Articles MM, NN, OO, PP

Water Company Acquisition
Summary: Why the Board of Selectmen recommends favorable action

• Makes fiscal sense now ... and even greater fiscal sense in the future

• Provides greater ability to protect the watershed

• Enables us to control the management of our water-delivery system

• Allows for greater financial and operational transparency

• Most municipalities own their water system; if they can do it, we can do it
Background on our Water Company

- Incorporated in 1879 by a group of Hingham residents
- Founding statute gives Hingham citizens the right to purchase the water company at any time
  - Essential municipal service
- Privately-owned since incorporation
Reasons Hingham initiated feasibility study in 2012

- 5th highest water rates in the state
- “Break/fix” water main strategy
- Lack of coordination with Town roadbuilding program
- Ownership changes after decades of stability
- Concern that a private owner’s first responsibility is to its shareholders and not ratepayers
- No control over decisions related to management and maintenance of water system
What We Learned

• Water companies are profitable
  – The DPU sets rates that allow privately-owned utilities to earn a profit
  – Aquarion’s most recent DPU rate case authorizes a 10.5% annual return

• Whether private or public, all costs of running a water company are paid by water customers (ratepayers)

• Municipal ownership eliminates some costs that don’t affect water service: federal and state taxes, profit, rate-filing costs

• Municipally-owned water companies are generally funded through an Enterprise Fund – no direct impact on taxes
What We Learned

• Municipal entities may have higher wage costs due to prevailing wages
  – According to Andersen Tax, “Impact unclear and likely not material”

• Municipal entities have lower borrowing costs

• Municipal ownership costs are highest in the first 30 years of ownership
  – Paying principal + interest on acquisition debt

• Municipal ownership costs are significantly reduced when the acquisition debt is retired (“mortgage paid off”)

March 2019
What We Learned

- 96% of MA water systems are run by public agencies
- We are the only privately-owned water system of our size in MA
What We Learned

- Our water system hasn’t been sufficiently maintained
  - Aquarion has replaced less than 1/3 of what its own capital study recommends for aging water mains

- Our roadbuilding program has been compromised by emergency street openings for water main repairs
  - 22% of rehabilitated streets have had to be opened for “emergency water repairs”
What We Learned

• The role of the Department of Environmental Protection (DEP) in controlling water supply and regulating water quality does not change

• The DEP assists communities who purchase their water system

• Aquarion has a legal “good husbandry” obligation to provide service until the acquisition is completed

Same plant
• Same certification requirements
• Same operating standards
• Same quality requirements and monitoring
What We Learned

• The purchase price as of 4/22/2019 is approximately $108 million
  – Based on the statute and the court ruling, the purchase price increases by $3 - $4 million each year

• As “self-supporting” debt, the water acquisition bonds will not be counted against the Town’s debt limit

• Per the Town’s Financial Advisors: “The total amount of additional debt required to fund capital projects planned by the Town is comfortably within the Town’s debt limit, and all other credit fundamental credit factors held constant, they should not have a negative impact on the Town’s credit ratings.”
What We Learned

• Aquarion has spent over $2.7 million in acquisition-related public relations between 2013 and May 2018

“Political analysis of Advisory Committee”

“Advisory Committee grassroots advocacy”
“Manage phone bank for Advisory Committee”
“Outreach calls to Hingham allies re: Ad Comm meeting”
“Research: Foster School funding re: infrastructure story...Hingham capital infrastructure needs”

“Draft outline for campaign plan presentation to Eversource”
“HMLP opposition research”

Draft memo on takeover warrant article approval process for J. Hunt (Eversource Senior Vice President for Regulatory Affairs and Chief Communications Officer)

* Source: DPU File Room. Excludes expenses identified to be related to rate case, Oxford, Millbury
Water Company Acquisition Study Committee

Timeline, Analysis, & Conclusions
Study Pre-Litigation Timeline

Apr - May 2012
WCASC Appointed by Board of Selectmen

May 2012 - Jun 2013
WCASC Feasibility Study - Financial Analysis with Look-Aheads

Annual Town Meeting 2012
Approval of Article 19

WCASC Recommendation to Board of Selectmen

April 2012

June 2013
Litigation Timeline

Sep 2013 – Mar 2015
Superior Court Discovery, Motions, and Trial

Jul 2016 – May 2017
Appeal Court Filings

Town Litigation to Determine Water System Purchase Price

July 2013

Superior Court Final Judgment

Apr 2016

Appeal Court Affirmation

Nov 2017

SJC Denial of FAR

Mar 2018

* 16 Nov 2018: DPU directs Aquarion to make 14 corrections to its tariffs
WCASC Investigation Process Summary

Article 19, Town Meeting 2012: “...determine whether the acquisition is feasible and advisable for further Town Meeting consideration”

- **28 WCASC meetings:** 30 May 2012 – 11 Mar 2019
- **Periodic updates** of Town financial model at request of Town Administrator
- **Mar 2018:** Resumption of Governance & Engineering investigations at conclusion of litigation
- **Jan 2019:** Summary reviews
  - 3rd-party expert financial model reviews: Berry Dunn + Andersen Tax
  - Financial Analysis, Governance, and Engineering phase summaries
Financial Analysis and Acquisition Financing
Financial Analysis Summary

- **2H2012**: Identified ~$7M in Aquarion costs that Town-owned water system would not have to pay
  - Revenue from eliminated costs could be ‘re-deployed’
- **Apr 2016**: Court-ordered 31 Dec 2013 price: $88.6M
- **Purchase price estimate** as of Town Meeting 2019: $107.8M
- **Apr 2017**: Aquarion files for 14.7% rate increase
- **Dec 2017**: Aquarion purchased by Eversource for $1.68B
- **Dec 2018**: DPU approves 11.9% increase for SAA ratepayers
  - DPU also approves annual 2% MRAM ratepayer surcharge
Financial Analysis Summary (cont’d)

• **Nov 2018**: Town retained two 3rd-party experts to review Town financial model
  - **Berry Dunn** ➔ Town’s assumption of 10% Aquarion rate increase every three years is “conservative and reasonable”
  - **Andersen Tax** ➔ Town ownership would result in at least $48M in ratepayer savings over 31 years
    ➔ Ratepayer savings would increase by ~$7.4M each year after acquisition debt paid off
Comparison of Ownership Costs

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<th>30-year total</th>
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<tr>
<td><strong>Town operating costs</strong></td>
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<tr>
<td>Including:</td>
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<tr>
<td>acquisition principal + interest,</td>
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<td>capital principal + interest</td>
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| Aquarion operating costs | $576.6 million |
| including:              |
| capital principal + interest, |
| taxes, profit, overhead |

**Difference** $48.3 million*

* w/o MRAM annual surcharge
Acquisition Financing

• Process:
  – Held discussions and meetings with Town Financial Advisors
  – Identified and evaluated options relative to:
    • Type of bond
    • Term
    • Method of amortization
    • Method of sale

• Recommended financing:
  – 1-year short-term note (BAN)
  – 29-year level-payment general obligation bond
10 Jan 2019 Expert Review Conclusions

WCASC Financial Feasibility Criteria:

- Rate-transparent acquisition (acquisition alone would not necessitate a rate increase)
- Establish significant capital reserve upon acquisition
- Replenish capital reserve annually
- Repay all feasibility study costs (including litigation)

All Criteria Met or Exceeded
Continued Aquarion Ownership Impacts

• Taxpayer Impact
  – Hingham Fund Balance not repaid $1.49M

• Ratepayer Impact
  – Tighe & Bond 2017 Survey: $730/year ➞ ~23% > MA average
  – Ratepayer increase per DPU Order effective 1 Nov 2018:
    • Residential: 12.56% ➞ ~$822/year
    • MRAM 2% annual surcharge ➞ ~$127 ratepayer bill increase by 2022 ➞ $857 (17.4%)*
  – Ratepayer increase if Aquarion’s Motion for Reconsideration approved by DPU:
    • MRAM 3% annual surcharge ➞ ~$145 ratepayer bill increase by 2022 ➞ $875 (19.8%)*

* With no assumption of rate-case increase in 2021
Town Ownership Impacts

• Taxpayer Impact
  – No property tax impact
  – Hingham Fund Balance repaid $1.49M

• Ratepayer Impact
  – At least $48M of savings over 30 years from 2019
    • >$7M of additional savings/year starting in 2049
      → over $100M total savings by 2055
  – Increased capital infrastructure investment
    • No 2% or 3% annual ratepayer surcharge starting Sep 2019
Governance and Transition
Governance: Diligence

- Researched state law governance and operational requirements
- Obtained legal advice from Town Counsel
- Reviewed MA Drinking Water Regulations
- Contacted professional water consultant
- Contacted bond counsel in the water-utility space
- Met with representatives from Hull and Cohasset
- Contacted other municipalities and talked with water superintendents in other towns
- Contacted officials at MassDEP
- Reviewed Tighe & Bond 2017 Massachusetts Water Rate Survey
Municipal Ownership and Operation

- Hingham is one of 41 cities and towns in MA with a medium-sized water system (~13,000 connections)

- Every municipality in this cohort except Hingham runs its water system as a department of the municipality (or in 2 cases by the employees of the district)

- We are the only system owned and operated by a for-profit company - Hingham is the outlier

- Most public water systems in Massachusetts provide water to or receive water from other municipalities, including bulk water sales and direct customer service

Source: UNC School of Government Environmental Finance Center and Tighe & Bond MA Water and Wastewater Rates Dashboard; rates as of July 1, 2017, dashboard updated August 28, 2018
Municipal Governance of Public Water Systems

• 38 cities/towns in the 41-town cohort except Hingham govern their water systems through the Executive Branch of government – Mayor or Board of Selectmen (2 water districts elect Commissioners)

• Who are these municipalities? Places like Agawam, Attleboro, Chicopee, Falmouth, Gloucester, Lexington, Needham, Plymouth, Tewksbury, and Weymouth

• Hingham will have two levels of technical expertise in water operations – a licensed Superintendent and a licensed operating company

Source: UNC School of Government Environmental Finance Center and Tighe & Bond MA Water and Wastewater Rates Dashboard; rates as of July 1, 2017, dashboard updated August 28, 2018
Day 1 Structure

Citizen Advisory Board
- Appointed by Board of Selectmen
- Residents from Hingham (3), Hull (1), and Cohasset (1)
- Membership – public record
- Multi-town, public volunteer body subject to Open Meeting Law, Public Records Law, and State ethics rules
- Advise on rate setting and citizen complaints/concerns
- Uncompensated volunteers

Board of Selectmen
As Water Commissioners

Town Administrator

Water Superintendent

Transition and Evaluation Committee
- Appointed by Moderator and Board of Selectmen
- Advise Water Superintendent
- Assist with transition tasks
- Identify and evaluate structural options

Water System Operator

Capital Vendor(s)
Governance: Rate-Setting Process

• Local hearings vs. DPU process

• Significantly greater transparency

• Process for rates, capital, and budget-setting:
  – Recommendations from Water Superintendent
  – Recommendations from Transition Committee (in Year 1) with input from Citizen Advisory Board
  – Recommendations from Water Commissioners (Board of Selectmen) and Advisory Committee to Town Meeting
  – Non-binding Town Meeting vote on rates, capital, and budget
Preparing for Transition

• Met with DEP and other communities which recently purchased their water system

• Engaged former DEP Commissioner to assist Town with transition

• Created Water Superintendent job description

• Requested roll forward of purchase price from Aquarion to 4/22/2019

• Coordinated financial transaction with Town Financial Advisors, Town Bond Counsel, and Town Finance team
Transition

• If Town Meeting votes “yes” on 4/22:
  – Issue Request for Proposal for water system operator
  – Hire Water Superintendent
  – Prepare documents for bond issuance
  – Establish Transition Committee and Citizen Advisory Board

• Aquarion will continue to operate the water system under its legal “good husbandry” obligation

• Town will work with the DEP to complete regulatory transition
WCASC & Board of Selectmen Votes

“The Water Company Acquisition Study Committee recommends that the Town exercise its statutory rights to purchase the water system serving Hingham, Hull, and North Cohasset”

- Unanimous (5-0) affirmative vote, 23 Jan 2019

“The Board of Selectmen recommends favorable action on Articles MM, NN, OO, and PP”

- Unanimous (3-0) affirmative vote, 7 Feb 2019
Warrant Articles

• **MM:**
  – Approve the purchase of the water company (requires 2/3 majority)

• **NN:**
  – Authorize the Board of Selectmen to act as water commissioners (requires majority)

• **OO:**
  – Establish water system Enterprise Fund and budget (requires majority)

• **PP:**
  – Authorize transition costs (requires majority) to be repaid to the Town when acquisition financing is completed
Summary: Why the Board of Selectmen recommends favorable action

- Makes fiscal sense now ... and even greater fiscal sense in the future
- Provides greater ability to protect the watershed
- Enables us to control the management of our water delivery system
- Allows for greater transparency
- Most municipalities own their water system; if they can do it, Hingham can do it

"...the town has introduced electric lighting for the benefit of its citizens, and neither to make money at their expense nor to furnish light at less than cost ..."

-Hingham Municipal Light Board, 1895.