

# Village of Peotone Public Meeting Information Handout

MAY 17, 2017

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Concerning the Disposition of the Village's  
Water and Wastewater Facilities

By  
Hartman Consultants, LLC.

HC17011.01

# PARTIES PRESENT

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Village President

Mr. Steven Cross

Village Trustees

Mr. Patrick Bowden

Mr. Kevin Hack

Mr. Kent Hamm

Mr. Roy Hupke

Mr. Michael Jones

Mr. Peter March

Village Administrator

Mr. Gregg Spathis

Village Clerk

Mrs. Donna Werner

Village Consultant

Mr. Gerald C. Hartman, P.E., BCEE, ASA

Members of the Public

Interested Parties

The Trustees Have Directed

**GERALD HARTMAN**

to make this presentation

and

Answer Your Questions

the Trustees' Role Tonight

is to

1. Discuss Ownership Options and Listen To Our Customers
2. Thereafter, after the analysis and the review of the information, decide on an option best suited for our community

# BACKGROUND (1 of 3)

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- 1) The Village of Peotone Water System needs improvements.
- 2) Village groundwater quality is not as good as the surface water soon to be available to the Village.
- 3) There are three potential approaches for improving the water quality.
  - (a) Upgrade the water plants with iron removal and advanced membrane softening technology – Capital Cost + Higher O&M Cost.
  - (b) Interconnect with Aqua Illinois Regional Surface Water Transmission System – Capital Cost + Higher O&M Cost.
  - (c) Sell to AQUA and become a customer.
- 4) The Village performed due diligence to inquire about what other similar Villages have done.
- 5) Based upon that due diligence, the Village decided to hire an expert in such matters and selected that expert – Hartman.

# BACKGROUND (2 of 3)

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- 6) To understand the value of the existing facilities owned by the Village, the Trustees hired Gerald Hartman, P.E., BCEE, ASA to value the systems.
- 7) Hartman reviewed available information, performed on-site inspections, and met with operational personnel.
- 8) Trustees decided to:
  - (a) Have an appraisal done for both the Water and Wastewater Systems.
  - (b) Have a public briefing document prepared for the utility customers.
  - (c) Schedule this public meeting.
  - (d) Further investigate the AQUA offer.
  - (e) Decide which option should be implemented.

# BACKGROUND (3 of 3)

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- (f) Negotiate an asset purchase agreement (if sale option is chosen).
- (g) Village Board Meeting to consider the signing of the potential asset purchase agreement.

# HARTMAN – EXPERIENCE SUMMARY

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- BSC '75 MSE '76 Duke University
- 40 years of Water and Wastewater Systems Appraisals – Over 500 in 36 States
- 21 Water and/or Wastewater System Appraisals in Illinois
- Illinois P.E. (Water/Wastewater)
- Board Certified Environmental Engineer (Water, Wastewater)
- Historically Operator C Water/Wastewater (lapsed)
- Historically owned 2 Water and Wastewater Systems (Both Transferred)
- Accredited Senior Appraiser (Public Utilities) ASA
- Over 9 Billion in Financings
- Over 100 Rate Studies
- Numerous Asset Disposition Consultancies
- Tangible Personal Property (TPP) Special Magistrate (5 yrs.)
- Qualified Expert Witness in 9 State Public Service Commission (ICC, IURC, etc.)
- Appraisal Expert Witness in Arbitrations, Administrative Hearings, State and Federal Court
- Active Utility Market Consultant

# SITUATION (1 of 3)

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## 1) Water System:

- Source – Groundwater (Hardness, TDS, Iron, Sulfate and Corrosion Concerns)
- Existing Water Treatment Plants at Basic/Low Level of Treatment
- Water Main Improvements and Hydrants Needed
- Secondary Standards (Non-health) Compliance

## 2) Wastewater System

- Lift Station Auxiliary Power Needs
- Significant Inflow and Infiltration Problems – Water Use 336 Kgpd, Wastewater Flow, 1,079 Kgpd
- Good Operation, Yet Over Capacity at Plant
- Potential More Stringent Regulations



# SITUATION (2 of 3)

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## 3) Water and Wastewater Utilities are:

- Utility Enterprise Not Self Sustaining (actually losing money)
- Without needed reserves (Drain on the General Fund)
- Small customer base – Water 1,500; Wastewater 1,500
- Limited ability to attain Economy of Scale (10,000 or more customers)
- Limited Operational Forces
- Have regulatory risk and liability

# SITUATION (3 of 3)

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## 4) Opportunity for Peotone:

- Sell Under the Systems Viability Act
- AQUA Offer after Administration Talks
- Attain Economy of Scale for Long Term Rate Stability
- Obtain a much superior water quality for Customers

# AQUA'S KANKAKEE REGIONAL WATER SYSTEM

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- Surface water plant peak usage 17 MGD
- Average daily usage approximately 12 MGD
- Plant expansion under construction to add additional 8 MGD
- Intake rated at 80 MGD
- 4.3 billion gallons per day in Kankakee River flows – ample capacity for future
- Main extension under construction from Manteno to University Park (17 miles)
- Softened water, low iron – high quality
- Illinois Section of AWWA awarded AQUA Kankakee water as “Best Tasting Water in Illinois”

# ILLINOIS SYSTEMS VIABILITY ACT (1 of 3)

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- Legislature found that many smaller utilities did not:
  - 1) Adequately fund necessary infrastructure
  - 2) Meet the current and proposed regulations
  - 3) Have adequate resources for the utility mgmt. and operations
  - 4) Have current rates which provided long term sustainability (relied on general fund transfers)
  
- Legislature found that the larger professionally manager utilities:
  - 1) Could acquire the smaller utilities and provide an economy of scale (long-term lower costs)

# ILLINOIS SYSTEMS VIABILITY ACT (2 of 3)

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- 2) Had the regional resources available to serve small utilities
  - 3) Had a better track record meeting or bettering the current and proposed regulations
  - 4) Had the capital funds available to meet the infrastructure needs
  - 5) Had stable rate structures reviewed independently by the ICC and are appropriate to fund the needs of the utility operations.
- Provides an incentive to both the smaller city/village/town and to the larger regulated utility to have a sale at fair market value (FMV)
- a) City/Village/Town Utilities historically sold at original cost less depreciation or Book Value (i.e.. approximately \$6 million for Peotone) while FMV may be as much as twice that amount (i.e.. approximately \$12 million for Peotone)

# ILLINOIS SYSTEMS VIABILITY ACT (3 of 3)

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- b) Large regulated utilities historically earned and bought at original cost less depreciation (again approximately \$6 million for Peotone), while the Act allows the average of three (3) independent appraisers opinions of FMV or the negotiated amount whichever is less to be accepted by the ICC as rate base or approximately the restated book value to the new owner. The Utility TPP Appraised for \$12,300,000 FMV as of 4/26/17.

The above benefits both the Village and the Company.

- The Act “Sunsets” in June, 2018 which is the end of the 5 year term.
- To date, the Act has not been extended by the Illinois Legislature.
- Is limited to smaller utilities with less than 7,500 customers at the date of closing.
- The time period to complete and acquisition is between nine (9) and twelve (12) months.

# AQUA OFFER

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- Purchases all Water and Wastewater Facilities, Records, etc.
- Village keeps cash on hand, utility reserves, accounts, receivable, other minor items.
- Purchase Price \$12,000,000.
- Village gets Franchise Agreement and Fees.
- Village gets taxes on the property.
- AQUA keeps existing Village base rates – No rate increase until after January 1, 2020 or Completion of Interconnection with Kankakee whichever is longer (Rate Freeze) and AQUA will charge Peotone the same wastewater rates as Manteno
- Subject to ICC approval.
- Near Term Investment in Improvements \$8million to \$12 million expected.
- Buy Back Option in the 5 to 15 year period.

# ESTIMATES OF NEAR TERM CAPITAL NEEDS

1.	West Side of I-57 Service	\$ 3.5 to \$ 4.5 MM (Robinson)
2.	I/I Reduction & Other WW (450 Kgpd)	\$ 3 +/- MM (HC)
3.	Capacity Wastewater	\$ NE – Dependent on I/I Reduction
4.	Generator Set (WW)	\$ 0.26 MM (Village)
5.	Interconnect with AQUA Supply	<u>\$ 3 to \$ 4 MM (AQUA)</u>
	Major Projects Rounded to Million	\$ 11,000,000 +/-
	Minor Projects Rounded	<u>\$ 1,000,000 +/-</u>
	Total Planning Estimate	\$ 12,000,000 +/-



# WATER QUALITY COMPARISON (mg/l)

<u>Constituent</u>	<u>Existing Wells</u>	<u>AQUA Surface Water</u>
Total Dissolved Solids	860	230
Total Hardness	560 – 580	175
pH	7.6	8.3
Sulfates (Std 250)	200-650	56
Sodium	30 – 45	10
Iron (IEPA Current Std 1.0 other States 0.3)	0.1 – 0.4	Trace

Conclusion – AQUA has better water quality.

# GOALS

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- Upgrade Existing and Older Water System and Upgrade the Existing Wastewater System
- Cease General Fund transfers to pay utility losses and cease deferring capital improvements
- Minimize Long-Term Rate Increase – Rate stabilization through statewide AQUA consolidation
- Acquire professional management and operations support
- Obtain capital (supported only by the Utility) to meet current needs from a larger capital pool
- Attain and Economy of Sale
- Increase the Village's Financial Stability and the opportunity to create a partnership for economic development
- Obtain a high quality water supply – better drinking water with no need of individual water softeners

# OPTIONS EVALUATED

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- 1) Continue as Present and Purchase wholesale/bulk water from AQUA
- 2) Sell to AQUA, a large professional utility company
- 3) Do Nothing

# MAJOR CORRECTIVE IMPROVEMENTS

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## a) Advanced Membrane Plant

- Capital Cost Estimate - \$2,940,500. (new debt \$3.3 million+)
- Rate Increase – at least 65% or more
- Continue with limited resources
- No Economy of Scale
- Old System (W&WW) with a lot of Renewal and Replacement needs
- Increased management and operational costs.

## b) Wholesale to AQUA Illinois

- Capital cost estimate - \$2,816,000 (new debt \$3.1 million+), Plus
- Proportional Capital Share of \$20 million Water Transmission Main
- Rate Increase – at least 65% or more
- Other items above apply to this option also.

# CONTINUE AS PRESENT

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- 1) Approx. \$12 MM of additional debt - \$970,000/yr.  
P&I Revenue Increase Needed \$1,200,000/yr. (25% Coverage)  
Over a 100% Rate Increase for this item alone, and
- 2) Rate increases necessary for the existing operations, and
- 3) Raw Water to Wholesale Water Rate increases.
- 4) Increased risks and liability of utility operations.
- 5) Less Volume Purchasing opportunities.
- 6) Less Regional Sharing opportunities.
- 7) Local management and decision making.

# SELL TO AQUA

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- 1) Economy of Scale attained – Peotone’s Budget is pooled with Statewide – lower cost of materials, supplies, etc. than Peotone has.
- 2) Utility Professionals in Management.
- 3) Increased Resources and Capital Funding for projects available.
- 4) Initially, a rate freeze (existing base rates) through Jan. 1, 2020 or interconnection with AQUA whichever is later/longer. Long term lower rates than Village could attain.
- 5) New, dependable, high quality, IEPA compliant source.
- 6) No new debt for Village and proceeds from sale to fund Village activities to improve quality of life.
- 7) Improves Village financial stability.

# LONG TERM RATE COMPARISON

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- 1) AQUA average rate increase past 10 years is slightly under 2%/year, lower than inflationary automatic Village increases of 3% per year.
- 2) AQUA financials are “pooled” eliminating “rate shock” with only small percentage increases.
- 3) If Village wants better quality water and wants to have a regulatory complaint system, then a planning level of over 150% of rate increases are needed in the next 5 years. Village has artificially low rates and uses taxation to subsidize user rates.

# VILLAGE FINANCIAL POSITION – AQUA

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- 1) Utility taxes go to General Fund.
- 2) Increased tax revenues paid by AQUA.
- 3) General Fund Services provided to utility are eliminated.
- 4) \$12 million cash payment.
- 5) \$12 million of Near Term Capital Investment Needs assumed by AQUA.
- 6) \$15 million unrestricted funds (\$12 pymt, reserves, cash, AR, SRND, FF, Taxes, GF-OH) for Village for any lawful purpose.



# COMPARISON OF NON-COST FACTORS

<u>Consideration</u>	<u>Existing</u>	<u>AQUA</u>
Regulatory Compliance	Good	Excellent
Resources	Adequate	Substantial
Buying Power	Normal	National/Statewide
Specialist	Outside Consultants	In-House Day to Day
Service	Good	Good to Very Good
Capital	Some	Extensive
Reserves	Some	Extensive
Emergency Equipment	Some	Extensive
Management	Governmental	Private Professional
Customer Accommodation	Very Good	Good
Water Quality	TDS, Hardness, Sulfates, Iron, etc.	Excellent
Planning/Preparedness	Average	Above Average

# HARTMAN'S RECOMMENDATION

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Hartman was asked for this recommendation. Based upon the information available, Hartman recommends a sale to AQUA for the following reasons:

- Better quality water supply
- Assured IEPA Compliance
- An approximate \$15 million difference in Financial Position
- Present utility has low reserves, older condition, need of capital, less resources, future regulatory risk
- Resolves present no economy sale, no flexibility, no capital for economic development, no other revenues, future debt requirements and future staffing needs

# VILLAGE TO CONSIDER

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- 1) Public Meeting Comments and Questions
- 2) Independent Water and Wastewater Appraisal
- 3) AQUA Offer

Then to decide whether or not to sell to AQUA. If yes, then:

- 1) Asset Purchase Agreement
- 2) Franchise Agreement (and future fees)
- 3) Assess Taxation Amount

## POTENTIAL SCHEDULE (IF SALE)

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1) Decide on Sale or No Sale	5/17 – 6/15
2) Negotiate Asset Purchase Agreement (APA with Exhibits)	6/15 – 7/15
3) AQUA and Village to Sign	July 2017
4) Three (3) Appraisals and ICC Filing by AQUA	August 2017
5) ICC Approval Process	August 2017 - May 2018
6) AQUA hosts Public Information Meetings	August 2017 – May 2018
7) Closing	June/July 2018
8) Permits Transferred, etc.	July 2018

# A FEW OTHER COMMUNITIES WHO HAVE SOLD TO AQUA

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- Village of Philo
- Village of Manteno
- Moecherville Water District
- Village of Glenview (NMUC)
- Danville
- Kankakee
- Village of Sun River Terrace
- Village of Bourbonnais (TSE)

# SURVEY OF OTHER COMMUNITY COMMENTS OVER THE YEARS CONCERNING AQUA PERFORMANCE

Philo	Great Community Partner, Very Satisfied
Manteno	Very Satisfied, Now considering selling Wastewater to AQUA
Moecherville	Very capable and professional
Glenview	Excellent Partner, Met all Village Goals
Danville	Long term excellent relationships, major recent projects/investments
Kankakee	Strong Long Term Community Partner Continually Increasing Investment with current projects

# QUESTIONS