

Water System Partnerships & Regionalization – The Water Company Model

March 12, 2014 – National Webinar



Our Team Today



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Aqua North Carolina, Inc.



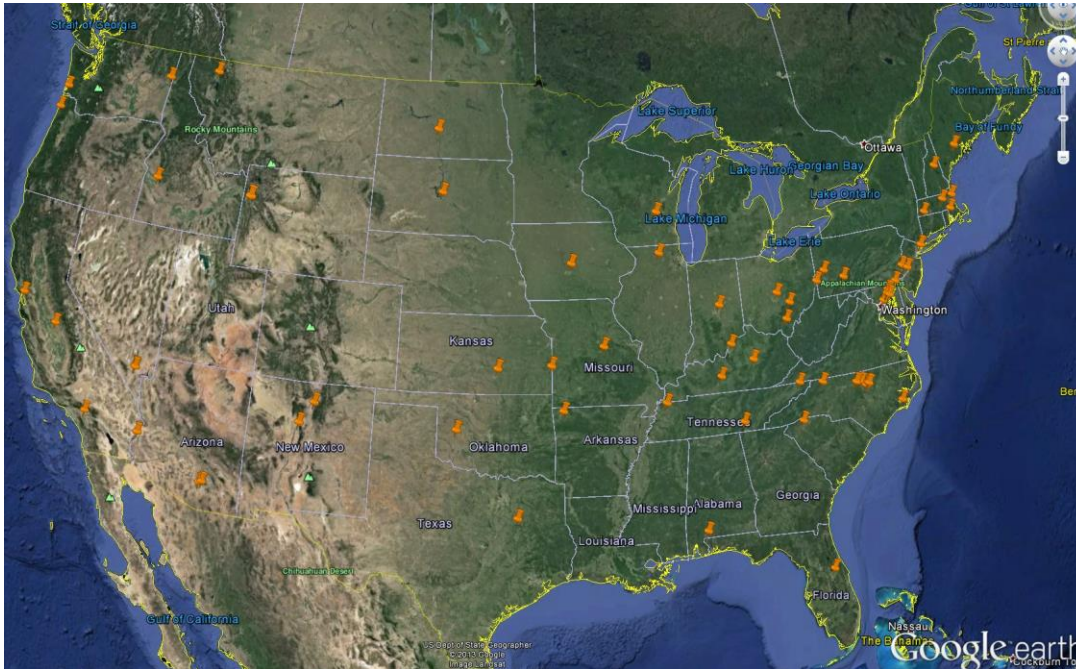
Glenn Barnes
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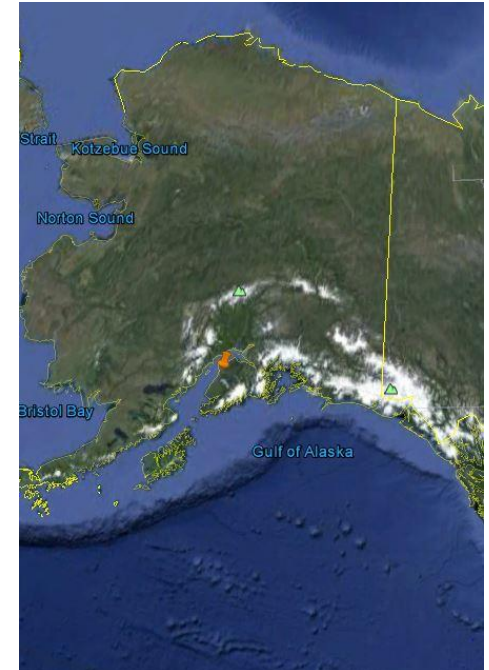
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Geographic Distribution of Webinar Registrants



Mainland US



Alaska





UNC
ENVIRONMENTAL
FINANCE CENTER

<http://efc.sog.unc.edu>



Featured Work



The EFC Awarded \$2M for its Smart Management for Small Water Systems Project

The EPA recently announced the EFC at UNC Chapel Hill and the entire Environmental Finance Center Network as one of four successful grantees for the 2013 competitive award to provide training and technical assistance to small water systems in both rural and urban communities.



Featured Report: Defining a Resilient Business Model for Water Utilities

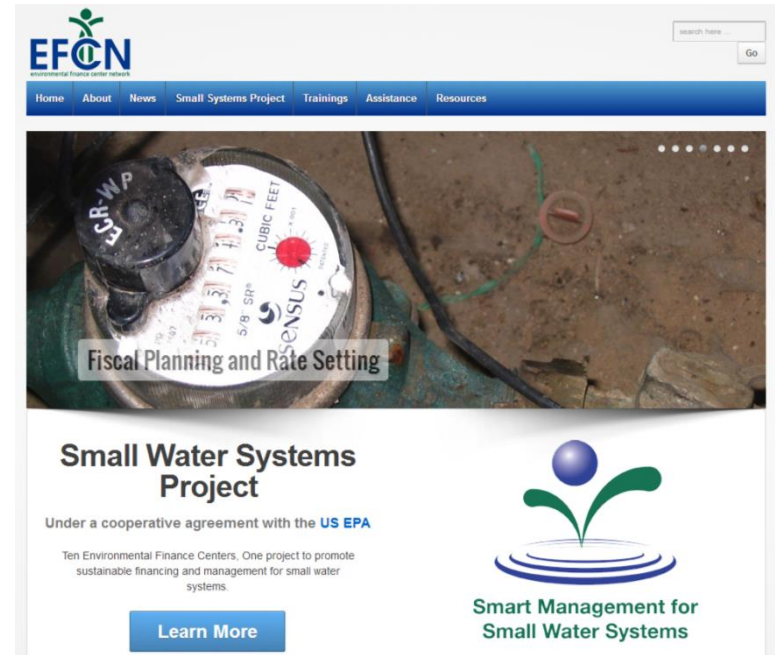
The Environmental Finance Center and the Water Research Foundation partnered to



www.efcnetwork.org



<http://efcnetwork.org>



Smart Management for Small Water Systems

under a Cooperative Agreement with the US EPA



- The EFCN provides training and technical assistance to small public water systems in all fifty states and five territories to help local water systems achieve and maintain compliance with the Safe Drinking Water Act.
- Workshops, trainings and direct assistance are provided on:
 - Asset Management
 - Water Loss Reduction
 - **Water System Collaboration**
 - Fiscal Planning and Rate Setting
 - Energy Management
 - Funding Coordination, and
 - Managerial and Financial Leadership
- Sign up for direct assistance at <http://efcnetwork.org/one-on-one/>



A few polling questions





Regionalization of Small Water Systems

A Private Utility's Point of View

March 12, 2014

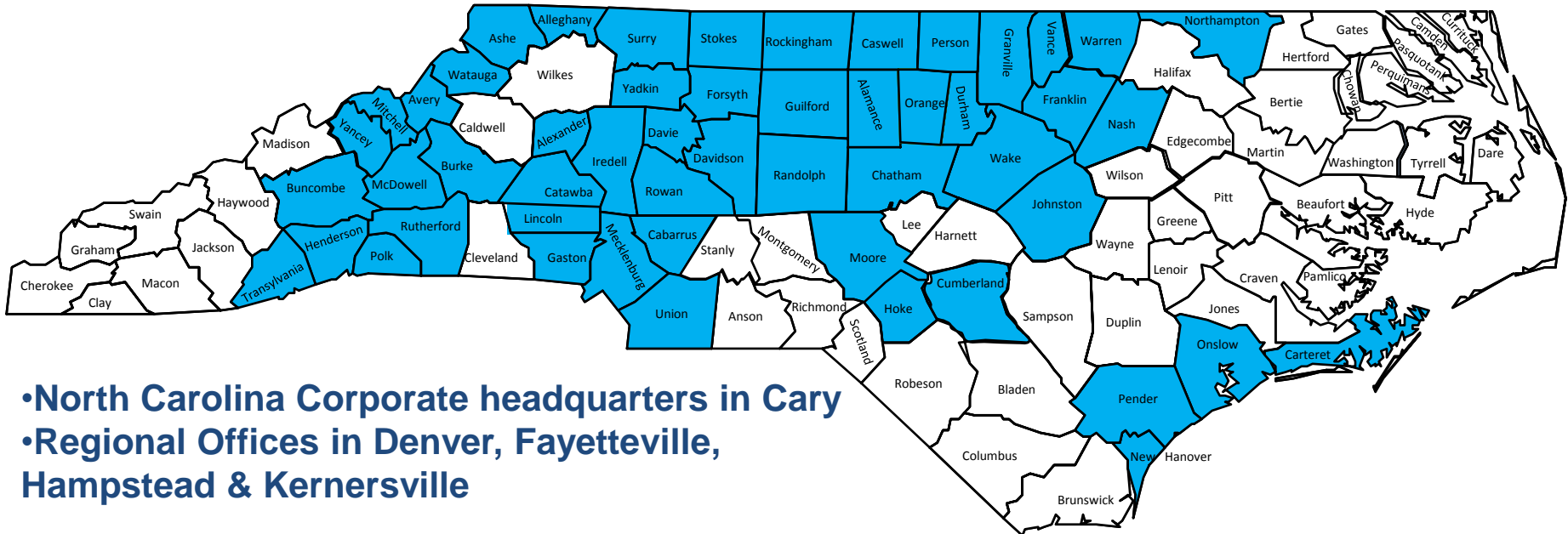
Aqua North Carolina Profile

- **North Carolina Operations**
 - Service to approximately 250,000 residents
 - 160 Employees
 - Water service in 52 counties using approximately 1,600 wells
 - 75,297 water customers in 850 separate systems
 - Wastewater service in 18 counties through approximately 60 plants
 - 15,397 wastewater customers
- Local and committed employer providing competitive wages (\$8 million payroll)
- Invests between \$10 - \$15 million every year on infrastructure.
- Subsidiary of Aqua America, Inc. (Ticker: WTR)
 - \$4.6 Billion Market Cap
 - 1,500 employees operating in 10 states
 - 130 year old company based in Bryn Mawr, Pennsylvania



Aqua North Carolina Service Territory

- North Carolina's largest private water utility
- Services to more than 250,000 residents throughout North Carolina
- Operations in 52 counties



- North Carolina Corporate headquarters in Cary
- Regional Offices in Denver, Fayetteville, Hampstead & Kernersville



State of North Carolina Profile

- **Population: 9.75M**
- **10th Largest state by population in the nation**
- **1.25% projected population growth rate over next 10 yrs**
 - **Raleigh Metro (Wake & Johnston Counties)**
 - **Triad (Guilford, Forsyth & Surry Counties)**
 - **Charlotte Metro (Iredell, Mecklenburg, Union & Lincoln Counties)**
 - **Wilmington/Jacksonville Metro (New Hanover, Pender & Onslow)**
- **Over \$16 billion needs to be invested in NC's drinking, wastewater and storm water over the next 20 years.**



An example of the infrastructure issue



The current view of water needs

- Customers expect unlimited capacity and 100% reliability
- Customers expect “reasonable prices”
- Conservation rates (economic signals to encourage conservation) are often unpopular or misunderstood
- Water service should be free

Potential Partnership Models

- Outsourced Operations and Maintenance
 - Public entity pays contractor a monthly operation's fee
- Total Asset Purchase
 - Utility purchases 100% of the assets of the Public water system
- Joint Ownership
 - Public and Private entities establish an entity where ownership is shared
- Combined Ownership
 - Utility purchases assets of water system while the Public entity retains ownership of the real estate
 - Utility leases real property



Potential Challenges

- Outsource Operations and Maintenance
 - Challenging margins
 - Contractor not invested in community
- Total Asset Purchase
 - Public entity views it as a loss of control
- Joint Ownership
 - Legal questions
 - Divergent goals
- Combined Ownership
 - Recovery of leases in rates



Potential Benefits

- Outsource Operations and Maintenance
 - Contractor takes risk of employees
 - Public entity retains rate control
- Total Asset Purchase
 - Public entity has no risk of direct funding of infrastructure
 - Rates are less political and better reflect true cost of service
 - Provides cash to Public entity
- Joint Ownership
 - Shared rewards if growth occurs
- Combined Ownership
 - Might allow higher purchase price
 - Gives Public entity an ongoing cash stream



Consolidation and regionalization strategies

- Larger utilities (concentrated large cities or collections of smaller systems) have the advantage of spreading large fixed costs across a broader base
- Regionalization does not necessarily mean connected systems
 - Aqua's largest system is approximately 10,000 service connections
- Larger organizations have greater access to capital and can address issues quickly
 - Principal forgiveness (grants) and other “free money” is likely going away
 - Financially strong, efficient utilities have access to low interest rate debt
 - Public / private partnerships and other sources of funding should be considered as a tool to address municipal system infrastructure improvements



General Comments

- “Free” money for Public entities is harder to find
- Unlimited infrastructure needs
- Private and Public entities need to continue to move to a level playing field
- Both entities have to be flexible in what they are looking for out of the partnership
- Partnership has to be a true partnership
- Partnerships need to recognize 3rd parties (regulators)



What is the reality?

- Water and wastewater is the most capital intensive utility industry
- There is a significant fixed cost that needs to be invested to provide reliable service
- Growth (real and expected) in North Carolina has demonstrated the need for more reliable sources of supply
- Recent extreme droughts have heightened public awareness of the issues.
- Some people still view water infrastructure as “out of sight and out of mind”



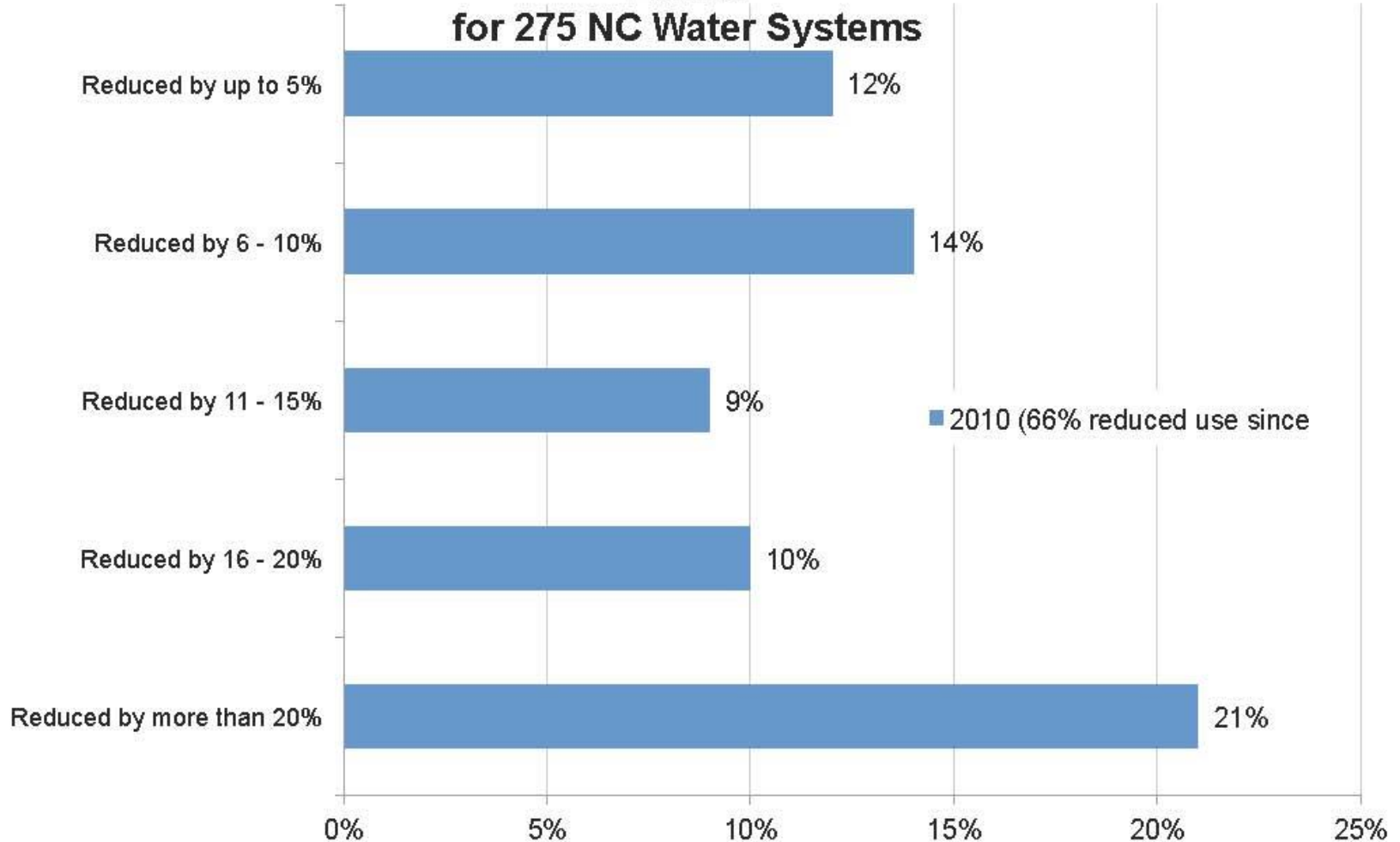
Challenges

- Over \$16 billion needs to be invested in NC's drinking water, wastewater and storm water over the next 20 years
- Supply / capacity
- In many cases, municipal systems are not charging the full cost of water
- Does growth pay for more capacity or does the utility build capacity to promote growth?
- Water and wastewater infrastructure is expensive
- Impacts of drought tend to reprogram customer's behavior
- Reduced consumption is real!



Reductions in Average Household Use in 2010 from 2007 Levels

for 275 NC Water Systems



Analysis by the Environmental Finance Center at the University of North Carolina.

Data source: NC Local Water Supply Plans (NC Department of Environment and Natural Resources, Division of Water Resources)

Percent of Water Systems

What can potential partners do to prepare for regionalization?

- Unit of government owned systems
 - Keep accurate books including contributed property
 - Be realistic about what you want out of the partnership
 - Understand the purchaser's motivation
- Private systems
 - Be sensitive to the partners concerns
 - Understand that the relationship is forever
 - The gestation period of a deal is LONG!!
 - Changes in leadership can slow the process
 - One model does not fit all situations. Be flexible



Rates

- Implement full cost pricing across the board for all water service providers
 - Means that all customers throughout NC (muni and private) will need to start paying the “real” cost of the water service (rather than through other subsidies or tax shifts)
 - Rates may need to increase to pay for infrastructure rehabilitation
 - In many cases, customers today are benefiting from the lower cost infrastructure that was put in years ago.
 - Investing in infrastructure is not a “One and Done” proposition!
- Utilities should educate their customers (including regulators, legislators, and business leaders)
 - Water may fall from the sky but it takes considerable effort to deliver to your tap
- Consolidated rates benefit all systems.



Still a low cost utility (per gallon comparison)

Starbuck's Café Mocha	\$29.68
Evian Bottle Water	\$9.73
Coca Cola	\$4.17
Whole Milk	\$3.08
Aqua Tap Water	\$0.01



Source: NARUC, 2009

Private utility infrastructure investment

Proactive



Reactive



AQUASM

Thank You

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Technical Assistance Polling Questions



Upcoming Webinars

- 3/17/14 **Water Loss Reduction – Part II**
- 3/31/14 **Water Loss Reduction – Part III**

To register: efcnetwork.org/upcoming



Questions for Tom and Glenn?

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