N. Main Street
P.O. Box 2670
Florence, Arizona 85132

If to Manager, addressed to:

Johnson Utilities, L.L.C.
5230 E. Shea Boulevard, Suite 200
Scottsdale, Arizona 85254
Attention: George H. Johnson, Manager

with a copy to:

Gary A. Drummond, Esq.
Sallquist & Drummond
1430 E. Missouri Avenue, Suite B-125
Phoenix, Arizona 85014

Any party may change the address to which notices hereunder are to be sent to it by giving written notice of such change of address in the manner herein provided for giving notice. Any notice delivered personally shall be deemed to have been given on the date it is so delivered, and

any notice delivered by registered or certified mail shall be deemed to have been given on the date it is received.

27. **Counterparts**. This Agreement may be executed in one or more counterparts, each of which shall constitute an original and all of which, taken together, shall constitute one original.

28. **Invalidity**. If any provision of this Agreement, including without limitation any grant of authority by the Owner to Manager, is held to be invalid, unlawful or unenforceable, such provision shall be revised or applied in a manner that tenders it valid, lawful and enforceable to the fullest extent possible. In such event, the parties agree to use their best efforts to revise or apply such provision in accordance with the intent of this Agreement. The invalidity of any particular provision of this Agreement shall not affect any other provision hereof.

29. **Assignment**. Except as provided below, neither Manager nor the Owner shall assign any of its rights or obligations hereunder without the prior written consent of the other party; provided, however, that Manager may, without the consent of the Owner but consistent with the Management Documents, subcontract the performance of (but not responsibility for) any duties and obligations of Manager hereunder in a manner consistent with the Asset Purchase Agreement as provided above. The Manager may, upon 60 days notice, with the written consent of the Owner, assign all of its rights and obligations hereunder to any entity legally affiliated with the Manager, without, however, releasing Manager from its obligations hereunder in connection with the Assets and the Business. The rights created by this Agreement shall inure to the benefit of, and the obligations created hereby shall be binding upon, the successors, heirs and assigns of the respective parties hereto.

30. **Waiver**. No waiver of any provision of this Agreement shall be deemed to constitute a waiver of any other provision. No such waiver shall be binding unless it is in writing and no waiver will be held to continue unless otherwise expressly stated by the party waiving the provision.

31. **Survival**. The provisions contained in Sections 7(c) (Liability for Revenue Shortfalls or Unbudgeted Expenses), 8 (Payment for Services), 11 (Intellectual Property), 18 (Indemnification), and 20 (Effect of Termination), shall survive the termination of this Agreement and remain in full force and effect.

32. **Further Assurances**. In order to more fully assure each party of the benefit of contracting hereunder, each party agrees to deliver to the other party such confirmations of fact, records, certificates, instruments of assignment and other documents and things as may be reasonably requested by the other party to carry out the purposes of this Agreement.

33. **Litigation**

(a) ***Prior Occurrences***. The Manager shall remain solely responsible for any losses or costs resulting from litigation pending at the time this Agreement becomes

effective or for lawsuits arising thereafter relating to events or conditions which occurred or existed prior to the effective date of this Agreement. Owner agrees to cooperate with the Manager, at no material expense to Owner, in the defense of such suits, if any.

(b) ***Reserved.***

34. **Third Party Rights**. The provisions of this Agreement are for the sole benefit of the parties hereto and shall not be construed as conferring any rights to any other person other than as specified herein.

35. **Nonrecourse Obligation**. Any obligations of the Owner hereunder are nonrecourse and are limited solely to moneys received by the Trustee pursuant to the Asset Purchase Agreement, or through funds made available pursuant to the Indenture or any insurance policies.

36. **Disclaimer Regarding the Condition of the Property.**

MANAGER IS FAMILIAR WITH THE BUSINESS, AND IS AND WILL BE RELYING SOLELY ON ITS OWN INSPECTION OF THE BUSINESS IN MAKING ITS DECISION TO ENTER INTO THIS AGREEMENT. MANAGER SHALL ASSUME THE RISK THAT ADVERSE MATTERS CONCERNING THE BUSINESS MAY NOT HAVE BEEN REVEALED BY MANAGER'S INSPECTION OF THE BUSINESS. OWNER HAS NOT MADE, DOES NOT MAKE, AND SPECIFICALLY DISCLAIMS ANY REPRESENTATIONS, WARRANTIES, PROMISES, COVENANTS, AGREEMENTS, OR GUARANTIES OF ANY KIND OR CHARACTER WHATSOEVER, WHETHER EXPRESS OR IMPLIED CONCERNING OR WITH RESPECT TO THE BUSINESS DESCRIBED HEREIN, INCLUDING COVENANTS, AGREEMENTS, OR GUARANTIES CONCERNING (A) THE NATURE, QUALITY OR CONDITION OF THE BUSINESS OR ANY OF THE PROPERTIES OR EQUIPMENT THEREIN; (B) THE SUITABILITY OF THE BUSINESS OR ANY OF THE FIXTURES OR EQUIPMENT THEREIN FOR ANY USE OR PURPOSE; OR (C) THE MERCHANTABILITY OF THE BUSINESS OR ANY OF THE PROPERTIES OR EQUIPMENT THEREIN. MANAGER HEREBY ACCEPTS THE BUSINESS DESCRIBED IN ITS EXISTING CONDITION, "AS IS," WITH ALL FAULTS AND DEFECTS OF ANY NATURE WHATSOEVER. MANAGER SHALL NOT HAVE ANY RIGHT TO RECOURSE AGAINST OWNER ON ACCOUNT OF ANY LOSS, COST OR EXPENSE SUFFERED OR INCURRED BY MANAGER WITH REGARD TO ANY OF THE PRECEDING MATTERS.

37. **Miscellaneous.** The recitals and preamble to this Agreement are a substantive part hereof and shall be interpreted and given effect as such and are incorporated into this Agreement by this reference.

38. **Notice of A.R.S. Section 38-511 - Cancellation.** Notice is hereby given of the provisions of Arizona Revised Statutes Section 38-511, as amended. By this reference, the provisions of said statute are incorporated herein to the extent of their applicability to contracts of the nature of this Agreement under the law of the State.

39. **Compliance with Laws.** In the provision of the services required by this Agreement, Manager agrees to comply with all applicable federal, state and local laws, codes, ordinances, rules, regulations, orders and decrees of any governmental or quasi-governmental entity having jurisdiction over the Assets or the Business, including, but not limited to, the American with Disabilities Act, the Immigration Reform and Control Act of 1986 and the Drug Free Workplace Act of 1989 (the "Acts"), Arizona Revised Statutes ("A.R.S.") 34-301 "Employment of Aliens on Public Works Prohibited", A.R.S. 34-302 "Residence Requirements for Employees", and A.R.S. 41-4401 and A.R.S. 23-214(A) "Verification of Employment Eligibility".

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DRAFT

IN WITNESS WHEREOF, the parties hereto have caused this Management Agreement to be duly executed as of the date first above written.

OWNER:

THE TOWN OF FLORENCE, ARIZONA, an Arizona municipal corporation

By: _____
Name: _____
Title: _____

MANAGER:

JOHNSON UTILITIES, L.L.C., an Arizona limited liability company

By: _____
Name: _____
Title: _____

ACCEPTED AND APPROVED:

TOWN OF FLORENCE, an Arizona municipal corporation

By: _____
Name: _____
Title: _____

DRAFT

SCHEDULE 1

MANAGEMENT FEES

Period	Management Fee
_____ 1, 2014 – _____ 31, 2015	$500,000.00
_____ 1, 2015 – _____ 31, 2016	$500,000.00
_____ 1, 2016 – _____ 31, 2017	$500,000.00
_____ 1, 2017 – _____ 31, 2018	$500,000.00
_____ 1, 2018 – _____ 31, 2019	$500,000.00

EXHIBIT
RUCO 1
ADMITTED

JOHNSON UTILITIES COMPANY

DOCKET NO. WS-02987A-13-0477

DIRECT TESTIMONY

OF

ROBERT B. MEASE

ON BEHALF OF

THE

RESIDENTIAL UTILITY CONSUMER OFFICE

MAY 9, 2014

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EXECUTIVE SUMMARY

On December 31, 2013, Johnson Utilities, LLC, dba Johnson Utilities, filed with the Arizona Corporation Commission ("Commission") an application requesting the approval of the sale and transfer of all of the Company's utility assets and operations in Pinal County, Arizona to the Town of Florence, and the cancellation and extinguishment of its Certificate of Convenience and Necessity ("CC&N"). The Town of Florence has tentatively agreed to purchase the utility assets of Johnson Utilities for $121,000,000 to be financed with the issuance of Industrial Revenue Bonds. The 30 year bonds bear interest at 6.625 percent for the first five years and then increases to 8 percent for the remainder of the life of the bonds. The revenue bonds are being purchased by Mr. George Johnson.

The Town of Florence is committing to purchasing all the assets of Johnson Utilities, has indicated in its testimony that rates for existing customers of Johnson Utilities will remain in place for a minimum of 18 months and that all current and future ratepayers residing in the Johnson Utilities CC&N area, will be provided both water and wastewater services once the sale is completed. The Residential Utility Consumer Office ("RUCO") has no position in this case regarding the approval or disapproval of the sale and transfer of assets between Johnson Utilities and the Town of Florence. RUCO does believe, however, that from the "public interest" perspective that the Arizona Corporation Commission ("ACC") should review and give appropriate consideration to the many comments from current customers of Johnson Utilities questioning the "arms-length" aspect of this transaction. There have been many issues raised by several groups residing in the Johnson Utilities service area and these issues should be resolved prior to the Commission making its final determination.

RUCO further believes that the Settlement Agreement reached between RUCO and Johnson Utilities (Docket No. 08-0180) should be approved prior to the conclusion of the sales transaction. RUCO and Johnson Utilities reached agreement on the reduction of its pass through tax percentage, in the wastewater division, reducing the tax from 36.66 percent to 25 percent. The reduction in rates benefits current Johnson Utilities ratepayers, and the Town of Florence ratepayers, if the transaction is approved, by approximately $378,000. That benefit will be reflected in the rates after the merger for at least 18 months as RUCO understands it.

INTRODUCTION

Q. Please state your name, position, employer and address.

A. My name is Robert Mease and I'm the Chief of Accounting and Rates for the Residential Utility Consumers Office. ("RUCO") My business address in 1110 W. Washington Street, Suite 220, Phoenix, AZ.

Q. Please state your educational background and qualifications in the utility regulation field.

A. Attachment A, which is attached to this testimony, describes my educational background, work experience and regulatory matters in which I have participated. In summary, I joined RUCO in October of 2011. I graduated from Morris Harvey College in Charleston, WV and attended Kanawha Valley School of Graduate Studies. I am a Certified Public Accountant and currently licensed in the state of West Virginia. My years of work experience include serving as Vice President and Controller of Energy West, Inc. a public utility and energy company located in Great Falls, Montana. While with Energy West I had responsibility for all utility filings and participated in several rate case filings on behalf of the utility. As Energy West was a publicly traded company listed on the NASDAQ Exchange I also had responsibility for all filings with the Securities and Exchange Commission.

Q. Please state the purpose of your testimony.

A. The purpose of my testimony is to present RUCO's recommendations and conclusions regarding Johnson Utilities pending sale of all its utility assets to the Town of Florence and is the transaction in the public interest.

CURRENT STATUS OF PENDING TRANSACTION

Q. What is the current statue of the pending sale to the Town of Florence?

A. The Asset Purchase and Lease Agreement between Johnson Utilities and the Town of Florence, as well as the Management Agreement are both in "DRAFT" format and require final approval by the Town Council. At the Town Council meeting held on May 5, 2014, the Council approved a motion to schedule its vote on May 27,

2014. The review and final approval of the contract documents has been delayed due to the Towns failure to receive requested documents from Johnson Utilities in a timely manner. [1]

Q. Are the residents of the Town of Florence required to vote prior to the Town going forth with the purchase transaction?

A. Yes. "In February of this year, the Town Council approved resolution No. 1421-14, thereby authorizing an election to be held May 20, 2014 on the question of the acquisition of the assets of Johnson Utilities, L.L.C. The election was scheduled according to the consolidated election law, A.R.S. §16-204."[2]

Q. Does the sale of Johnson Utility assets included both the water and wastewater divisions?

A. Yes. The assets of both the water and wastewater divisions are included in the proposed sale.

OVERVIEW OF TRANSACTION

Q. Can you please describe, in summary format, the financial details of the proposed sale between Johnson Utilities and the Town of Florence?

A. Yes. The Town of Florence will acquire all of the assets of Johnson Utilities, free and clear of all liens, mortgages, pledges, encumbrances and charges of every kind, which are useful, available for use or necessary for the Towns operation of the utility business.

The Town will assume all of Johnson Utilities' obligations under existing main line extension agreements and master utility agreements.

The transaction will be financed with one or more series of water and sewer revenue bonds issued by The Industrial Development Authority of the City of Phoenix, Arizona. The 30 year bonds shall bear interest of 6.625 percent per year

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[1] See Exhibit A
[2] See Direct Testimony of Mr. Charles A. Montoya, page 5

for the first five years, and 8 percent per annum thereafter. The bonds will be purchased by Johnson Utilities, L.L.C.

The Town will receive $2,500,000 cash in the off-site facilities hookup fee account and any balance in the Central Arizona Groundwater Replenishment District adjuster fee account.

The Town will assume all existing customer accounts and will receive customer deposits held on account.

Once the asset transfer is approved by the Commission, the CC&N of Johnson Utilities will be cancelled.

The Town of Florence and Johnson Utilities will enter into a management agreement whereby Johnson Utilities will operate the business for a period of five years.

Q. Can you please summarize the contents of the DRAFT Management Agreement?

A. The Management Agreement, is a five year agreement, between the Town of Florence and Johnson Utilities, L.L.C. The Town of Florence will pay to Johnson Utilities a $500,000 annual fee for a period of five years to act as manager of the utilities. It is the intention of both parties to transition the management of the utility's from the Johnson to the Town during the last (3) years of the initial term of the agreement. However, the agreement can be renewed with the consent of both parties for a period up to (2) consecutive terms of (5) years each beyond the initial five-year term.

Q. So Johnson Utilities is selling its water and wastewater utilities to the Town of Florence, ~~are~~ buying the bonds to finance the purchase by the Town of Florence, and then serving as manager of both utilities for a period of five years?

A. Yes.

Q. Can you briefly describe the comparative size of the utilities owned by Johnson Utilities and the Town of Florence?

A. Johnson Utilities serves approximately 22,954 water customers and 30,901 wastewater customers while the Town of Florence serves approximately 3,526 water customers and 2,905 wastewater customers.[3]

REVIEW OF TRANSACTION

Q. Are there restrictions placed on the Commission, and other intervening party's as to the scope of review allowed when transferring assets from a privately owned utility to a municipality?

A. Yes. Per Arizona Attorney General ("AG") Opinion No. 62-7 (January 8, 1962), responding to Commission questions about the Commission's jurisdiction to hold a hearing regarding the transfer of assets from a privately owned water utility to municipal owned utility, in addition to any scope limitations, if such a hearing was even permissible.

The AG determined that the Commission has jurisdiction over a public utility's sale of assets to a municipality because Arizona Statues requires that Commission approval be obtained before a public utility can dispose of its assets. However, the Commission's inquiries are limited to whether the proposed transfer will be injurious to the rights of the public and whether any person is left without service. RUCO's believes that the Commission must always consider whether any transaction is in the public interest.

Q. Are there safeguards in place to ensure that the 93 percent of water and wastewater customers residing outside the Town of Florence town limits receive adequate service?

A. Yes. By statue, a municipal utility has the responsibility to serve non-resident customers. A.R.S. §9-516 prohibits a city from discontinuing service to non-residents. If the municipality refuses to serve customers in the areas outside the

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[3] Water and Wastewater Residential Rate Survey as published by the Water Infrastructure Finance Authority of Arizona ("WIFA")

boundaries of the municipality, after taking control of the area, the Commission retains the power to investigate such refusals and issue a new certificate if necessary to provide service.

Q. Has the Town of Florence made commitments to maintain the current rate structure for the existing ratepayers of Johnson Utilities?

A. Yes. In the direct testimony of Mr. Charles A. Montoya, Town Manager for the Town of Florence, he states "Based on the Town's economic analysis of Johnson Utilities the Town does not intend to make any changes to the rates charged to Johnson's current customers, as well as those customers acquired after the acquisition, for at least 18 months. Also, since the Town is required to conduct a rate study prior to increasing utility rates pursuant to A.R.S. S 9-511.01, there is normally a significant time lag between the Town's authorization of a rate study and the imposition of new rates."[4]

Q. Are there assurances made by the Town of Florence that all customers, whether within or outside the town limits are treated on an equal basis?

A. There basically is no direct provision in the documents reviewed to date that ensures that all ratepayers that reside within and outside the town limits are treated on an equal basis. However,

> A.R.S. § 9-516(C) speaks in terms of the city rendering utility service without its boundaries. The furnishing of utility service by a public service corporation is regulated by the Corporation Commission, and such utility service must be provided at reasonable rates. Although the Corporation Commission has no jurisdiction over municipal charges for utility service, we believe that the implication of reasonable rates for utility service must be read into A.R.S. § 9-516(C). If such a construction is not adopted, a city could charge any rate it wished despite its effect on the nonresidents' need for utility service. The legislature did not intend to place nonresidents of a city in such an impossible situation. The obligation of a city to continue utility service as required by A.R.S. § 9-516(C) necessarily implies that the charges for such services will be at reasonable rates.

There is additional Arizona case law that states the basic premise surrounding municipal rate setting is the concept of reasonable rates. There are specific requirements that each municipality has to comply in establishing reasonable rates.

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[4] See Direct Testimony of Mr. Charles A. Montoya, Town Manager, page 7

Q. Are there additional recommendations that could be suggested that would help alleviate the question of fair treatment for all ratepayers, both inside and outside the town limits?

A. As recommended, and adopted, in a prior case[5] a Citizens Advisory Committee could be appointed that would provide the non-resident customers a voice to promote and address the concerns of the non-resident ratepayer.

Q. Has RUCO made a determination as to the financial viability of this transaction?

A. No. Due to the lack of financial details provided by the Company and the Town of Florence, RUCO cannot determine if the deal makes financial sense or not.

Q. What details are you referring too?

A. On the Town of Florence's web site are presentations made by both Johnson Utilities and the Town of Florence. The presentations, made before the Town Council, included certain financial data that appeared to make this transaction a very good deal for both Johnson Utilities, and the Town of Florence. However, the financial details as presented in the presentations cannot be confirmed.

Q. Does RUCO have concerns on the question of whether this could be less than an "arms-length transaction?

A. While RUCO does not have reason to believe that the transaction is not arms-length, there are many residents that are located in the affected service areas that have raised this question. We believe that these concerns should be considered by the Commission prior to approving the asset sale.

---

[5] See Decision No. 69575. Docket No. W-02124A-06-0717. Desert Hills Water Company for the Approval to Transfer its Assets to the Town of Cave Creek

Q. Can you please be more specific?

A. Yes. I have attached two separate articles that were published in local newspapers in the area and will highlight those areas that could lead one to question the arms-length issue.

Q. Does RUCO believe that the CC&N should be cancelled immediately after closing the transaction?

A. RUCO believes that the cancellation of the CC&N at time of closing is premature. Based on the AG Opinion 62-7 the ACC should only terminate the certificate of the privately owned public utility being purchased and relieve it from the duties of a public utility service corporation after it is apparent that the municipal corporation has not and will not refuse "to provide utility service to a portion or part of the area or territory previously authorized to the public utility."

INCOME TAX REDUCTION

Q. Are there any issues that RUCO would like to discuss that remain outstanding?

A. Yes. RUCO would like to ensure that the reduction in wastewater rates, as agreed to by RUCO and Johnson Utilities in Docket No. 08-0180, be implemented and made a part of Johnson's wastewater rates prior to the transfer of its assets. Johnson and RUCO reached agreement to reduce wastewater rates by approximately $1.02 per month per customer for the wastewater system. This was agreed to as a result of a reduction in Johnson Utilities income tax rate from 36.66 percent to 25 percent. The effect of this agreement is a reduction in annual revenues of approximately $286,000 related to customers on the system at the end of the last test year, and a reduction of approximately $378,000 in rates based on the number of customers today. It is RUCO's understanding that the Town of Florence agreed to reflect this reduction in its rates for the first 18 months after the acquisition is approved. Therefore, it is important to RUCO that this reduction be approved by the Commission prior to its final consideration of the acquisition.

LAWSUITS OUTSTANDING

Q. Are there lawsuits outstanding against Mr. George Johnson by ratepayers that remain outstanding?

A. RUCO has been informed that all lawsuits between Mr. Johnson and ratepayers have been resolved. However, RUCO has not been provided with details to confirm this and would that the Commission be provided with this information prior to final determination of the asset transfer.

Q. **Does this conclude your testimony?**

A. Yes it does.

EXHIBIT A

EXHIBIT A

ROBERT B. MEASE, CPA
Education and Professional Qualifications

EDUCATION

Bachelors Degree Business Administration / Accounting - Morris Harvey College.

Attended West Virginia School of Graduate Studies and studied Accounting and Public Administration

Attended numerous courses and seminars for Continuing Professional Educational purposes.

WORK EXPERIENCE

Controller
Knives of Alaska, Inc., Diamond Blade, LLC., and Alaska Expedition Company.

Financial Manager / CFO
All Saints Camp & Conference Center

Energy West, Inc.
Vice President, Controller

- Led team that succeeded in obtaining a $1.5 million annual utility rate increase
- Coached accountants for proper communication techniques with Public Service Commission, supervised 9 professional accountants
- Developed financial models used to negotiate an $18 million credit line
- Responsible for monthly, quarterly and annual financial statements for internal and external purposes, SEC filings on a quarterly and annual basis, quarterly presentations to Board of Directors and shareholders during annual meetings, coordinated annual audit
- Communication with senior management team, supervised accounting staff and resolved all accounting issues, reviewed expenditures related to capital projects
- Monitored natural gas prices and worked with senior buyers to ensure optimal price obtained

Junkermier, Clark, Campanella, Stevens
Consulting Staff

- Established a consulting practice that generated approximately $160k the first year of existence
- Prepared business plan and projections for inclusion in clients financing documents
- Prepared written reports related to consulting engagements performed
- Developed models used in financing documents and made available for other personnel to use
- Performed Profit Enhancement engagements
- Participated during audit of large manufacturing client for two reporting years

Prior to 1999, held various positions: TMC Sales, Inc. as **Vice President / Controller**, with American Agri-Technology Corporation as **Vice President / CFO** and with Union Carbide Corporation as **Accounting Manager. (Union Carbide was a multi-national Fortune 500 Company that was purchased by Dow Chemical)**

PROFESSIONAL AFFILIATIONS
Member - Institute of Management Accountants
Member - American Institute of CPA's
Past Member –WV Society of CPA's and Montana Society of CPA's

RESUME OF RATE CASE AND REGULATORY PARTICIPATION WITH RUCO

Utility Company	Docket No.
Arizona Water Company (Eastern Group)	W-01445A-11-0310
Pima Utility Company	W-02199A-11-0329 et al.
Tucson Electric Power Company	E-01933A-12-0291
Arizona Water Company (Northern Group)	W-01445A-12-0348
UNS Electric	E-04204A-12-0504
Global Water	W-01212A-12-0309 et al.
LPSCO	SW-01428A-13-0042 et al.

EXHIBIT B

Central Arizona College

inspire expo

Public will be first to vote on buying JU

Posted: Thursday, May 8, 2014 1:00 am

By MARK COWLING Editor | 0 comments

The Town Council set a date of May 27 to vote on the town's purchase agreement and management contract with Johnson Utilities, despite pleas from JU that the town's approvals were needed sooner.

Vice Mayor Tom Smith noted at Monday's regular council meeting that the council had only received the documents that day. The purchase agreement numbers 25 pages, plus approximately twice that many pages of exhibits. The five-year management agreement numbers 19 pages.

Smith said if the council votes first it could sway the public vote scheduled for May 20. He explained afterward that the public may assume, "'They already voted, what's the use of us voting?' Or something like that."

Smith made the motion to schedule the council's vote for May 27, giving the council time to read the contracts and the public to vote on whether the sale should occur. The council members present passed the motion unanimously. Ruben Montaño was absent.

Before the public portion of Monday's meeting, the council met for two hours behind closed doors on the town's potential purchase of JU, the water and wastewater provider to Anthem and San Tan Valley.

JU attorney Gary Drummond told the council that approving the purchase agreement doesn't unconditionally obligate the town to buy or JU to sell the assets, and "it's not our intent to sway the voters." But without an executed agreement, JU can't go before the Arizona Corporation Commission for its approvals or the Phoenix Industrial Development Authority for the bonds.

"... I don't think what we are requesting is at all unusual," Drummond told the council. "... I think we can do this concurrently instead of sequentially."

Council member Vallarie Woolridge told Drummond that what JU is requesting might work in the corporate world, but when government entities and taxpayer dollars are involved, "we're held to a higher standard."

JU owner George Johnson told the council he was "kind of at a loss for words." He said despite other offers, they came to the town and have dealt with the town in good faith. He said the town's economic study, engineering appraisal and accounting study have been done. "Please — either vote us up or down," Johnson asked.

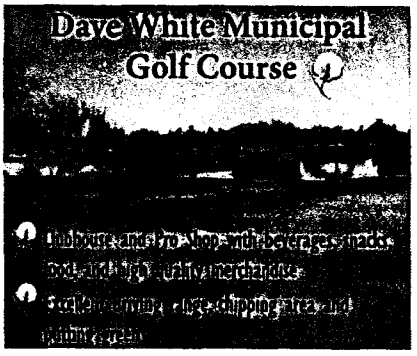
Mayor Tom Rankin asked Town Manager Charles Montoya for his recommendation.

Montoya replied, "Do I think this is a great deal? I do." But he added the town's legal counsel hasn't received all the information it has requested.

Town Attorney James Mannato said they have been requesting the information for "quite some time." He explained after the meeting that the information included line extension agreements with developers and master utility agreements, more than 450 contracts in all, that significantly determine the utilities' future financial obligations.

More Information

The town's purchase agreement and management contract with Johnson Utilities may be viewed online. Go to the town's website at florenceaz.gov. Point to "Government" and click on "Town Council." Click on "2014 Minutes and Agendas." Under Monday's agenda packet, click "View."



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Mannato said the parties met Friday and the town still did not receive the information. Drummond replied that JU thought the Friday meeting was to confirm that the agreement was in its final form to be presented to the council. Because of the size of the utilities, it takes time to pull the various materials together, Drummond said.

Johnson added, "There's been last-minute things thrown at us, thrown at us, thrown at us." He asked the council to approve the contract subject to conditions. He said to stall the process at this stage, "we all look like fools."

Woolridge said she resented being called foolish. She said the town has been requesting the information for some time, and now JU appears to want to fast-track the sale without the town having all the information.

Michael Cafiso, an attorney who has served as the town's bond counsel for 20 years or more, said he supported not rushing the JU agreement.

"The larger these acquisitions, the more time you take with upfront diligence," Cafiso said. "I agree it's a fantastic deal ... but the diligence that he is requesting is not unusual."

He said no one buys a car without driving it, or a house without looking at the inside. "I think those are apt analogies."

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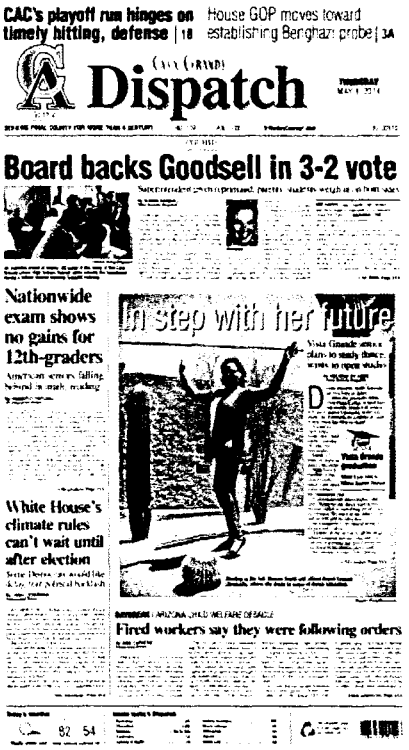
Posted in News on *Thursday, May 8, 2014 1:00 am.*


CAC's playoff run hinges on timely hitting, defense | 1B
House GOP moves toward establishing Benghazi probe | 3A

Casa Grande Dispatch

Board backs Goodsell in 3-2 vote

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12:00 am | See more

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EXHIBIT C

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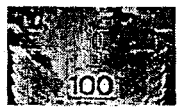
By Connor Radnovich



Bucket List: 100 Things to Do in Phoenix Before You Die
By Robrt L. Pela and Amy

Tragic Consequences Follow Mayor Tom Rankin's Control of Politics and Police in Florence

By Stephen Lemons and Monica Alonzo *Thursday, Dec 5 2013* Comments (54) A A A

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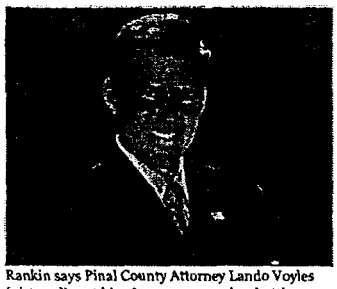
SPECIAL REPORT: FLORENCE EXPOSED | *Third of three parts*

Seated in a conference room near his Florence Town Hall office and dressed in his standard collared shirt, silver belt buckle, cowboy hat, jeans, and roughed-up cowboy boots, Mayor Tom Rankin looks as if he has stepped out of Florence's frontier past.

Brian Gauthier



Rankin says Pinal County Attorney Lando Voyles (pictured) cost him $40,000 a year by shutting down the system of child-support enforcement that gave work to Rankin's process-service company, transferring that system to the state.

And minus the sidearm and badge he wore when he was the town's chief of police from 1980 to 1994, this is pretty much how he appeared during his 14-year reign over the Florence Police Department.

Rankin still prefers the title he says he used to go by, before Florence began to give lip service to the tenets of modern law enforcement: town marshal.

"I guess I fit more of that [title] than police chief," Rankin, 67, explains during an interview with *New Times*. "As far as the Western town marshal goes."

In Arizona statutes, the words "marshal" and "chief of police" are used interchangeably to mean a law enforcement officer who is either appointed or elected by a city or town. For some time in Florence, the town manager (hired by the Town Council) has appointed the police chief.

Yet the more antique term of "marshal" suggests a time when one man represented the law in a town.

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Miami New Times

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Riverfront Times

What is TerRio's Dance Doing to Him?

Rankin appeared as an extra in the 1986 movie *Murphy's Romance*, filmed in Florence.

Marisa Alonzo

Florence Mayor Tom Rankin outside Town Hall after his interview with *New Times*.

Library of Congress/Herbert A. French

Tom Mix, silent film's "King of the Cowboys," died in an auto accident just outside Florence. He's part of the cowboy culture in Florence that defines Rankin.

Rankin has not overseen Florence's small police force directly in almost a decade, but he still likes to remind people of who is in charge. Particularly when he is having one of his infamous public fits of temper.

The most recent of these incidents occurred in May, when an inspector with the Pinal County Department of Health was checking the food booths at a fundraiser for the American Cancer Society, held on the Florence High School football field.

Rankin got in the woman's face, pointing his finger at her and yelling, according to a police report.

"Yeah, I raised a little hell with that," Rankin admits. "I never threatened her . . . Nothing came of it. They looked at filing charges against me. There wasn't nothing to file."

The Coolidge City Attorney investigated the woman's complaint and decided not to bring charges. Rankin says he was riled because the inspector made a fuss over one booth handing out cold pizza and the lack of sinks for food handlers to wash their hands.

He admits he probably said something about the inspector not coming to "his town" to do health inspection.

"Everybody says I call it 'my town,' okay?" grumbles Rankin. "And I do . . . That's just an expression for me. I'm not trying to say that I run the town."

And yet, there are those who say Rankin runs Florence like a personal fiefdom.

"People try to turn it around like I'm trying to say I'm King Rankin or some goddamn thing like that," Rankin says.

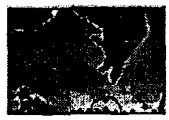
On paper, Rankin has no more than one vote out of seven on the Florence Town Council.

But through a combination of bully politics, persuasion, and force of will, he maintains his influence over the 62-square-mile municipality, founded in 1866, that has twice as many incarcerated residents in its 10 corrections and detention facilities than it does non-incarcerated citizens.

New Times Broward-Palm Beach

Slideshows

Chowing Down at Coachella



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As a teenager, Rankin already had decided he wanted to be a "cowboy cop."

Monica Alonzo

The Florence Police Department is now run by Rankin-backed Chief Dan Hughes.

Lieutenant Terry Tryon was hired by Rankin when he ran the force.

Town of Florence

Water baron George Johnson and members of Johnson's family donated more than $6,000 to Rankin's 2012 mayoral campaign. Mayor Rankin supports town policies that dovetail with Johnson's business interests.

The town's 30-officer police force reflects Rankin's prejudices — racial and otherwise — and his adherence to a system of provincial favoritism. Florence's back-slapping style of governance is extolled by the mayor as the best way of doing business.

Florence *is* Rankin's town. Its leadership, citizenry, and police force bend to his will, even when doing so arguably is not to the town's advantage. Even when following in Rankin's footsteps reaps injustice.

"In eighth grade, I knew I wanted to be a cop," Rankin says. "A cowboy cop."

Asked why he wanted to be a "cowboy cop," Rankin shrugs his shoulders.

But if you visit the Pinal County Historical Society and Museum on Main Street in Florence or leaf through the picture book the society produced in 2007 with the help of Arcadia Publishing, it is apparent why becoming a "cowboy cop" might have appealed to an impressionable eighth-grader growing up in the town.

Displays at the museum feature a collection of memorabilia from cowboy film legend Tom Mix, who died in a car crash just outside Florence, as well as nooses from which notorious outlaws were hanged at the Arizona State Prison, which moved to Florence from its territorial home in Yuma in the early 1900s.

There are displays of guns, saddles, bullets, and badges. Museum guides regale visitors with tales of the 1888 shootout between Sheriff Peter Gabriel and deputy Josephus Phy at the Tunnel Saloon. Or recount legends associated with such Old West outlaws as the murderous Apache Kid or stagecoach-robbing Pearl Hart, the "Lady Bandit."

In the *Images of America: Florence* picture book, there are plenty of photos of cowboys and cowboy cops: mounted cowboy guards from the state prison and wardens in cowboy attire and on horseback.

Also atop a horse in an undated photo from the book is Pete Van Haren, identified as Florence's town marshal from 1946 to 1977. A stern figure in dark glasses, he watches over the parade

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Pinal County Supervisor Pete Rios is no fan of Rankin's.

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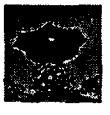
November 14, 2013



How Florence Police Sabotaged Investigations of a Child's Slaying and of a Teen's Rape
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associated with the town's annual Junior Parada, a rodeo for contestants ages 5 to 18.

The caption states that Haren "refused to wear a police uniform, dressing in his cowboy shirt, freshly pressed Levis, and cowboy hat instead."

Rankin's father was not a cop. He was a farmer from Arkansas who also oversaw the farms at the state prison. Rankin proudly tells *New Times* that his mother was born in Florence and that her family settled there in 1905 from Oklahoma.

Tom Rankin graduated from Florence High School in 1964 and quickly began his career in law enforcement. His "home department," as he calls it, was the Pinal County Sheriff's Office, where he was a deputy from 1971 to 1980.

He became Florence's town marshal in 1980.

The most famous bust of his career was that of inmate Robert Moorman, who while on a 72-hour furlough from the Arizona State Prison in 1984, hacked to death his adoptive 74-year-old mother in Florence's Blue Mist Motel, then scattered her remains around town. When Moorman was put to death in 2012, Rankin attended the execution.

Another brush with notoriety came when director Martin Ritt filmed the 1986 movie *Murphy's Romance* in Florence. Starring Sally Field and James Garner, the film offers a friendly, Reagan-era portrait of small-town life.

Rankin appears as an extra in three scenes. One of the movie's main characters briefly refers to him as "sheriff."

A portent, perhaps. In 1992, Rankin, ran against fellow Democrat and incumbent Sheriff Frank Reyes. However, a challenge to Rankin's petition signatures kept him off the primary ballot. So Rankin ran against Reyes as an Independent in the general election.

The Florence Town Council took the unprecedented step of allowing Rankin time off to seek higher office. But Reyes handily beat Rankin, and Rankin returned to his job. Little did he know that he would not be town marshal much longer.

In 1988 and 1989, there already were inklings of discontent. During those years, Pinal County's newspaper of record, the *Casa Grande Dispatch*, detailed a trio of controversies involving the Florence Police Department.

Chronic Truth

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In 1988, the paper reported that an FPD officer pleaded guilty to attempted hit-and-run in a deal with prosecutors that allowed the cop to avoid charges of what was then called DWI (driving while impaired).

Rankin is quoted as saying that the officer would not be fired and would be returning to active patrol duty once the matter was finalized.

In 1989, the *Dispatch* reported that a notice-of-claim letter accused the FPD of wrongly arresting two men who had attempted to repossess a vehicle "belonging to a friend of the police chief."

The council rejected the claim. There is no record that the men followed up with a lawsuit.

Also in 1989, a Florence police sergeant was accused by two citizens of "belligerent" and "unprofessional" behavior.

According to the *Dispatch*, Rankin backed his man, angrily confronting one accuser during a Town Council meeting.

But in 1993 and 1994, complaints against Rankin and the Florence department reached a crescendo, ultimately leading to Rankin's firing on October 21, 1994.

The complaints involved favoritism, racism, and not following the orders of the council and city manager — which were "lies," Rankin tells *New Times*.

The drama played out in the pages of the local paper.

Barbara Whitworth led the charge against Rankin, saying he "abused his power as chief" by "selectively" enforcing the town's sign code to favor his wife, Donna, who was then getting recalled from her position on the Florence Unified School District board.

Rankin denied the allegation, the paper reported. Whitworth later got a court order to prevent Rankin from harassing her, monitoring her movements, or even calling her. Rankin challenged the order, claiming it had no merit, and Whitworth eventually withdrew her complaint.

The *Dispatch*'s archives also tell how a neighbor of Rankin's, a justice of the peace, called Florence police and Arizona Child Protective Services in 1994 to report that Rankin yelled at and kicked his 15-year-old daughter in their yard.

Rankin said he was "merely disciplining" his daughter and that the accusations were part of a "conspiracy" against him.

The investigation, farmed out to the Maricopa County Attorney's Office, concluded that there was insufficient evidence to proceed. Child Protective Services declared that Rankin was within his rights as a parent, according to the *Dispatch*.

Whitworth was disgusted, telling the *Arizona Republic*, which also reported on the incident: "Everyone in town knows what kind of temper Tommy has, and yet they're sticking their heads in the sand. I've seen him in action. It's not a pretty sight."

A month after this controversy, another arose, with FPD reserve officer Michael Coomes alleging that he had been discriminated against by Rankin because of his African-American wife.

The officer told the *Dispatch* that Rankin had called him into his office to ask if it was true that he was married to a black woman.

When the man said yes, the meeting ended, Coomes said. Rankin told the paper that he did not recall the conversation.

The tabloid TV news show *Inside Edition* caught wind of allegations against Rankin and headed to Florence to film an episode.

About 40 minority residents of Florence told the news show, according to the paper, that "Rankin was a prejudiced bigot who harasses their children and spews racial slurs while acting as police chief."

This included, according to the residents, "referring to young African-American men as 'boys'" and worse.

In an interview with the *Dispatch*, Rankin denied using racial slurs while on duty as Florence police chief, though he admitted to using a racial slur "once while working for the Pinal County Sheriff's Office," for which he claimed to have written a letter of apology.

The paper also reported that Rankin said he had used the word "nigger" in "discussions with African-Americans during police confrontations."

"That is a word [blacks] use to antagonize and get things started whenever they have a confrontation with law enforcement," he told the *Dispatch*.

The *Dispatch* reported that *Inside Edition* confronted Rankin with a host of other allegations, including that he was on a power trip, gave preferential treatment to Anglo friends, and gambled, drank, and swore excessively.

"I guess I can be blamed for anything that happens in Florence," Rankin told *Inside Edition*, adding, "If I was doing half [what] I am accused of, the Florence Town Council would have stopped me."

Later that year, acting on the suggestion of new Town Manager Bill Galletly, the town council did just that. They fired Rankin, with him and his wife, Donna, in attendance. The *Dispatch* said she was "in tears."

The actual reasons for the dismissal were leaked to the paper the following year.

Allegations against Rankin included insubordinate behavior, refusal to comply with performance standards, having officers engage in harassing conduct, allowing the department to fall below state standards, keeping an officer with an alcohol problem on active duty, and improper use of town vehicles and work time for his personal process-serving business.

Rankin appealed, asking for reinstatement and $1.5 million in damages. He refused to surrender his gun and his badge to interim Police Chief Jerry Williams, telling the council, the *Dispatch* reported: "Officer Williams works for me. I do not work for him."

He handed over the gun to the mayor but kept the badge, saying the town manager would have to take it "over my dead body."

Despite the theatrics, Rankin was not reinstated. And though he sued, he did not get $1.5 million. Ultimately, he settled for $50,000, according to the *Dispatch*.

Nine years later, Rankin still sounds bitter about the incident.

"I was wronged," he says. "Because of all the lies, I was terminated."

He refuses to discuss the amount he settled for, complaining of the financial hit he took.

"I lost my retirement," he says. "I had to use that money to sue."

Rankin would have his revenge, though.

His supporters forced a recall election, replacing the four council members who voted against him. Less than a year after Rankin was axed, the newly seated council fired Town Manager Galletly.

Rankin was living up to what he told *New Times* was the one reason he went into politics: "To get rid of the people who fired me."

In 1996, Rankin's political life moved out of the shadows when he won his first election to the town council. He served as councilman until he ran for mayor in 2004 and won. He remained mayor until 2008, when he was beaten by 10-year councilwoman Vicki Kilvinger by just 23 votes. He moved back behind the scenes until 2012, when he was re-elected mayor.

Through it all, Rankin has remained connected to law enforcement. For instance, he admits that he and his wife keep a police scanner in their bedroom, though he claims it is his wife who listens to it and relays some information to him.

Asked why they keep the scanner, he jokes, "I guess she's snoopy," then adds, "No, we've got kids. And we know people here in town. And she likes to be informed."

Rankin is notorious for showing up at traffic stops and other police calls, particularly if a family member is involved. Though, Rankin claims he does not do this as much as he used to.

"I don't jump up and run to all calls," he says. "There are some of them I will go to, yes. Something major, or [if] some citizen calls me, I'll go."

This has led to several confrontations with town cops over the years.

In his book, *Police Chief Managing Success*, Patrick Cote, FPD chief from 1995 to 1997, describes such run-ins with Rankin, whom Cote describes as having been "a thorn in my side."

Cote writes: "In [Rankin's] mind, it was still his police department, and I was an obstacle in his way."

Knowing Rankin was not going away, Cote ordered his officers to treat Rankin as they would any other citizen. As a result, Rankin was cited in May 1995 for interfering with a government function and for disorderly conduct following a bizarre confrontation with FPD officers Steve MacGregor and Edward Bylina after MacGregor issued Rankin's son, Robert, a speeding ticket.

According to a front-page item in the *Dispatch*, the officers testified during the trial in Florence Municipal Court that Tom Rankin had gotten out of his truck to yell and curse at them.

Rankin testified that he began yelling because MacGregor was ignoring him and looked as though he was getting ready to leave.

Though he was no longer chief, the paper reported, Rankin threatened to fire MacGregor and accused the officer of performing homosexual acts with a councilman and former town manager Galletly.

"Rankin would only say that he 'may have' made such statements," the *Dispatch* wrote.

Officer Bylina testified that Rankin opened the passenger's-side door of MacGregor's vehicle to yell at him.

Afterward, Rankin went to the Florence police station, where a dispatcher addressed him as "Mr. Rankin."

To which he was said to have shot back, "I am the chief!"

Judge Dale Collier found Rankin guilty as charged and sentenced him to two years' probation.

But before his probation was up, Rankin engaged in a more grotesque example of disorderly conduct, for which he was tried and convicted again before Judge Collier in municipal court.

On July 12, 1996, Rankin's other son, 15-year-old Tom Rankin Jr. (whom the Rankin family and town residents refer to as "Tom Tom"), was arrested with another youth for violation of Florence's 11 p.m. curfew.

Tom Tom Rankin already was well known to cops for bad behavior, a reputation he would enhance over the years with arrests for a variety of offenses, according to Pinal County Superior Court records.

Court records also show that in 2003 Rankin Jr. was sentenced to 3 1/2 years in prison and four years' probation for "theft of a means of transportation" and aggravated assault involving a former girlfriend.

But in 1996, he was just a mouthy juvenile delinquent, according to a county Superior Court trial transcript in which FPD Sergeant Kathy Thorne is quoted as testifying that Rankin Jr. taunted officers when he was brought in.

"He was saying that, 'You guys are going to be in trouble now,'" Thorne told the judge. "He said, 'You know better than to mess with me . . . It doesn't matter; my dad will get me out of whatever happens, anyway.'"

Police dispatcher Christy Reed was on duty that evening. Because she could not find a babysitter, she was allowed to bring her 4-year-old to work. The child was half-black.

The state alleged that when Rankin and his wife showed up to collect Tom Tom, they passed by the dispatcher and her child. Rankin then went on a 45-minute tirade liberally laced with the epithet "nigger," Thorne and others testified.

"He was just saying, 'Why are you always picking on the white boys,'" remembered Thorne. "'You guys must be scared of the niggers. You let them go out and do what they want . . . You are harassing us white people.'"

Chief Cote came to the station because of the disturbance. Cote told the court that in his 27 years of policing, he never had witnessed a person berate officers in that manner.

"It was an ongoing escalation of abusive language, racial slurs," Cote testified. "And [Rankin] would not calm down . . ."

Court records show that Reed's child had been in a good mood before Rankin arrived. But after listening to Rankin's slur-filled rant, "the child became upset and sick to his stomach," court documents state.

When Rankin took the stand, the prosecutor pressed him on his use of the slur "nigger."

At first, Rankin denied using it. Then, reluctantly, he acknowledged that he had used the epithet that night.

"You admit that you were there and that you were yelling in a loud tone of voice and you were using the word?" asked the prosecutor.

"As far as I know," replied Rankin, "the word . . . is not unlawful."

Collier found Rankin guilty. Though the former police chief already was on probation, Collier did not order him to jail. Rather, he gave him an additional 12 months' probation, this time supervised.

And he ordered Rankin to attend anger-management counseling.

New Times could not locate a record of whether Rankin received such counseling. If he did, it did not work. Stories of his public fits since that time abound.

Former FPD Detective Jarris Varnrobinson tells *New Times* about an incident in 2012 in which Rankin showed up at a crime scene that the detective was securing.

When Rankin, who recently had been re-elected mayor, politely was asked not to interfere, he put the black detective in his place.

"I'm the mayor, and I can do whatever the fuck I want," Rankin said, according to Varnrobinson.

Asked by *New Times* whether he has a temper, Rankin answers with a stare: "Yeah. Have I learned to control it? Somewhat. Don't piss me off."

It's ironic that one of Rankin's 13 grandchildren is a biracial 2-year-old, the daughter of his youngest son, Tom Tom, and an African-American woman.

"She's half-black. So?" Rankin says. "She's my granddaughter. I don't give a shit what color she is."

On Rankin Jr.'s Facebook page, a photo shows the girl sitting on a horse with her grandfather.

"I think everybody's got prejudice," Rankin says. "Against people, not races. You like some people, you don't like some people. That's being prejudiced."

He insists that his views on race have not changed over the years.

About the 1994 allegations by minority community members concerning his use of racial slurs, he says, "It wasn't true at the time, and it's not true today."

After uncovering the transcript of Rankin's admission under oath that he used the word "nigger," *New Times* attempted to question Rankin again. He refused subsequent interview requests.

For the most part, Rankin never got along with the men who took over his former job as police chief. Bob Ingulli, a former New York Police Department lieutenant who served as Florence chief from 2000 to 2012, was no exception.

"He has a hot temper and a history of threatening people," Ingulli, now police chief in Kearny, says. "He did it to me twice."

In fact, before he was elected mayor in 2012, Rankin promised Ingulli he would have him fired once he was mayor again.

Rankin beat his opponent, Lina Austin, in March of that year. By July, Ingulli was gone, fired by then-Town Manager Himanshu Patel, who did not respond to interview requests from *New Times*.

But Patel went along with the July hiring of disgraced former Surprise Police Chief Dan Hughes as Florence chief and with the firing later of two competent FPD detectives: Walt Hunter and Jarris Varnrobinson.

Their dismissals, their appeals, the reinstatement of Hunter with a demotion, and the upholding of the termination of Varnrobinson — the town's only black detective — were subjects explored in part one of *New Times*' "Florence Exposed" series ("Injustice for All," November 14).

Rankin claims he does not involve himself in police department personnel matters. But as mayor, he has influence over who becomes town manager, the official who controls the hiring and firing of cops.

"I would never have hired those two," Rankin says of Hunter and Varnrobinson.

Asked why, considering that the two men solved hundreds of crimes together and received awards and commendations for their actions, Rankin cannot offer specifics.

He is not shy about saying he despised Ingulli, though the former chief's leadership arguably led to Florence's twice winning a coveted spot on Neighborhoodscout.com's list of the 100 safest cities in the United States.

In 2012, the website named Florence the 29th-safest city in the country, and in 2013, it won its current ranking of 17th. The awards were based on FBI crime statistics for 2010 and 2011, respectively, years when Ingulli was in charge of the FPD.

"I saw too much of his political moves when he was chief of police here," Rankin says, continuing that he did not like Ingulli's "attitude toward me."

This may be because Ingulli would not kowtow to Rankin.

"Rankin's never changed," Ingulli says. "There were times when we would have discussions, and I would tell him, 'That's an old way of doing things; I'm not doing that anymore.' He didn't appreciate that."

To replace Ingulli, Patel and Rankin arrived at Dan Hughes, who had resigned as Surprise's police chief in 2010 after 78 percent of that agency's officers cast votes of no confidence against him.

In Surprise, Hughes was accused of making improper comments about Hispanics, trying to fix a traffic citation for a city councilman, and abusing the department's disciplinary process.

He also has a blemish on his résumé from his time as an assistant chief at the Springfield Police Department in Illinois.

Before Hughes left that post in 2002 for the position in Surprise, two Illinois newspapers reported that Hughes was accused of filing a misleading internal-affairs complaint against African-American policewoman Renatta Frazier, suggesting that she failed to prevent the rape of a colleague's daughter by two black men.

The SPD's treatment of Frazier became a racially charged scandal in Springfield. Frazier sued Springfield, and the city settled the case for $829,000.

Rankin says he met with Hughes before he was hired and "liked what I saw." Hughes' past was not a concern.

"I'm not worried about his history," Rankin says. "I have a history."

Asked why he thought Hughes, with his checkered past, was brought in to replace him, Ingulli says, "It appears that Hughes either thinks like [Rankin] does or listens to what he has to say."

Hughes quickly found an ally in Lieutenant Terry Tryon, an FPD veteran hired by Rankin when he was chief.

Personnel records released by the town and entered into evidence during Hunter and Varnrobinson's appeal hearings show that Tryon helped Hughes build a case for firing the pair.

In memos, Hughes ordered the partners not to work cases together and not to ride together on duty without supervisory approval.

At the appeals hearings in September, Hunter testified that Hughes avoided interactions with Varnrobinson and even avoided looking at him.

"I told Varn I thought Hughes was a racist," Hunter said under oath.

The town's rationales for firing the detectives were nearly identical. Yet Varnrobinson's termination was upheld and Hunter's was not. The white officer was demoted and suffered a 5 percent pay cut instead.

Both are appealing their cases to county Superior Court.

Varnrobinson's dismissal has drawn criticism from the Reverend Oscar Tillman, president of the Maricopa County NAACP, which Tillman says will provide Varnrobinson with legal assistance.

Tillman blamed the treatment of the men on "the caliber of the people" in power in Florence.

He also noted that the ex-detectives acted as whistleblowers.

Indeed, both men complained to the town about the behavior of Lieutenant Tryon, whom they accused of incompetence and favoritism and of returning evidence to witnesses and a suspect in two serious criminal cases, one involving a 2008 home invasion that Varnrobinson investigated and the other a 2007 sexual assault.

In the home-invasion case, Tryon returned an AR-15 semiautomatic rifle, which had been confiscated by Varnrobinson from the suspect so it could undergo ballistics testing.

The owner of the rifle was white and an acquaintance of the lieutenant's.

When Hunter, on behalf of his partner, objected to Tryon's action, the now-former detective tells *New Times* that Tryon said, "Varn can't go around taking guns from every white boy in town."

Hunter's complaint resulted in Tryon's reprimand by the town manager.

Varnrobinson's complaint was handed over to the Arizona Department of Public Safety for investigation.

During the DPS investigation, Tryon admitted to returning the weapon to its owner, saying he had the right to do so.

The sexual-assault case involved a 16-year-old girl allegedly raped by at least one Florence High School football player at a 2007 party in the desert.

Hunter was lead detective on the case, but Tryon butted in despite his having a conflict of interest because his son was on the football team and knew others at the party, including the prime suspect.

Tryon's son also had taken the highly inebriated victim to the police station on the night of the incident.

In addition, Tony Jimenez, principal of Florence High School at the time and currently an assistant superintendent of the Florence Unified School District, is the brother of Tryon's wife, Sylvia.

Nevertheless, Tryon caused cell phones containing photos and video of the alleged sexual assault to be returned to the students who owned them.

This happened *before* Hunter could obtain warrants so that the evidence on the cell phones legally could be downloaded for use in court.

No one ever was charged in the case.

In the end, the Pinal County Attorney's Office declined to bring charges against Tryon for tampering with evidence, concluding that there was no reasonable likelihood of convicting him.

Part two of *New Times*' "Florence Exposed" series ("Suffer the Children," November 21) focused on two cases mishandled by the FPD: the alleged rape and the 2009 shooting death of 9-year-old Dustin Kemp.

In the killing of the boy, lead Detective Renee Klix, an ally of Tryon's, based her investigation on the premise that Dustin's 2 1/2-year-old brother removed a loaded .45-caliber semiautomatic Kimber 1911 handgun from a "hidden" table drawer and shot his brother through the head from five feet away.

During the appeals hearings for the fired detectives, it was revealed that Varnrobinson, Hunter, ex-FPD chief Ingulli, and then-Deputy County Attorney Greg Hazard all believed that Dustin's out-of-work dad, James Kemp, was responsible for the shooting.

In fact, during a taped 2012 discussion of the case, Hazard told Varnrobinson, "I think the father did it, I really do."

Varnrobinson and Hunter had been ordered to re-investigate the case by Chief Ingulli because Klix had done a poor job handling the crime scene and had failed to conduct a formal interview with James Kemp to confront him about his suspicious behavior and statements.

After Ingulli was fired and replaced with Hughes, the new chief accused Hunter and Varnrobinson of attempting to discredit Klix and Tryon (who also was at the Kemp crime scene) by re-investigating the Kemp case.

But based on Ingulli's appeals-hearing testimony that he had asked Varnrobinson and Hunter to look into the Kemp case, hearing officer Richard McAnally ruled against the police department.

However, McAnally did use a tangential allegation — that Varnrobinson had surreptitiously recorded then-Deputy County Attorney Hazard — to justify the black detective's firing. This, even though it was standard procedure for Varnrobinson to record the statements of those involved in investigations.

As part of a deal with prosecutors, James Kemp pleaded guilty on October 18 to a single charge of domestic-violence endangerment and was sentenced to a year of supervised probation.

Pinal County Attorney Lando Voyles, like many top prosecutors, claims to be a tough-on-crime zealot.

In a statement to the *Florence Reminder and Blade-Tribune*, the Republican county attorney blamed his predecessor, Democrat Jim Walsh, for allowing the Kemp case to "languish."

He called Dustin Kemp's killing "a tragic accident" and claimed that Klix's investigation had been "lengthy and comprehensive."

Voyles told the *Reminder*, "In this case, there was no evidence that James Kemp did anything more than endanger his children by storing his guns unsafely."

Noteworthy is that Hazard, who worked at the County Attorney's Office until recently, was the prosecutor who pulled the case from a grand jury because he found it riddled with unanswered questions, and that Klix's "lengthy and comprehensive" investigation involved *not* doing a formal interview of the main suspect.

As was discussed in parts one and two of this series, nothing happened with the Kemp case until June, when *New Times* requested all relevant documents from the County Attorney's Office and Florence, both of which denied the requests initially.

In August, Voyles' office began to re-evaluate the case. And, in October, James Kemp was quietly charged and pleaded out. Voyles made his comment a week after part one of this series was published and one day after part two was published online.

Interestingly, Rankin and Voyles are not political allies. The mayor says he backed incumbent and fellow Democrat Walsh in the 2012 election.

"If you ask me, Lando Voyles needs to go back to Maricopa County and learn how to be a prosecutor," Rankin tells *New Times*.

Rankin's distaste has more to do with money than party politics.

When he is not maneuvering politically, Rankin works as a process server. On almost any weekday morning, he can be found at the Pinal County Clerk of Court's Office, researching individuals he plans to serve that day.

According to his financial-disclosure statement with Florence, Rankin is vice president of the Pinal County Messenger Service, which has had a contract with the county for at least 18 years.

Records show that the county has paid Rankin's company $821,637 since 1995.

In fiscal year 2013, the company was paid more than $65,000 by the county. Though on average, Pinal County pays the service from $40,000 to $50,000 a year.

A large part of what Rankin traditionally did for the county involved child-support enforcement. But this year, Voyles pushed to return this responsibility to the Arizona Department of Economic Security — and the DES took it over on July 1

"That guy Voyles cost me $40,000 a goddamn year when he shut down the child-support system here in Pinal County," Rankin says. "We had a good system here."

Rankin has what some might call an anachronistic concept of what constitutes a good system.

This was on prominent display during a Town Council meeting on September 4, 2012.

Scott Bowles, then Florence's economic development coordinator, shared with the council the results of a survey of Florence businesses. In all, 82 businesses were queried about such issues as the town's strengths, weaknesses, and business climate.

The businesses' names were kept confidential. One portion of the survey asked businesses to identify barriers to growth in the town.

The results rocked the council: The plurality of respondents, 25 percent, cited a "good ol' boy system of politics"; 21 percent said the greatest barrier was "a resistance to growth and change"; and 6 percent described a split between the "old blood" and "new blood" in the town.

Most council members disagreed with these perceptions, but one took them as a point of pride: the mayor.

"I'm part of the good ol' boy [network]," an obviously annoyed Rankin said at the council meeting during which the results were discussed. "I was born and raised here in Florence, Arizona. And if the people don't realize what happened in the '50s and '60s, a little history probably gonna do you some good."

Rankin continued his tirade, discussing how business in Florence once flourished, with "two of everything" on its historic Main Street, which, would resemble the set of a Hollywood Western if not for its paved road.

"We've run off more businesses in this town than you guys have created," Rankin told Bowles and businesspeople in attendance. "Back in those days, there were certain businesses that . . . weren't allowed to come to town. The competition kept 'em out because they had control of the town council."

He argued that he always championed annexation of other areas and growing the town, closing his rant with one of his mantras: "Housing is what's going to develop business in this community."

However, Rankin's motives regarding town policy have been known to benefit him, his friends, or his family, either directly or indirectly.

Take the case of multimillionaire water baron and developer George Johnson, owner of Johnson Utilities, which provides water and sewer services for the San Tan Valley and parts of Florence.

Johnson is a longtime supporter of Rankin's. According to Rankin's campaign-finance reports, Johnson and members of his family gave more than $6,000 to Rankin's 2012 campaign for mayor.

Also during the election, Johnson Utilities' newsletter to its customers featured Rankin among its choices for "Best Florence Council Candidates," using a smiling photo of him in his cowboy hat.

Rankin's eldest son, Robert, works for the Johnson-owned Oasis Golf Club as superintendent. His photo can be seen on the company's website.

Tom Tom Rankin once worked for Johnson Utilities, but his employment ended badly in 2012, when a protective order was issued by a Superior Court judge for what were described only as his "multiple acts of workplace harassment."

The order later was lifted, but former employees tell *New Times* that Rankin Jr. did not return to work there.

Court records also show that in 2003, Johnson loaned $5,000 to Rankin Sr.

New Times contacted Johnson to ask about his relationship with Rankin.

"The only thing I know about Mayor Rankin is that he puts Florence at the top," Johnson said. "He looks out for what's best for Florence."

Johnson would not answer specific questions, though.

In turn, Rankin is a vocal supporter of Johnson Utilities and George Johnson, specifically. In February, he and four other council members voted to grant Johnson the right to provide water to customers in the southern part of Florence.

Johnson said he needed the rights so that he could build a 6,000-home development, a dude ranch, and a spa. The town's attorney and assistant manager warned that Florence should make sure it gets something in return for the deal. But Rankin championed handing over the rights to Johnson.

Rankin's stances on other town policy issues — from his opposition to a planned copper mine in town to his vehement objection to the incorporation of the San Tan Valley — mirror Johnson's views.

"He's not done anything to hurt me, Florence," Rankin says, when asked about Johnson. "When I say 'me,' I'm talking [about] the town. If he had done something to hurt the town, I might not feel the same way."

A source familiar with power brokers in Florence says there is a "constant environment of intimidation" from Rankin at Town Hall. The source says the new town manager is "just a puppet for the mayor."

One of the few businesspeople willing to discuss Rankin's rule on the record is Cindy Sills, owner of Belva's Real Estate on Main Street, opened by her mother in 1999.

She tells *New Times* that she loves living in a "small town" but that she is worried about the loss of certain town employees, whom she feels were good for the community.

"The former police chief, Bob Ingulli, he was such a great guy," she says. "He always went around talking to business owners. He was so involved. And the economic development coordinator, Scott Bowles, had such a good vision for the town. His heart and soul was in it."

Sills says she has never met Hughes. But how long Hughes will last in the chief's chair is up for debate. Sources close to the police department say Terry Tryon recently attended command school and covets the position of police chief.

"Remember, Tryon came up under Rankin," Ingulli says. "He's one of those who's wedded to the old way of doing things."

That is, Tryon fits the Rankin model of law enforcement, unlike Ingulli, who resisted Rankin's interference.

At one point, Ingulli sought to eliminate Tryon's position as lieutenant. According to Tryon's personnel file, he was offered a position as sergeant instead. But for unknown reasons, the deal was scotched and Tryon remained lieutenant.

(Note: Florence denied repeated requests by *New Times* to make Tryon, Klix, Hughes, and other members of the FPD available for interviews.)

Asked about his relationship to Tryon, Rankin calls him a "friend," but not the kind of friend with whom he socializes.

Asked whether he protects Tryon, Rankin says, "If Terry's right, I'll back him 100 percent. If he's wrong, I'll back him 100 percent to make sure he's treated right."

Rankin says he would do that for anyone, to ensure fair treatment.

But Rankin's critics say his interest in fair play pertains only to his friends.

One source puts it this way: "If you want to survive in that environment, you've got to do what Rankin and his people say."

Pinal County Supervisor Pete Rios has known Rankin for about 20 years.

"Tom Rankin would have been a great sheriff in the 1800s," he says. "I think he was born a little bit too late."

As for Rankin's tight hold on the town, Rios says, that's democracy: "People still voted for him. That's the type of leadership they want, [so] that's the type of leadership they have."

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EXHIBIT D

What Do You Think San Tan Valley?

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I have read all the articles and mailings concerning the purchase of Johnson Utilities (JU) by the Town of Florence. I am totally mystified as to why our Town Council would even consider such an action. There are too many unanswered questions and risks. Why would George Johnson want to sell his company at an undervalued price? Is it because of the risk of liabilities facing JU?

Tagged under

There have been reports of water leaks, wells failing, sewer problems, contaminated ponds, and lawsuits. And let's not forget the substandard infrastructures that JU inherited from some developers and at no fault to JU. Also, representatives of JU reported that if the Florence Copper Project was successful in their application for in situ mining, they would

johnson utlities, Town of Florence, George Johnson, tom rankin,

definitely pollute the aquifers which could cost up to one million dollars per well for filtration for approximately 50 wells.

So, it appears that JU is trading all this liability for $120 million of tax free municipal bonds which will earn $201 million over 30 years per for a total cost of $322 million, per the April 10, 2014 Florence Reminder. Sounds pretty good to me, $10.7 million a year, tax free, no liability and no worries about the day to day operations. If the town should default on the bonds, JU would get the properties back. JU projects an income of $30 million in 2015. That being said, the new utility operations will have to make a 36 percent profit to pay the annual $10.7 million bond and interest payments. That is difficult to believe.

Why has Mayor Rankin not recused himself for all proceedings in this matter? According to an article in the Phoenix New Times, 12/05/13, "Johnson and members of his family gave more than $6,000 to Rankin's 2012 campaign for mayor." Also in the same article: "Court records also show that in 2003, Johnson loaned $5,000 to Rankin Sr." This certainly appears to be conflict of interest at the least. You may read the complete article here. Why was it such a good idea to give water rights away a year ago, only to now, buy them back? Doesn't that make you wonder, what is going on?

Why does our little town of approximately 6,000 homes think that they can manage a utility company for 56,000 connections? The town recently decided to turn over garbage collection to a private company because the private company could do a better job at a lower price. If the town cannot manage three garbage trucks efficiently, how can they operate a $120 million utility company? This just does not make sense!

I agree with Vice Mayor Tom Smith's statement that "if everything goes perfect. How often do you see everything go perfect?" How can anyone believe that there will not be problems with an aging water/sewer utility company with most problems being unknown and underground? One glitch and the town will have to pay to fix the problem(s). This is really buying a "pig in a poke".

What about the golf course? Most municipal golf courses are money pits. JU says that some years the course breaks even? Who will subsidize the course in bad years? How many Florence citizens use this course? What are the liabilities there? What happens when Pinal County

completes the current four lane project on Hunt Highway? How will the golf cart crossings be handled? Will the county require over/under passes for the golf carts? Who will pay for that? Again, Vice Mayor Smith pointed out the possible risk to the neighboring home owner, if the Town chooses to close the golf course. Pulte has subsidized the golf course in Anthem for years and continues to do so. Where is the money to come from for the town to subsidize a golf course? Only one place, our taxes. And all of this is currently outside of our town limits. Is the plan to annex all of San Tan Valley into Florence?

The town has so many other needs and issues that should be addressed, why are we wasting money and time on such a high risk venture? Why are we not spending our time and resources on ventures that will bring new jobs to Florence; new businesses, a business park, stores, restaurants, the north end project, etc.? The JU venture will not bring any new jobs or new wealth to Florence, just more risks and probable expenses to the town. This is just a change in ownership and a transfer of liability. We are seeing a professional publicity campaign to convince the citizens to vote for this deal. Just think about who is paying for this campaign and why they are doing so. There is no organization to fund a campaign against this deal. It is up to us citizens to make our neighbors aware of what is going on. **Please be vocal on this issue and encourage your neighbors to vote against the town buying JU.** And to our Town Council, please stop this boondoggle.

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EXHIBIT
RUCO-2
ADMITTED

the grounds that it is vague and ambiguous. The Company does not understand the terminology "related party relationships or transactions." Additionally, the Company does not know how RUCO defines "outside vendors or contractors."

Response: Subject to the foregoing objection, Johnson Utilities provides the following response. Johnson Utilities interprets the reference to "outside vendors or contractors" as being limited to the outside vendors or contractors of Johnson Utilities. Based upon this interpretation, and upon information and belief, the answer is no.

Witness:

Daniel Hodges
Johnson Utilities, LLC
5230 E. Shea Boulevard
Scottsdale, Arizona 85254

3.06 Are there any related party relationships or transactions between employees of Johnson Utilities and the City of Florence employees or Town Council members? If so, please identify and state the nature of the relationship and/or transactions.

Objection: Johnson Utilities incorporates herein its objection to RUCO data request 3.01 above. Additionally, Johnson Utilities objects to this data request on the grounds that it is vague and ambiguous. The Company does not understand the terminology "related party relationships or transactions."

Response: Subject to the foregoing objection, Johnson Utilities provides the following response. Upon information and believe, the answer is no.

Witness:

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