Committee on Water
Incentivizing Regional Water Utility Partnerships

July 17th, 2018
Emily Simonson, @EmilySimo
About the US Water Alliance

Educate

Accelerate

Celebrate
One Water for America Listening Sessions
ONE WATER BIG IDEA

Advance regional collaboration on water management.

U.S. Water Utilities
Vision for overcoming industry fragmentation
How do we get there?
5 Principles for overcoming industry fragmentation

- **Proactive & Locally Determined**: Proactive, locally tailored, locally determined process and institutional arrangements.
- **Full Suite of Options**: State regulatory agencies: full suite of intervention options to address conditions that put public health at risk.
- **Community Value**: Community value proposition as driver: clearly and fully articulate potential costs and benefits of all options.
- **Governance Neutral Information**: Provide balanced information on the full range of governance models that could be considered.
- **Comprehensive Authorizing Environment**: Create a complete and cohesive authorizing environment: streamlined transactions, low up-front costs, range of governance options.
Proactive & Locally Determined

Proactive, locally tailored, locally determined process and institutional arrangements.
Full Suite of Options

State regulatory agencies: full suite of intervention options to address conditions that put public health at risk.
Community value proposition as driver: clearly and fully articulate potential costs and benefits of all options.
Governance Neutral Information

Provide balanced information on the full range of utility governance models that could be considered.
Comprehensive Authorizing Environment

Create a complete and cohesive authorizing environment: streamlined transactions, low up-front costs, range of governance options.
Coming soon from the US Water Alliance!

- **Principles**: Overcoming Water Industry Fragmentation

- **Benefits / Barriers Report**: “Strength in Numbers: Utility Strengthening through Consolidation”

- **Case Studies**: Finance and Water Utility Consolidation

- **Comparative Assessment**: Enabling State Policy Frameworks on Water Utility Consolidation
Thank you!

For more information:

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Committee on Water
NARUC Summer Policy Summit - 2018
Incentivizing Partnerships
The Challenges

- Aging and Expired Infrastructure
- Emerging Contaminants
- Resiliency Concerns
- Sustainability
- Job Creation and Retiring Workforce
- Affordability
<table>
<thead>
<tr>
<th>Category</th>
<th>Information</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>General</strong></td>
<td></td>
</tr>
<tr>
<td>Customers Served</td>
<td>658,000 water; 65,000 wastewater</td>
</tr>
<tr>
<td>Population Served</td>
<td>Approx. 2.4 million people</td>
</tr>
<tr>
<td>Communities Served</td>
<td>400 municipalities in 36 counties</td>
</tr>
<tr>
<td>Avg. Residential Monthly Bill</td>
<td></td>
</tr>
<tr>
<td>(3,630 gallons)</td>
<td>Water: $60.85</td>
</tr>
<tr>
<td></td>
<td>Wastewater: $64.93</td>
</tr>
<tr>
<td>Source of Supply</td>
<td>92% surface water, 7% groundwater; and 1% purchased</td>
</tr>
<tr>
<td>Regulated Dams</td>
<td>56</td>
</tr>
<tr>
<td>Active Groundwater Well Sources</td>
<td>103</td>
</tr>
<tr>
<td>Surface Water Treatment Plants</td>
<td>36 (33 received Directors Awards)</td>
</tr>
<tr>
<td>Wastewater Treatment Plants</td>
<td>18</td>
</tr>
<tr>
<td>Water Storage Facilities</td>
<td>256</td>
</tr>
<tr>
<td>Pumping Stations</td>
<td>359 water and wastewater stations</td>
</tr>
<tr>
<td>Water &amp; Sewer Mains</td>
<td>11,054 miles</td>
</tr>
<tr>
<td>Water Capacity</td>
<td>191 MGD (average daily delivery)</td>
</tr>
<tr>
<td>Wastewater Capacity</td>
<td>52 MGD permitted</td>
</tr>
</tbody>
</table>
Customers Served | Approx. 135,000 water customers
--- | ---
Communities Served (67) | Lackawanna County: The cities of Carbondale and Scranton. The boroughs of Archbald, Blakely, Dickson City, Dunmore, Jermyn, Jessup, Mayfield, Moosic, Old Forge, Olyphant, Taylor, Throop, and Vandling. The townships of Carbondale, North Abington, South Abington, Scott and Roaring Brook. The villages of Richondale (Fell Twp.) and Simpson (Fell Twp.)
Treatment Plants | 9 Treatment Plants (94.6 MGD capacity)
Source of Supply | 26 reservoirs, wells, several backup sources
Water Main | 1,700 miles
Directors Award | 9 Directors Award from the Partnership for Safe Water
Scranton – SSA Procurement

- RFQ - O&M contract
  - 4 Qualified Companies

- RFP - O&M contract + lease or acquisition
  - 4 Qualified Bids
    - Suez & Veolia (Lease)
    - Aqua & PAWC (Purchase)

- BAFO - Acquisition Only
  - $195 MM purchase price
  - $70 MM debt
  - $140 MM consent decree effort
  - 80 employees
  - Est. $400k/year tax benefit
<table>
<thead>
<tr>
<th>Category</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customers Served</td>
<td>12,100 water; 6,200 wastewater, plus bulk customers</td>
</tr>
<tr>
<td>Communities Served (Water: 15; Wastewater 11)</td>
<td>City of Coatesville; Boroughs of Atglen, Parkesburg, Quarryville, and South Coatesville, and the Townships of Bart, Cain, Colerain, East Fallowfield, Eden, Highland, Sadsbury, Valley, West Cain and West Sadsbury</td>
</tr>
<tr>
<td>Treatment Plants</td>
<td>Water: Rock Run Water Treatment Plant (5 MGD capacity)</td>
</tr>
<tr>
<td></td>
<td>Wastewater: Coatesville Wastewater Treatment Plant (7 MGD capacity)</td>
</tr>
<tr>
<td>Source of Supply</td>
<td>Rock Run Reservoir and West Branch Brandywine</td>
</tr>
<tr>
<td>Main</td>
<td>Water: 190 miles; Sewer: 80 miles</td>
</tr>
<tr>
<td>Employees</td>
<td>29</td>
</tr>
</tbody>
</table>
- Wastewater rate history for average residential customer in Coatesville

<table>
<thead>
<tr>
<th>YEAR</th>
<th>MONTHLY COST</th>
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<tbody>
<tr>
<td>2001</td>
<td>$15.00</td>
</tr>
<tr>
<td>2008</td>
<td>$27.43</td>
</tr>
<tr>
<td>2011</td>
<td>$42.35</td>
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<tr>
<td>2012</td>
<td>$57.14</td>
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<tr>
<td>2013</td>
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<td>2014</td>
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- Without Act 11, 2014 rates would have been $82/month.
Wastewater rate history for average residential customer in Coatesville

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<tbody>
<tr>
<td>2001</td>
<td>$15.00</td>
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<tr>
<td>2008</td>
<td>$8.7 MM</td>
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<td>2011</td>
<td>$27.43</td>
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2014  $58.50 (13% Decrease)

Legend
- Yellow: Sadsbury Wastewater System
- Green: Coatesville Wastewater System
- Blue: Coatesville Water System
- White: Counties
Act 12 – Fair Market Value Law

- Voluntary between qualified buyers and sellers
  - **Buyer** – regulated water or wastewater public utility
  - **Seller** - water or wastewater entity owned by a municipal corporation or authority

- Buyer and seller retain Utility Valuation Expert to prepare appraisals of seller’s tangible assets
- Fair market value is the average of the two appraisals
- Ratemaking rate base is the lesser of fair market value or purchase price
- Substantial activity in municipal market
Act 12 - PUC Filings To Date

New Garden
Aqua PA – ON APPEAL

Limerick
Aqua PA – SETTLEMENT APPROVED

McKeesport
PA American Water – CLOSED

East Bradford
Aqua PA – APP. FILED

Sadsbury
PA American Water – APP. FILED

Exeter
PA American Water – APP. PENDING
McKeesport - Search for a Solution

- Decided to lease the wastewater system in 2013

- Goals:
  - Avoid Act 47 and municipal bankruptcy
  - Maintain a high level of service
  - Keep wastewater rates affordable

- RFQ for possible lease - or sale - of the system issued in 2015

- Interested in working with a regional partner
McKeesport - Immediate Benefits

- $159 MM purchase price
- $40 MM net proceeds
- Avoided insolvency
- Proceeds used to positively impact community morale
- Launched “McKeesport Rising Project:”
  - Eliminate blight
  - Increase street paving
  - New paving equipment
  - Safe market based investments

- Former MACM property assets now taxable
- Stabilized wastewater rates
- MACM employees offered employment
- Enhanced customer service
Opportunities via Partnerships

U.S. Electric Utilities

U.S. Natural Gas Utilities

U.S. Water Utilities
Incentivizing Partnerships in the Water Sector

Chris Shaffner
CoBank: a brief overview

- A broad-based cooperative financial services organization serving vital industries across rural America:
  - Agribusiness
  - Communications
  - Energy
  - Water
  - Community Facilities

- $130 billion in assets; ‘AA-’ rated by both S&P and Fitch

- Cooperatively owned by approximately 2,400 customers

- Headquartered outside Denver, CO; regional offices and banking centers throughout the country

- Approximately 1,100 employees nationwide

- Member of the Farm Credit System, a Government Sponsored Enterprise with $320 billion in assets
CoBank’s Work in Water Sector

- Mission-driven
- Investor-Owned Utilities
- Rural Water Systems (not-for-profit, water districts, cooperatives, municipal bodies)
- 20,000 population limit
- Debt capital (up to 30 year terms)
- Partnership with federal agencies (USDA, EPA)
  - Construction financing
  - Loan guarantees
  - USDA refinancing
  - Pre-development lines of credit
Financing Challenges

- Financial recordkeeping
- Historical rate management
- Declining population
- Aging management team without succession plan
- Regulatory compliance violations
- Lack of capital plan and cash reserves
- Asset deterioration/neglect
- Systems unfamiliar with non-USDA financing
Other Challenges

- No consistent sustainability analysis model for systems
- No clear suite of options or successful models to consider
- Lack of incentives for all parties in consolidation effort
- Spirit of independence/ Local control
- No current position from USDA (incentives, etc.)
- Lack of accurate needs-based test for federal funding
- 50,000+ water systems
- 90%+ serving less than 10,000
- $1 trillion
- Historical funding sources
- Value of water
Opportunities

- Leadership from federal agencies
  - USDA program policy changes to incentivize partnerships
    - Needs-based allocation of grants and loans in water programs
    - Incentive-based rates for acquiring/lead system in a consolidation
    - Incentivize consolidation with other community facilities investments (for smaller system)

- Technology upgrades
  - Create remote partnership options while retaining control
  - Back-office technologies and consolidation
  - Skilled trades sharing

- Philanthropic role
  - First loss position/guarantees
Committee on Water