



**Articles MM, NN, OO, PP**  
**Water Company Acquisition**

# **Summary: Why the Board of Selectmen recommends favorable action**

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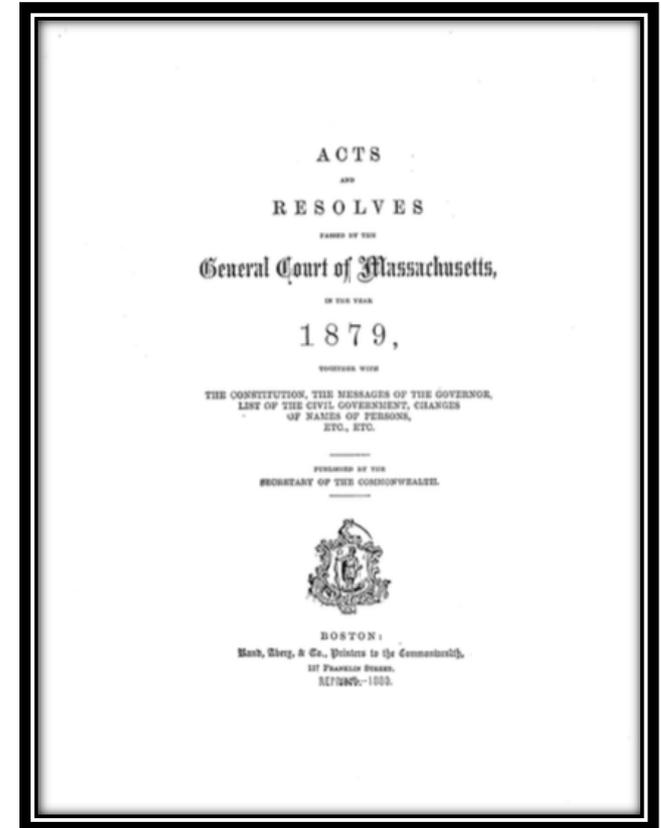


- **Makes fiscal sense now ... and even greater fiscal sense in the future**
- **Provides greater ability to protect the watershed**
- **Enables us to control the management of our water-delivery system**
- **Allows for greater financial and operational transparency**
- **Most municipalities own their 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



- 5<sup>th</sup> 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

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- **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

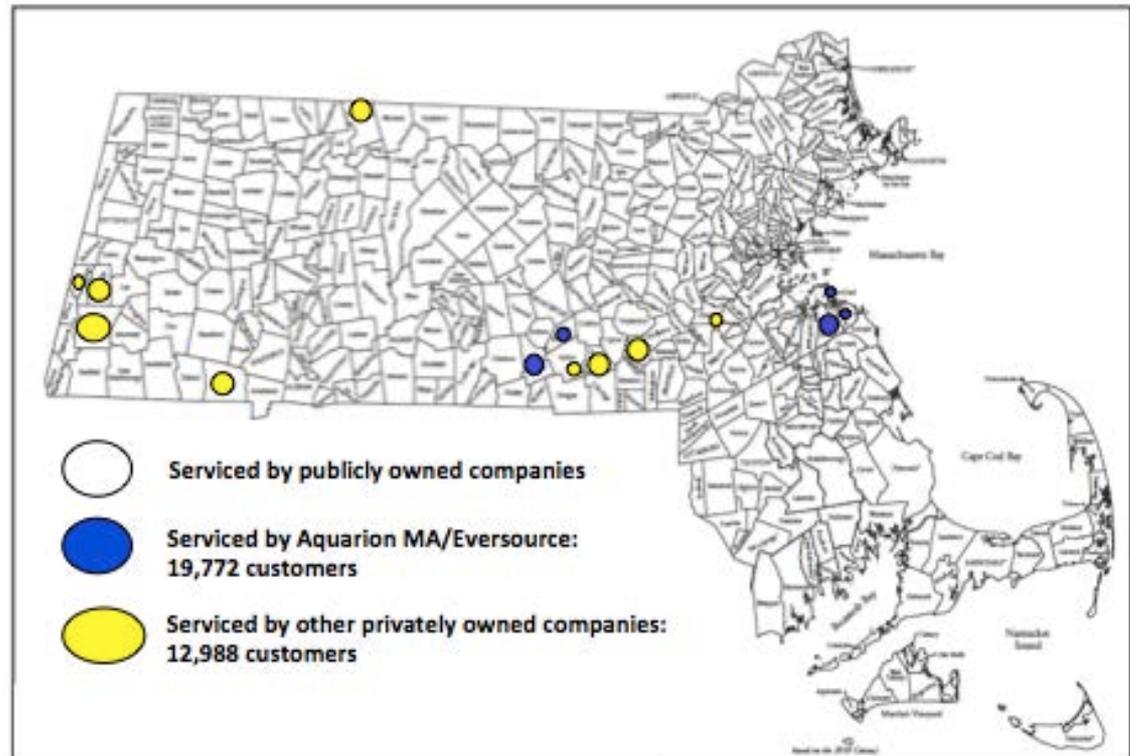
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- **Municipal entities may have higher wage costs due to prevailing wages**
  - According to Andersen Tax, “Impact unclear and likely not material”
- **Municipal entities have lower borrowing costs**
- **Municipal ownership costs are highest in the 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”)**

# What We Learned



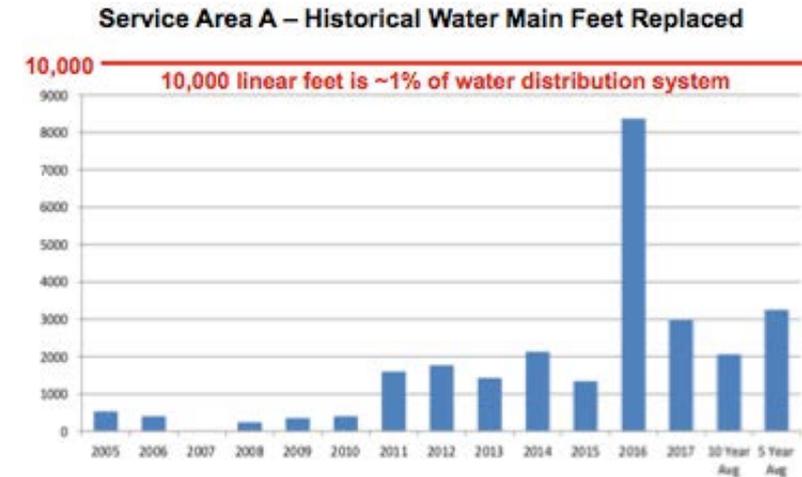
- 96% of MA water systems are run by public agencies
- We are the only privately-owned water system of our size in MA





# 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



Massachusetts  
Department of  
Environmental Protection

(MASSDEP)

MassDEP is responsible for ensuring clean air and water, safe management and recycling of solid and hazardous wastes, timely cleanup of hazardous waste sites and spills, and the preservation of wetlands and coastal resources.

- *Same plant*
- *Same certification requirements*
- *Same operating standards*
- *Same quality requirements and monitoring*



# What We Learned

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- 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

Date	Description	Rate	Hours	Amount
12/19/2017	<b>Public Affairs Consulting</b> Campaign Management: Strategy and tactics planning; call w/ R. Goldstein re: communication strategy; Research: Hingham BOS Meeting agendas and minutes; content for infrastructure story; Hull Special Town Meeting; Grassroots Advocacy; draft emails to supporters re: water issue; calls w/ supporters re: grassroots advocacy tactics; blogging with supporters; political analysis of Advisory Committee; Legislative + Regulatory: Attend Hingham BOS Meeting re: O&M; Complaint; draft email re: Hingham BOS Meeting agenda; monitor Advisory Committee meeting re: "Reserve Fund Transfer". (12/19/2017)	5.25	192.00	1,008.00

**“Political analysis of Advisory Committee”**

12/04/2017	<b>Public Affairs Consulting</b> Grassroots Advocacy: Manage Holiday Party, Advisory Committee grassroots advocacy, and supporter ID phone bank; Grassroots Advocacy: all w/ supporters re: Advisory	2.75	192.00	528.00
12/05/2017	<b>Public Affairs Consulting</b> Research: research open meeting violation timeline; Grassroots Advocacy: calls w/ supporters re: water issues; manage phone bank for AdComm meeting. (12/05/2017)	1.50	192.00	288.00
12/05/2017	<b>Public Affairs Consulting</b> Grassroots Advocacy: Meet with supporter; Discuss Advisory Committee meeting; outreach calls to supporters; re-identify supporters; urge attendance at 12/12 advisory committee (12/05/2017)	5.25	175.00	918.75
12/05/2017	<b>Public Affairs Consulting</b> Prep for and do outreach calls to Hingham allies re: Ad Comm meeting. Review script and materials re: same. (12/05/2017)	3	0.00	0.00

**“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”**

11/20/2017	<b>Public Affairs Consulting</b> Campaign Management: Team meeting re: grassroots advocacy tactics; draft outline for campaign plan presentation for Eversource; call w/ J. Walsh re: campaign plan; Communications: monitor local media outlets; draft grassroots communications; Research + Database: HMLP opposition research. (11/20/2017)	4.25	192.00	816.00
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**“Draft outline for campaign plan presentation to Eversource”**

**“HMLP opposition research”**

11/06/2017	<b>Public Affairs Consulting</b> Grassroots Advocacy: Hingham BOS meeting legislative; meet w/ supporters re: prepare for BOS meeting; draft MA Appeals Court briefing; review and analyze phone bank survey results; manage phone bank logistics; Research + Database: Update campaign database w/ voter contact information; research customer main break complaint; Project Management: meet w/ AWIC team to prepare for BOS meeting; call w/ J. Walsh re: grassroots advocacy, messaging and research; Communications: monitor media outlets re: MA appeals court decision; meet w/ M. Tedeschi re: Hull Times MA Appeals Court Decision questions; Legislative + Regulatory: Draft Takeover Warrant Article approval process memo for J. Hunt; draft grassroots communications. (11/06/2017)	7.75	192.00	1,488.00
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**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**

**Superior Court Final  
Judgment**

**Appeal Court  
Affirmation**

**SJC Denial  
of FAR**

**July 2013**

**April 2016**

**Nov 2017**

**Mar 2018**



**March 2019**



# Post-Litigation Timeline

**Feb – Oct 2018**

**DPU Amended Rate Case**



**Nov 2018 – Jan 2019**

**3<sup>rd</sup>-Party Review  
of Town Financial  
Model**



**Aquarion  
Rate Case  
Amendment**

**February  
2018**



**DPU Rate Case  
Order \***

**October  
2018**



\* 16 Nov 2018: DPU directs Aquarion to make 14 corrections to its tariffs

**March 2019**



# 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
  - 3<sup>rd</sup>-party expert financial model reviews: Berry Dunn + Andersen Tax
  - Financial Analysis, Governance, and Engineering phase summaries



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# 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 **3<sup>rd</sup>-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

	<u>30-year total</u>
<b>Town operating costs</b> Including: acquisition principal + interest, capital principal + interest	<b>\$528.3 million</b>
<b>Aquarion operating costs</b> including: capital principal + interest, taxes, profit, overhead	<b>\$576.6 million</b>
<b>Difference</b>	<b>\$48.3 million*</b>

\* w/o MRAM annual surcharge



# Acquisition Financing

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- **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



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# Governance and Transition



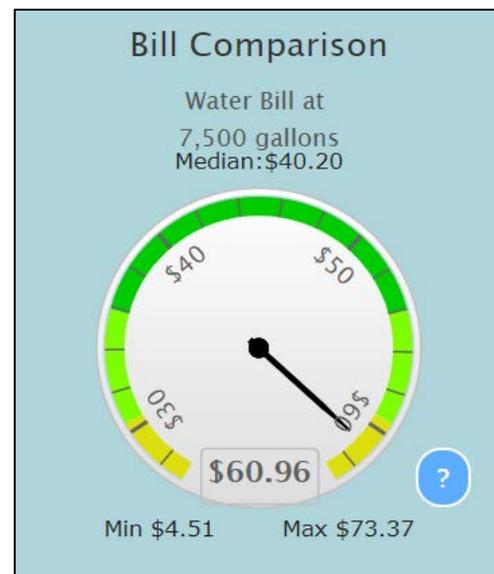
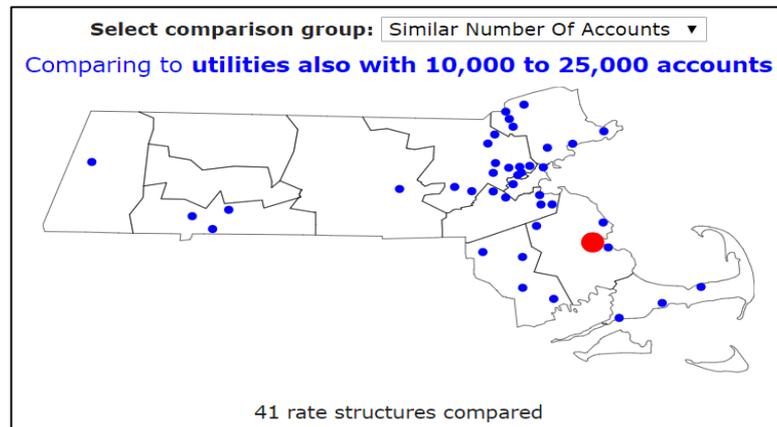
# **Governance: Diligence**

- **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

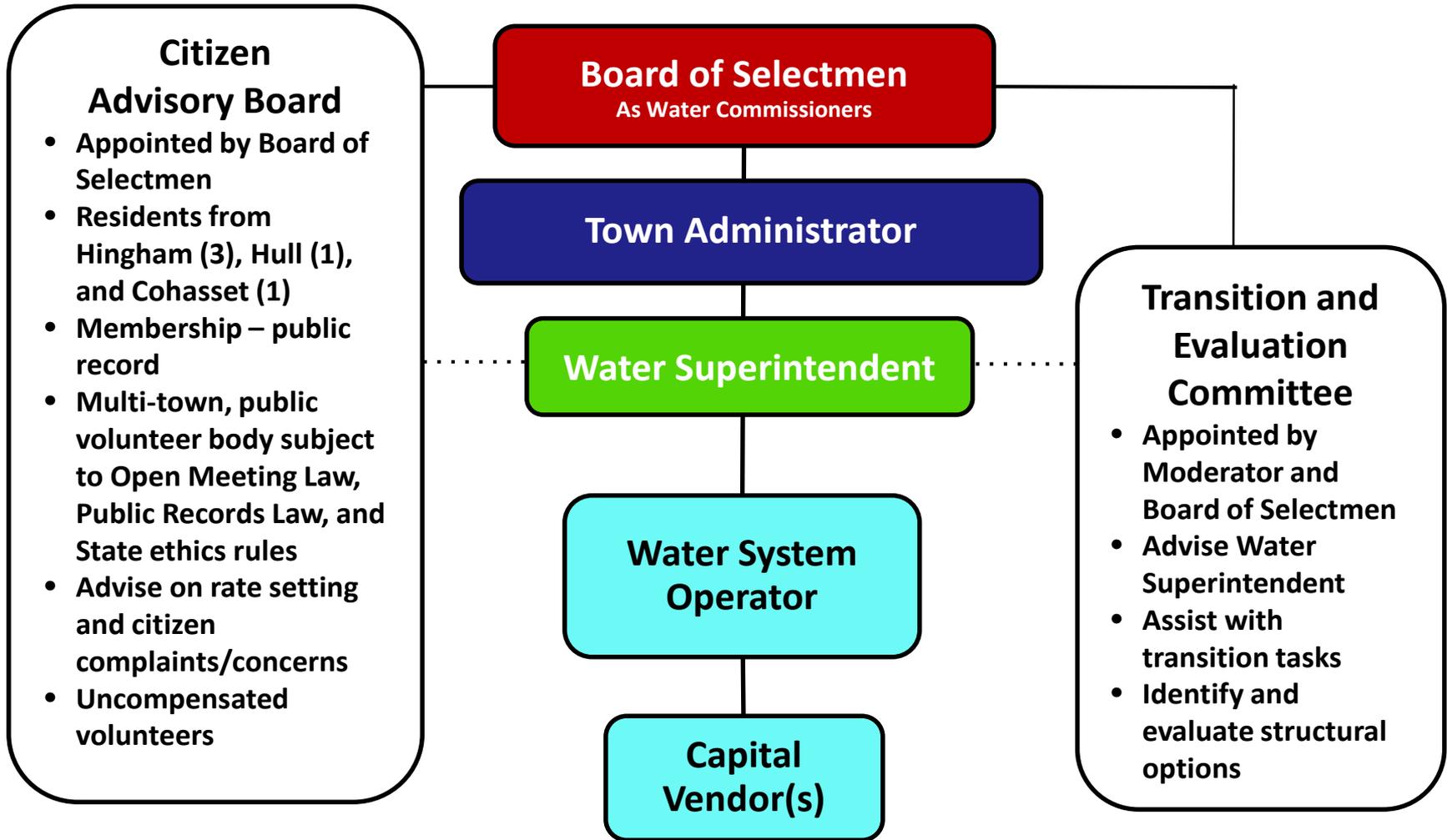




# **Municipal Governance of Public Water Systems**

- **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**

# Day 1 Structure





## **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**

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- **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

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- **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.