

# Water Partnerships for Investment Capital and Debt Relief

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# SUEZ ENVIRONNEMENT (Parent of SENA)

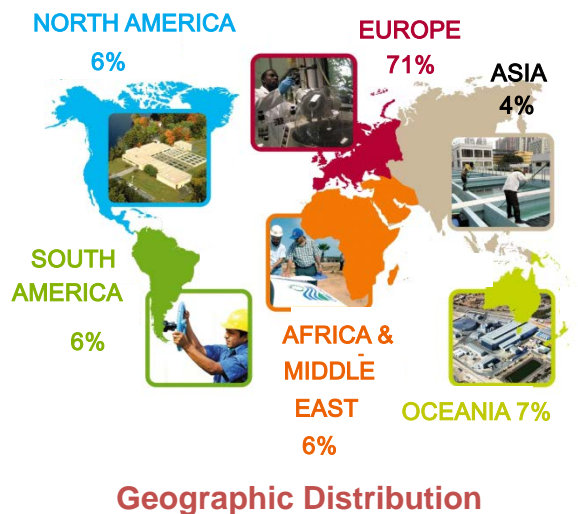
## A GLOBAL LEADER IN WATER & WASTE

WATER

WASTE

Total Revenue \$US 20.6 B

- **91 million** people supplied, **1,888** drinking water production facilities
- **68 million** people served, **1,643** wastewater treatment sites
- **1 billion** inhabitants served by **10,000** Degremont facilities



- **57 million** people benefiting from waste collection
- Over **464,985** industrial and commercial clients
- **41 million** tonnes of waste treated
- **49 incinerators** worldwide (46 of which provide energy recovery)

United Water is a wholly owned subsidiary of Suez Environnement North America (SENA)

# Suez Environnement North America (SENA)

## United Water



- 2,600 employees
- 5.7 million population served

## Degremont Technologies – Infilco

- Technology provider
  - UV Disinfection, DAF ...

## BAL Ondo



- 1,000 employees
- 50/50 partnership with Peñoles

## Degremont Mexico

- Construction and Built-Operation-Transfer activities (industrial water reuse)

## SUEZ ENVIRONNEMENT NA

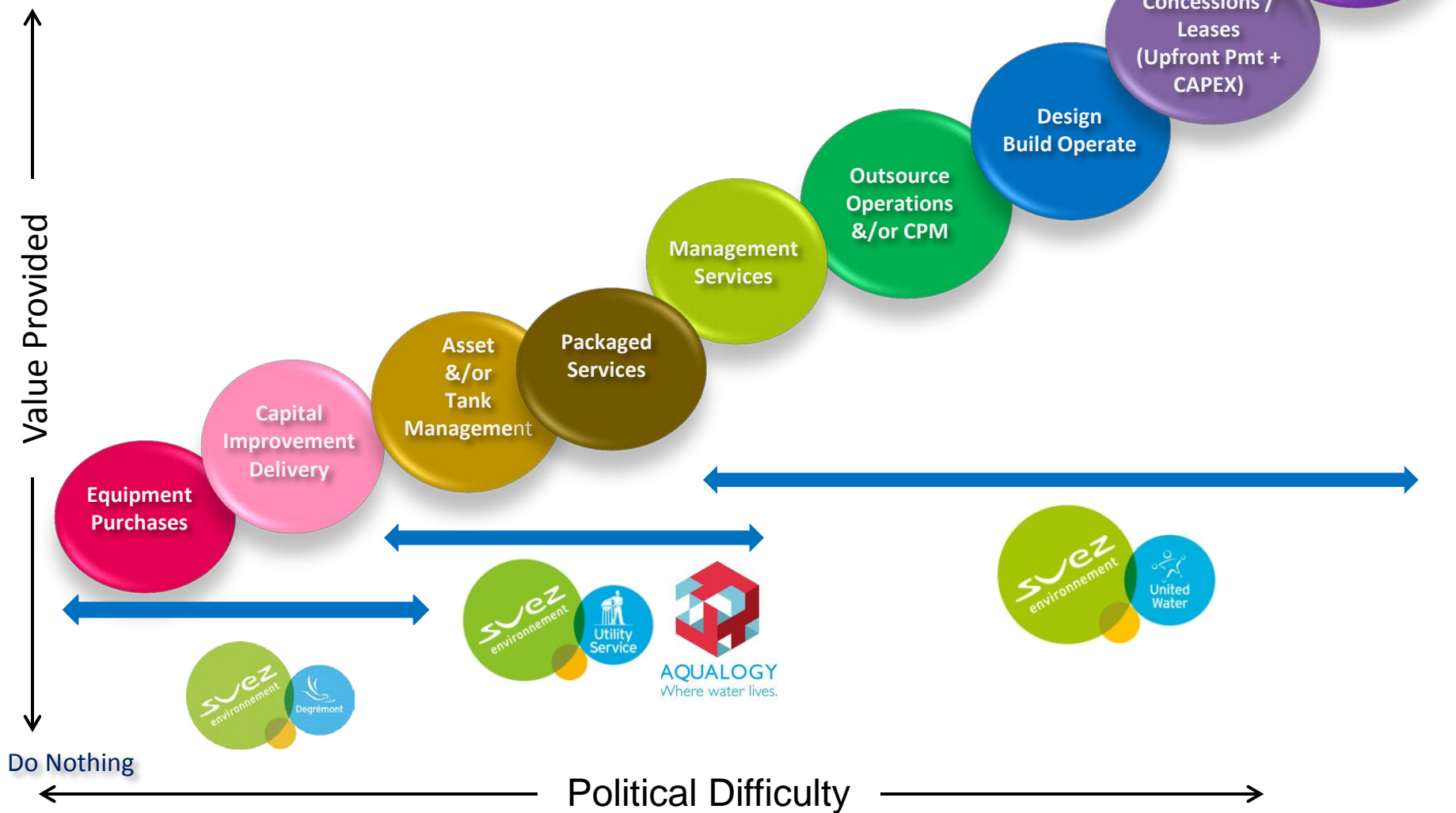


- 2 water contracts
- 2 Major Solid Waste Facilities

## Degremont Technologies



# SENA - Organized to meet U.S. Market Needs



# World Wide Tendencies for Water Partnerships

## Challenges facing Cities today

- **Modernization of water systems and capacity to attract needed talent**
- **Multiple stakeholders and citizens awareness. Demand for greater transparency and accountability**
- **Complex technology to meet new regulations**
- **Demand for better Environmental Performance**

## Private operators value added

- **Ability to manage complex situations based on broad range of experience**
- **Cost-effective solutions**
- **Knowhow of advanced technologies**
- **Cost efficient OPEX/CAPEX approach**
- **Ability to attract private financing**

## Water Partnership Models

- **Specialized Service Delivery:**
  - **Billing & Customer Service**
  - **Smart Metering**
  - **Non-Revenue Water Improvement**
  - **CSO Management and Control**
  - **Energy Management**
  - **IT Solutions for Smart Cities**
- **Public-Private O&M Outsourcing & Alliance Partnering Contracts**
- **BOT/DBO's for greenfield Water, Wastewater and Biosolid projects**
- **Concessions and Leases**

# Choosing a Contract Model to Meet a City's Objectives

**You want world-class know-how provided in an integrated manner to solve your operational needs**



**Specialized Services**

**You want to keep responsibility for operation AND benefit from expertise of the private sector**



**Management Contract**

**You want to share responsibility for managing your utility and pay a fixed fee, combined with an incentive for performance**



**Alliance Partnering Contract**

**You want to delegate full responsibility for operation**



**O&M Outsourcing Contract**

**You want reliable operation coupled with funding of future capital needs & refinancing of City's debt to improve credit**



**Concession / Lease**

# Concession (Lease) --- projects underway by United Water

## Bayonne, NJ

(Pop. 63,000)

**Concessionaire:**

**KKR Infrastructure  
& United Water**

**Operator :**

**United Water**

**Duration – 40 years**

**Financial Benefits:**

- Full Operation of water & sewer
- Capital funds to insure future system upgrades
- Removal of all Municipal Utility Authority (MUA) debt from City Balance Sheet
- Utility Ownership (MUA/ City)
- Tariff (set by MUA/City)



*Bayonne will be the one of the first water concession contracts in the U.S.*

## Nassau Co, NY

(Pop. 1.1 million)

**Concessionaire :**

**To be selected**

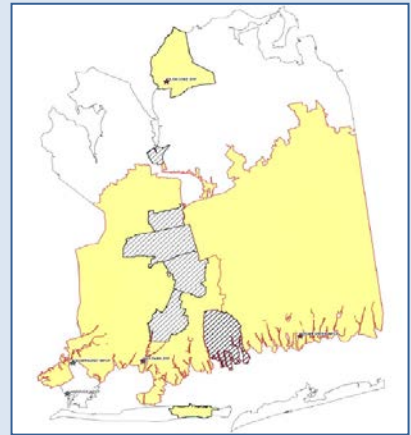
**Operator:**

**United Water**

**Duration – 40-50 years**

**Financial Benefits:**

- Full operation of sewer system (25-30% cost reduction from County operation)
- \$300-400M Capital funds for next 10 years (then ~25-30M/yr)
- \$750M to eliminate all Sewer Authority & County debt for sewer system
- Tariff (set by County) – increases at CPI level



*Nassau will be the largest water concession contract in the U.S.*



# BMUA Motivation

- **Client Deeply Leveraged, i.e. Beyond Underlying Value of Assets**
- **History of Deferred Investment in System Assets**

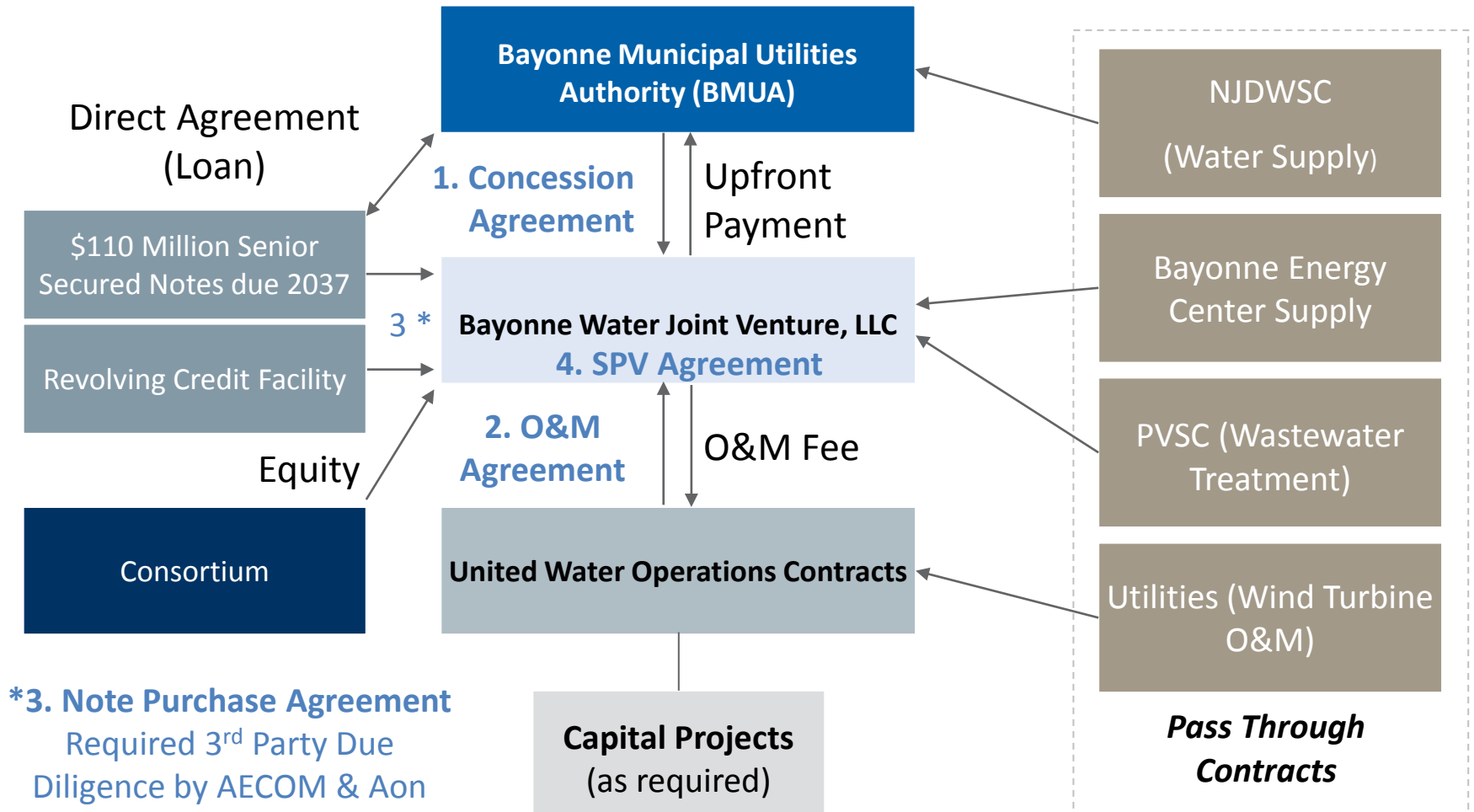


- **Credit Quality Problems Beyond Water and Wastewater System Funding Requirements**

- **To provide guaranteed capital improvements and recover from years of deferred investment**
- **To provide a P3 structure with built-in mechanisms for capital improvements without typical politicized maintenance vs. capital disagreements**
- **To improve asset condition and customer service**
- **To improve City balance sheet and leave the Authority debt free**
- **To provide long-term rate predictability**
- **To introduce a triple bottom line approach to managing utility**

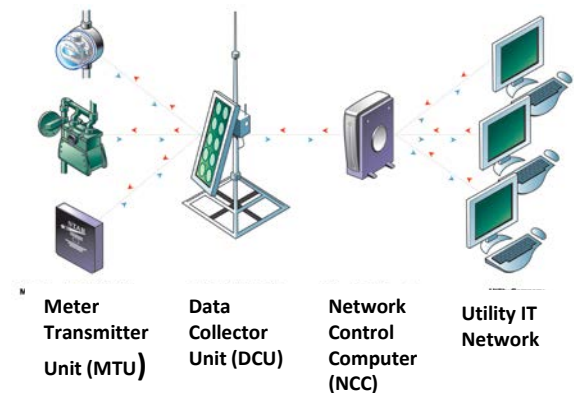
# Transaction Overview

## Organizational Structure – 4 Key Agreements are Foundation of Transaction



# BMUA Motivation & Contract Features

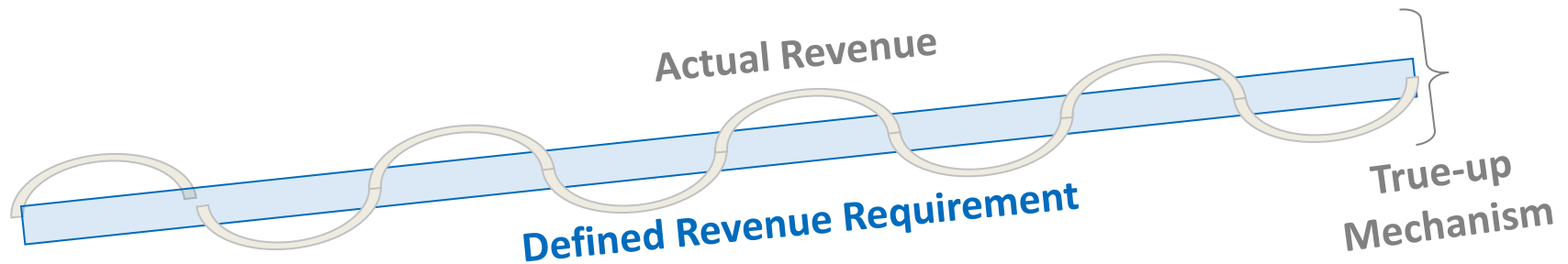
- **Concession Contract Structure Provides for Operational Best Practices, Life Cycle Cost Analysis, and Capital Investment to Modernize Facilities and Systems**
- **O&M Responsibility for a Wind Turbine which has capacity to sustainably power all System needs**
- **“Base” Capital Improvements – AMI, SCADA & Safety**
- **“Incremental” Capital improvements – Repair & Replacement of Underground Infrastructure**
- **Third Category of Capital Expenditures (Modifications) related to Unforeseen Events which trigger a Revenue Adjustment**



# Capital Expenditure Overview

Capex Cost	Amount	Cost Description	Cost Increase Risk Mitigation
Base Capex	<p>\$7.5 million in total</p> <p>Base capex program will be implemented over the first two years</p>	<ul style="list-style-type: none"> <li>▪ Involves the replacement of the System's meters</li> <li>▪ Will allow United to monitor the amount of finished water supplied by the NJDWSC as well as any leakage in the mains or distribution system</li> </ul>	<ul style="list-style-type: none"> <li>▪ United Water takes the risk on increased cost of the Base Capex Plan</li> <li>▪ If the increase in costs are caused by an Unforeseen Event, it will constitute a Revenue Adjustment in the following year</li> <li>▪ Base amount pre-funded at financial close</li> </ul>
Incremental Capex	<p>\$2.125 million for the first two years; \$2.5 million annually thereafter</p>	<ul style="list-style-type: none"> <li>▪ Annual program to upgrade the system and to maintain the serviceability of the assets</li> <li>▪ Amounts will be spent towards certain capex items including vehicle replacement, installation of SCADA equipment, replacement of water and sewer mains, replacement of sewer pumps and manholes, as well as other system improvements necessary for employee safety</li> </ul>	<ul style="list-style-type: none"> <li>▪ If the Actual Incremental Capex in any Concession Year is greater than an agreed upon threshold, this will cause a Revenue Adjustment in the following year</li> </ul>

# Contract Features – Revenue Adjustments



## Usage



- Replacement of water meters is expected to result in additional usage registration

## Capex



- United Water takes the risk on increased cost of the Base Capex but not on Incremental Capex

## Economic Development



- Development in Bayonne is expected to result in more usage thru customer growth

## Operating



- Certain operating costs are to be passed through or compared to a baseline

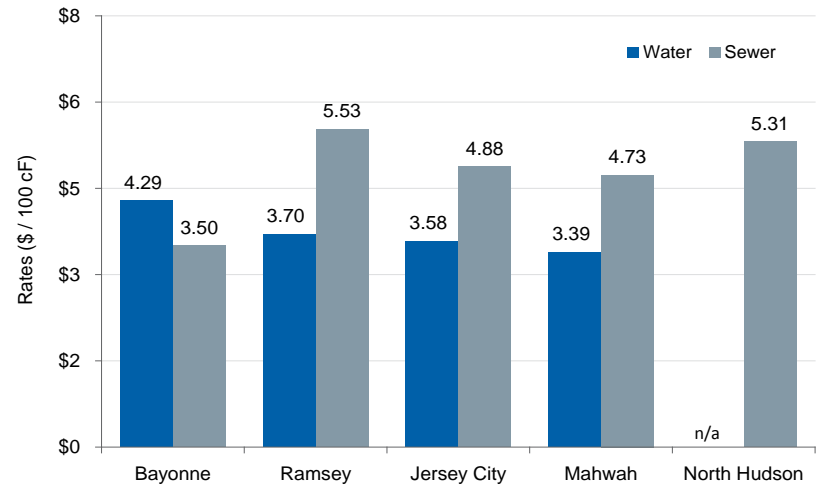
These Contract Features are important and help make the transaction financeable.

# Projected Rate Increases are Sustainable

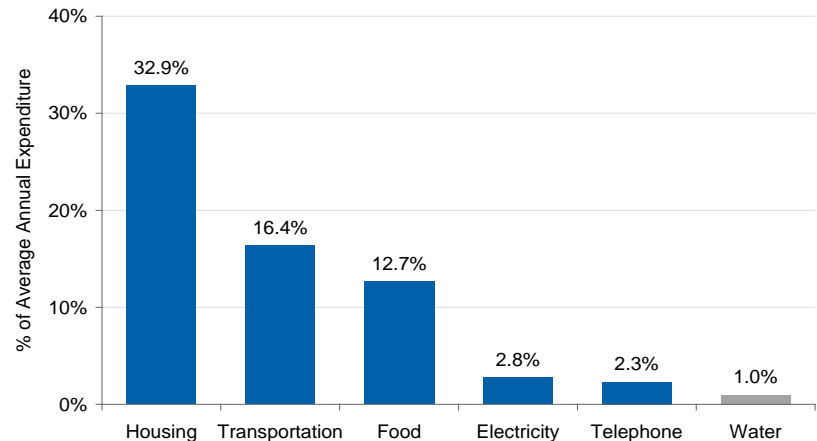
The risk of rates being considered too high is unlikely for the following reasons:

- Average monthly water and sewer bill for users in Bayonne is ~\$44 and \$31, respectively. Water rates are in line with other municipalities and the sewer rates are much lower
- Water rates for United Water New Jersey have grown at a CAGR of 5.0% since 1970 which is well above the rate increases that are stipulated in the Concession Agreement
- Water is an essential service but still represents a very low percentage of total annual expenditures (1.0% of total)

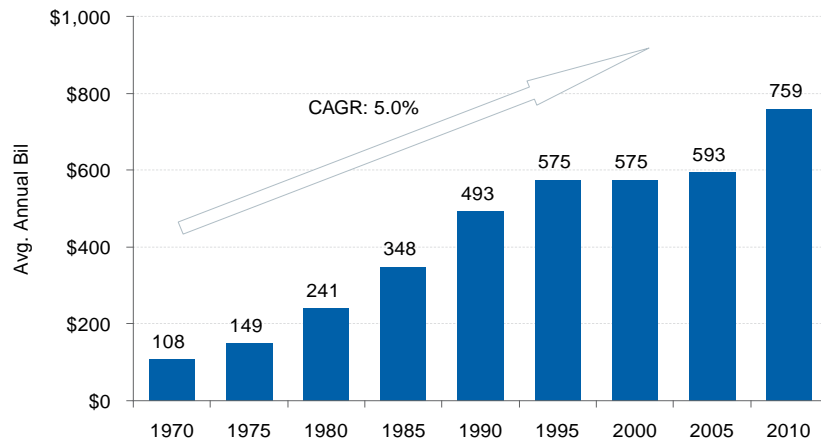
## Relative Water & Sewer Rates



## Relative Water Expenditure<sup>(1)</sup>



## Historical Rate Increases in New Jersey



(1) Bureau of Labor Statistics, Consumer Expenditure Survey

# Questions/Comments?

Additional Information...





**ICMA**

**98<sup>th</sup> ANNUAL CONFERENCE**

**PHOENIX**

*Maricopa County*

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