

**DOVER TOWNSHIP
BOARD OF SUPERVISORS MEETING
WORK SESSION
JANUARY 12, 2015**

The Dover Township Board of Supervisors work session meeting for January 12, 2015, was called to order at 6:00 PM by Chair Matthew Menges in the Meeting Room of the Dover Township Municipal Building. Supervisors present were Matthew Menges, Monica Love, Charles Richards, Stephen Parthree, and Stephen Stefanowicz. Other Township Representatives in attendance were Laurel Oswalt, Township Manager; Attorney Charles Rausch, Township Solicitor; Charles Farley, Township Public Works Director; and Trena Hall, Recording Secretary. Mary Campbell, John Hollenbach, Kevin Chandler and Bob Manbeck were present, representing United Water. The meeting room held a standing room only audience which extended into the lobby. This meeting has been recorded for minute purposes only.

United Water Representatives were in attendance to give a presentation on what private water and wastewater services they can provide. Currently they supply water and wastewater services in roughly 22 states.

Chair Menges announced to the audience that this presentation would be informational only and that a decision would not be made this evening. United Water is here to educate the Board and residents on the various models of services that they can offer.

Bob Manbeck, Public Affairs Manager with United Water, introduced John Hollenbaugh, Vice President of the Mid-Atlantic Division and General Manager. Mr. Hollenbaugh announced that there is both a regulated and a non-regulated division of United Water. United Water has regulated systems in Harrisburg, Newberry, the Borough of Mechanicsburg, Bloomsburg and the Wilkes-Barre area. They are regulated by the Department of Environmental Protection (DEP), on the quality side of the business and regulated by the Public Utility Commission (PUC) on the customer service side and for rate changes. Operating under a regulated service, United Water would own the assets. Examples: the source of supply, where the water is treated, the mains, valves, hydrants, meters, equipment, provides service to the customers, etc. The regulated side can service both water and wastewater.

Kevin Chandler, Vice President of Operations for United Water Environmental Services, spoke about the un-regulated/environmental services side of the business. This side handles both water and wastewater but primarily wastewater. In this service, the municipality would retain ownership of the assets and would operate under a defined contract. A contract can vary from 3 to 50 years and the scope of services varies by the needs of the municipality. United Water can provide the services of distribution and collections of the utility billing. Mr. Chandler noted that it is important to bring the municipal employees into the new environment and have a long standing relationship.

Mary Campbell is currently the Senior Director of Tactical Business Solutions and Tri-State Growth. She noted that one of the biggest challenges facing municipalities today is the shortage

of licensed operators and the ability to replace valued employees. Today, there is so much more complex technology and demand on meeting environmental regulations. Municipalities have a variety of services to provide to residents. A Private Operator would have the ability to manage complex situations based on a broad range of experience, cost-effective solutions, and the knowledge of advanced technology in the water and wastewater departments. Ms. Campbell noted that this partnership could consist of specialized services, public-private Operation and Maintenance (O&M) outsourcing, concessions and leases, and/or acquisitions.

United Water noted that a concession or lease model would best represent Dover Township if they were in need of capital investments.

Ms. Campbell noted if an O&M contract was used, United Water would provide employee training, community relations and customer care, compliance expertise and environmental stewardship, and operational efficiencies and technical capability. United Water has partnered with a financing firm to help finance projects. The municipality's debt on the system would be paid off, possibly some pension debt and any other debt the municipality may have. This partnership would bring economic development and new jobs, make tariff and rate predictability and stable (when creating the contract, the investments will be stated as to what increases may incur), provide asset management and protection (predicted, protective and routine maintenance is done on the system annually and is reported to the municipalities), and debt reduction and credit enhancement.

One example the company used was in Bayonne, NJ, servicing a population of 38,000. This town had several challenges, they were beyond their value of debt, had deferred investments in the system assets, had credit quality problems, and had difficulty finding replacement workers. Their objectives were to gain guaranteed capital improvements, improve asset condition and customer service, strengthen the balance sheet of the Authority and become debt free. They wanted steady and predictable rates, and to maintain employee jobs.

Bayonne wanted to retain the system's ownership. They wanted to bring in government standards (which is stated in the contract), they did not want to lose control over the rates (the rates are set by formula in the contract), and they did not want employees to lose jobs. Bayonne wanted to create local job opportunities by using local businesses to help with maintenance, and they wanted the Township to benefit from the growth not the concessionaire.

When the contract was signed United Water provided, upfront, \$7 Million of capital investments and \$2.5 Million of capital investments every year for a 40 year period. This investment eliminated debt, the capital investment helped modernize the water, sewer and stormwater systems, employees benefited from raises and protective/safety equipment, and Bayonne improved their credit ratings. These significant achievements were completed in the first year of the project. A revenue path was negotiated in the contract which limits rate increases, prevents windfall profits, and provides flexibility to guarantee ongoing investments. Long-term contract provisions provide customers greater reliability and stability.

Another example of this solution was in Middletown, PA, a population of 9,600, of which 2,600 are water/wastewater customers. Middletown needed some capital investments in their system.

Employees were their top priority (some were teamsters) and they wanted comparable benefits. They had a system debt of \$25.6 Million and wanted to pay off the pension liability. Capex work was needed on I&I issues and they wanted engaged stakeholders to be informed. They currently have a 50 year term. All employees retained comparable benefits; \$43 Million was paid upfront to pay off the system debt, pension liability and provide additional proceeds to utilize on other issues. Middletown receives \$725 Thousand in annual payments for years 2-6; \$630 Thousand for years 7-11; and \$590 Thousand for years 12-end. Middletown needed capital investments and United Water was required to pay \$325 Thousand annual capex investment per year on the contract. Ms. Campbell noted that anything over \$500 Thousand per year goes into a capital cost recovery which could cause a rate increase. She said to be aware when looking at contracts, to make sure you “bake” capital investments in or you take an annual amount, then anything over goes to the rate payers. This could annually increase rates.

Kevin spoke on the transition of employees on these projects. He noted that all of the incumbent employees were hired and employees dealt well with the change. He also noted that local stakeholder’s feedback is wanted on the decision making process.

Ms. Campbell spoke about Key Transaction Take-Aways. She noted to make sure the risk allocation is appropriate for the party, compare rates of private and public systems (investments are needed to keep systems working), capital needs must be addressed (there are many environmental issues), and avoid trying to solve unrelated problems. Prepare an extensive due diligence package and tie up loose ends on contracts with other municipalities (execute contracts). Engage an experienced professional team (engineering, financial and legal personnel) with extensive knowledge on the water and sewer industry and always engage stockholders.

United Water provided a Solution Model showing Dover Township as the Municipal Authority, with the concession being made up of a joint venture between United Water and a private equity partner. They would then go out to the market for the debt and the joint venture contract with United Water for an O&M contract that has back to back operating and maintenance obligations with the municipal authority. The capital projects that are required are part of United Water’s obligation to the municipal authority and concessionaire.

Ms. Campbell noted that she appreciated the turn out of the public and the willingness of Dover Township to listen to the presentation. She noted that she would be leaving brochures and business cards for the public.

United Water opened the floor to the Supervisors and Manager to ask questions.

M. Love questioned what all items/systems United Water would be interested in leasing or buying from the Township. Ms. Campbell noted that generally the whole infrastructure (all of the asset value) is purchased and anything related to that division. Example: If the wastewater was being sold, they would want the treatment plant the joint interceptor and collections. In general, they would take the equipment, trucks, generators, etc. Items can be negotiated in the contract.

Chair Menges asked if United Water would use the current wells if the water system is sold or leased. United Water noted that the general intent is to utilize the existing assets. This could be different if there is an adjacent utility that could be interconnected. Once United Water takes ownership, they must meet the demands by using the existing supplies or developing a new source of supplies. This is done through an engineering evaluation.

S. Stefanowicz questioned why municipalities lean towards leasing or purchasing from United Water. Ms. Campbell noted it is the municipality's decision to sell or lease the system. In a sale, United Water would own the assets and the rates would be set by the Regulator in the Commonwealth.

C. Richards questioned if the Township would like to see a project completed and United Water would not want to spend the money to complete the project, what would happen. There is a fixed amount for capital improvements and anything over that becomes the responsibility of the municipality. United Water noted that they have the responsibility to complete demanded projects to meet conservation measures. This could result in postponing some improvements. Ms. Campbell noted that United Water works with the township to put together the capital investment that are needed for the system in the first 60 days after the contract is signed, then it is done after the first year and then in 5 years. United Water encourages monthly meetings with a township committee. This allows for open lines of communication during the contract.

C. Richards questioned why someone would want to work for United Water and not the Township. Why is it hard to find employees? United Water has over 100 licensed operators to choose from, unlike a municipality that may only have one or two.

Chair Menges noted that the Township is currently looking at extending sewer service north of Dover Borough. Could this be worked into the agreement? United Water would have to look into this and the agreement would come with the concession of the lease. Again, transactions should not be complicated. This would need to be done during due diligence and would reduce the cash received upfront or over time.

M. Love asked if United Water has worked/partnered with other municipalities that have inter-municipal agreements. Ms. Campbell noted that they have done this. This can complicate matters but can be worked out for the shared assets. She noted that United Water can do the investments on the wastewater treatment plant. M. Love noted that other joint users may not be able to afford the same amount of capital money. Each township services their own collection system. On the shared system, they pay a percentage. Currently Dover Township cannot make the other townships maintain their systems. United Water would work the same as making the investments on the joint interceptor and wastewater treatment plant and the shared infrastructure as it is now. The plant is currently under a consent order. Dover Township is addressing enforcement on the other townships through the inter-municipal agreement to make improvements to their systems. The Authority will have to look at the assignability provision under the inter-municipal agreement and see if the authority can assign that to a private entity. The other townships would be accountable for their appropriate share of expenses for the shared assets.

Attorney Rausch questioned what the rate increase is in their contracts. Bayonne was 2.5% per year plus CPI and their rates were low. Middletown was 2% - 2.5% per year plus CPI depending on the term. Rates are hard to compare because they would go by what the township's needs would be. This also depends on the starting rates. If the rates are low and there is a lot of capital investment then there is an issue. Attorney Rausch asked if the formula used in the agreement is regulated by the PUC. The regulator will only look at the ownership issue. If the system is sold, the PUC would set the rates. If you contract, the rates are set by the contractor over the term.

S. Stefanowicz questioned what CPI meant. CPI is the Consumer Price Index which is generated by formula and set by some standards. This is an annual increase and is based on inflation.

Chair Menges asked the public present to raise their hands if anyone is not a resident or employee of Dover Township. Just a few raised their hands. He then asked who was on water or sewer to raise their hands. The majority of hands were raised. Chair Menges noted that he wanted a sense of whom the audience was representing this evening.

Ms. Campbell again thanked the public for the turn out and noted to keep asking questions to the Board and United Water. She stated to educate yourself as much as possible and ask questions on opposition to public and private partnerships.

Chair Menges noted again that this session was informational only and no decision would be made this evening. Currently, there is no scheduled meeting for when this topic will be discussed again.

With no further comments, the work session was adjourned by Chair Menges at 7:00 PM.

Respectfully submitted by:

Trena M. Hall, Township Secretary