Hingham Board of Selectmen

Water Company Acquisition
Public Information Meeting
April 6, 2019
Summary: Why the Board of Selectmen recommends favorable action

- Enables us to manage the delivery system of a critical resource
- Eliminates the shareholder; ratepayers are first and only priority
- Provides greater ability to protect the watershed
- Makes fiscal sense now ... and even greater fiscal sense in the future
- Allows for greater financial and operational transparency
- Does not raise taxes or compete with capital for other projects
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

• Dissatisfaction with the management and maintenance of our water system
  – 5th highest water rates in the state
  – “Break/fix” water main strategy
  – Impact on stressed watershed
  – Lack of coordination with Town roadbuilding program

• Recognition that a private owner’s first responsibility is to its shareholders and not to ratepayers

• Ownership changes after decades of stability
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
What We Learned

• 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”
  – Some streets have been opened more than once
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

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 operating standards
- Same quality requirements and monitoring
What We Learned

• 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)

• Municipal entities have lower borrowing costs
  – Hingham Aaa vs. Aquarion Baa2 ~ 2% or 200 basis points
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 for Aquarion Water Company
  - Aquarion Water Capital also makes a profit (unregulated) by leasing the water treatment plant to Aquarion Water Company
What We Learned

- Municipally-owned water companies are generally funded through an Enterprise Fund – **no direct impact on taxes**

- 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

- Financial savings to ratepayers from Town ownership ~ $1.5 million per year over 30 years
  - Including purchase cost

- After 30 years, annual ratepayer savings ~ $7.4 million per year
  - “Mortgage is paid off”

Savings mean lower and slower rate increases; more money available for capital investment
What We Learned

• Taxes won’t go up as a result of buying the water company
  – Revenues collected will pay all the operating costs including the debt service on the acquisition debt

• Purchasing the water company won’t compete with projects such as Foster School
  – Debt for water company does not “count” against debt limit
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’ve Learned

• Aquarion has spent over $2.7 million in public relations from 2013 - May 2018

* Source: DPU File Room. Excludes expenses identified for Oxford, Millbury
Expense Comparison: Initiation of Feasibility Study through June 1, 2018

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<tr>
<th>Category</th>
<th>Town</th>
<th>Aquarion</th>
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<td>Initial Study</td>
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<td>Litigation: Legal</td>
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<td>$ 2,762,447*</td>
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<tr>
<td>Total</td>
<td>$ 1,471,845</td>
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* Source: DPU File Room. Excludes expenses identified for Oxford, Millbury
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 4/22/19
- 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 & Evaluation 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
Day 1 Structure

Citizen Advisory Board
- Five residents from Hingham (3), Hull (1), and Cohasset (1). Appointed by the Hingham Board of Selectmen with recommendations from the Hull and Cohasset Boards of Selectmen.
- Multi-town, public volunteer body subject to MA Open Meeting Law, MA Public Records Law, and State ethics rules
- Advise on rate setting and citizen complaints/concerns
- Uncompensated volunteers

Hingham Board of Selectmen
As Water Commissioners

Town Administrator

Water Superintendent

Water System Operator

Capital Vendor(s)

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

Relationship with Hull and Cohasset will be memorialized in a memorandum of understanding. Employee and vendor contracts have been incorporated into the Town’s financial model and are supported by water rates.
A Few Words About Water Commissioners

• 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 a water district and the employees of that district)

• 38 cities/towns in this group except Hingham govern the water system through the Executive Branch of government – Mayor or Board of Selectmen (2 water districts elect or appoint commissioners)

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

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

• 10:
  – Approve the purchase of the water company (requires 2/3 majority)

• 11:
  – Authorize the Board of Selectmen to act as water commissioners (requires majority)

• 12:
  – Establish water system Enterprise Fund and budget (requires majority)

• 13:
  – Authorize transition costs (requires majority)
Information Resources

- Hingham-ma.gov: Quick Link to Water Acquisition Documents
  - Presentations
  - Q&A documents
  - Feasibility study documents

- Town Government meetings on Harbor Media
We Can Do Better

- Manage the business with greater transparency
- Fix the mains faster than Aquarion
- Reduce the amount and frequency of rate increases
- Improve coordination with Town Departments
- Ratepayers are first, and only, priority

We are happy to answer your questions