



# **Water Company Acquisition Study Committee**

**Progress Update**

***August 8, 2012***

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# Financial Analysis Progress Agenda

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- **What's been accomplished so far?**
- **What's the financial data analysis revealed?**
- **What are the near-term next steps?**

# Town Meeting 2012 Study Summary



## Phase 1: Financial

- True cost of service
- Value of assets
- Lease analysis
- Debt analysis



GO

## Phase 2: Engineering

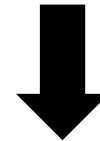
- Infrastructure
- Capital requirements



GO

## Phase 3: Governance

- Structure
- Operations
- Multi-community



**Final Report and Recommendation**



*Terminate study, prepare report*

# What's been accomplished so far?



## Since Town Meeting's affirmative vote on Article 19

- **Board of Selectmen completed appointments in May to Water Company Acquisition Study Committee (WCASC)**
  - 3 former AdCom Chairs: Krumholz, Siegfried, Asher
  - Sewer Commission Chair: Salerno
  - Water Supply Committee Chair: Mullin
- **WCASC has met twice: 30 May & 11 Jul**
  - Adopted *Principles of Operation*
  - Established WCASC web pages of publicly-available documents on Town web site
  - Attended Aquarion financial-detail presentation
- **Phase I: Financial Analysis was initiated**
  - Analyzed previous Town studies and rate-increase filings
  - Began analysis of financial detail provided by Aquarion on 2 Jul

# Financial Analysis: Process Overview

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- **Identified potential opportunities for adjustments to Aquarion expenses assuming municipal ownership**
  - **Derived possible financial valuation options for Service Area A (Hingham, Hull, N. Cohasset)**
- **Validated initial approach with industry and financial professionals**

# Financial Analysis: Two-Fold Focus



- **Costs** which might be removed or added with municipal ownership of Service Area A
  - **Net cost savings re-directed to:**
    - Water-company-acquisition debt-service payments  
and/or
    - Reduced rate of growth in water-rate increases  
and/or
    - Capital improvements
- **Returns** to water company owners assuming both lease and purchase of the WTP
  - Effect of various return-rate assumptions—offset by returns already received—on municipal-ownership cost

# Financial Analysis: Process Detail

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- **Used Aquarion's own numbers as our starting-point**
- **Separately evaluated both continued lease and outright purchase of the Water Treatment Plant (WTP)**
- **Selected two of several possible valuation options for detailed analysis:**
  - **Aquarion's calculations under the 1879 Statute**
  - **1985 Hingham-commissioned report's calculations**
- **Ascertained whether owning the water company would produce any savings**

# Financial Analysis: Return Rate Impact



Possible Service Area A Water System Valuation Options		
		<b>Aquarion Option #3</b>
		<b>Lease WTP &amp; Acquire Distribution System</b>
<b>Asset Original Cost (\$ millions)</b>	<i>(Willamette Vol.#1, p.21)</i>	
Gross Distribution System Plant & Equipment		\$27.974
Book Value of Water Treatment Plant (WTP)	<i>(derived from Vol.#1,pp.21-22)</i>	
Assembled Workforce		\$0.190
Customer Information Database		\$1.720
Property Maintenance Database		\$0.298
Water Testing Records Database		\$0.102
<b>Total Asset Original Cost</b>		<b>\$30.283</b>
<b>Potential Additional Returns To Be Paid to Aquarion</b>		<b>\$63.727</b>
<b>Total Asset Original Cost plus Potential Additional Returns</b>		<b>\$94.010</b>
<b>Less: Dividends</b>	<i>(Willamette Vol.#1, pp.21,22)</i>	<b>(\$9.731)</b>
<b>Total Acquisition Price before Other Corporate Returns</b>		<b>\$84.279</b>
Projected Aquarion Average Annual Rate Increase 2013-2035		5.00%
Projected Aquarion Cumulative Per Cent Increase 2013-2035		214.15%
<b>Cumulative Service Area A Rate Savings 2014-2035 (\$ millions)</b>		<b>\$111.419</b>
<b>Acquisition Financing Assumptions:</b>		
Interest Rate		2.75%
Term: 2014-2033		20 years



# Financial Analysis: Return Rate Impact



<b>Possible Service Area A Water System Valuation Options</b>		
	<b>Aquarion Option #3</b>	<b>1985 Town- commissioned Study</b>
	<b>Lease WTP &amp; Acquire Distribution System</b>	<b>Lease WTP &amp; Acquire Distribution System</b>
<b>Asset Original Cost (\$ millions)</b> <i>(Willamette Vol.#1, p.21)</i>		
Gross Distribution System Plant & Equipment	\$27.974	\$27.974
Book Value of Water Treatment Plant (WTP) <i>(derived from Vol.#1,pp.21-22)</i>		
Assembled Workforce	\$0.190	\$0.190
Customer Information Database	\$1.720	\$1.720
Property Maintenance Database	\$0.298	\$0.298
Water Testing Records Database	\$0.102	\$0.102
<b>Total Asset Original Cost</b>	<b>\$30.283</b>	<b>\$30.283</b>
<b>Potential Additional Returns To Be Paid to Aquarion</b>	<b>\$63.727</b>	<b>\$9.731</b>
<b>Total Asset Original Cost plus Potential Additional Returns</b>	<b>\$94.010</b>	<b>\$40.014</b>
<b>Less: Dividends</b> <i>(Willamette Vol.#1, pp.21,22)</i>	<b>(\$9.731)</b>	<b>(\$9.731)</b>
<b>Total Acquisition Price before Other Corporate Returns</b>	<b>\$84.279</b>	<b>\$30.283</b>
Projected Aquarion Average Annual Rate Increase 2013-2035	5.00%	5.00%
Projected Aquarion Cumulative Per Cent Increase 2013-2035	214.15%	214.15%
<b>Cumulative Service Area A Rate Savings 2014-2035 (\$ millions)</b>	<b>\$111.419</b>	<b>\$181.006</b>
<b>Acquisition Financing Assumptions:</b>		
Interest Rate	2.75%	2.75%
Term: 2014-2033	20 years	20 years

# Financial Analysis: Return Rate Impact



<b>Possible Service Area A Water System Valuation Options</b>			
	<b>Aquarion Option #3</b>	<b>1985 Town-commissioned Study</b>	<b>Aquarion Option #1</b>
	<b>Lease WTP &amp; Acquire Distribution System</b>	<b>Lease WTP &amp; Acquire Distribution System</b>	<b>Acquire WTP &amp; Distribution System</b>
<b>Asset Original Cost (\$ millions)</b> <i>(Willamette Vol.#1, p.21)</i>			
Gross Distribution System Plant & Equipment	\$27.974	\$27.974	\$27.974
Book Value of Water Treatment Plant (WTP) <i>(derived from Vol.#1,pp.21-22)</i>			\$40.243
Assembled Workforce	\$0.190	\$0.190	\$0.190
Customer Information Database	\$1.720	\$1.720	\$1.720
Property Maintenance Database	\$0.298	\$0.298	\$0.298
Water Testing Records Database	\$0.102	\$0.102	\$0.102
<b>Total Asset Original Cost</b>	<b>\$30.283</b>	<b>\$30.283</b>	<b>\$70.526</b>
<b>Potential Additional Returns To Be Paid to Aquarion</b>	<b>\$63.727</b>	<b>\$9.731</b>	<b>\$128.268</b>
<b>Total Asset Original Cost plus Potential Additional Returns</b>	<b>\$94.010</b>	<b>\$40.014</b>	<b>\$198.794</b>
<b>Less: Dividends</b> <i>(Willamette Vol.#1, pp.21,22)</i>	<b>(\$9.731)</b>	<b>(\$9.731)</b>	<b>(\$14.335)</b>
<b>Total Acquisition Price before Other Corporate Returns</b>	<b>\$84.279</b>	<b>\$30.283</b>	<b>\$184.459</b>
Projected Aquarion Average Annual Rate Increase 2013-2035	5.00%	5.00%	5.00%
Projected Aquarion Cumulative Per Cent Increase 2013-2035	214.15%	214.15%	214.15%
<b>Cumulative Service Area A Rate Savings 2014-2035 (\$ millions)</b>	<b>\$111.419</b>	<b>\$181.006</b>	<b>\$17.787</b>
<b>Acquisition Financing Assumptions:</b>			
Interest Rate	2.75%	2.75%	2.75%
Term: 2014-2033	20 years	20 years	20 years

# Financial Analysis: Return Rate Impact



## Possible Service Area A Water System Valuation Options

	Aquarion Option #3	1985 Town- commissioned Study	Aquarion Option #1	1985 Town- commissioned Study
	Lease WTP & Acquire Distribution System	Lease WTP & Acquire Distribution System	Acquire WTP & Distribution System	Acquire WTP & Distribution System
<b>Asset Original Cost (\$ millions)</b> <i>(Willamette Vol.#1, p.21)</i>				
Gross Distribution System Plant & Equipment	\$27.974	\$27.974	\$27.974	\$27.974
Book Value of Water Treatment Plant (WTP) <i>(derived from Vol.#1,pp.21-22)</i>			\$40.243	\$40.243
Assembled Workforce	\$0.190	\$0.190	\$0.190	\$0.190
Customer Information Database	\$1.720	\$1.720	\$1.720	\$1.720
Property Maintenance Database	\$0.298	\$0.298	\$0.298	\$0.298
Water Testing Records Database	\$0.102	\$0.102	\$0.102	\$0.102
<b>Total Asset Original Cost</b>	<b>\$30.283</b>	<b>\$30.283</b>	<b>\$70.526</b>	<b>\$70.526</b>
<b>Potential Additional Returns To Be Paid to Aquarion</b>	<b>\$63.727</b>	<b>\$9.731</b>	<b>\$128.268</b>	<b>\$14.335</b>
<b>Total Asset Original Cost plus Potential Additional Returns</b>	<b>\$94.010</b>	<b>\$40.014</b>	<b>\$198.794</b>	<b>\$84.861</b>
<b>Less: Dividends</b> <i>(Willamette Vol.#1, pp.21,22)</i>	<b>(\$9.731)</b>	<b>(\$9.731)</b>	<b>(\$14.335)</b>	<b>(\$14.335)</b>
<b>Total Acquisition Price before Other Corporate Returns</b>	<b>\$84.279</b>	<b>\$30.283</b>	<b>\$184.459</b>	<b>\$70.526</b>
Projected Aquarion Average Annual Rate Increase 2013-2035	5.00%	5.00%	5.00%	5.00%
Projected Aquarion Cumulative Per Cent Increase 2013-2035	214.15%	214.15%	214.15%	214.15%
<b>Cumulative Service Area A Rate Savings 2014-2035 (\$ millions)</b>	<b>\$111.419</b>	<b>\$181.006</b>	<b>\$17.787</b>	<b>\$164.618</b>
<b>Acquisition Financing Assumptions:</b>				
Interest Rate	2.75%	2.75%	2.75%	2.75%
Term: 2014-2033	20 years	20 years	20 years	20 years

# Financial Analysis: Are there savings?

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- **The analysis to date indicates "Yes"**
  - Savings all calculated over years 2014-2035
- **To continue the current long-term lease of the WTP:**
  - Savings using Aquarion's numbers: \$111,419,000
  - Savings using 1985 report's numbers: \$181,006,000
- **To purchase the WTP:**
  - Savings using Aquarion's numbers: \$17,787,000
  - Savings using 1985 report's numbers: \$164,618,000

# Financial Analysis: Interim Conclusions

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- **Ultimate water system valuation driven largely by rate of return**
  - **There are other possible return-rate options**
    - Willamette Vol.#1, p.2: “Legal Counsel instructed us to use 10 percent.”
- **No financial ‘show-stoppers’ yet**

# Near-Term Next Steps

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- **WCASC and Board of Selectmen:**
  - Perform 'look-ahead' for potential Engineering and Governance 'show-stopper' issues
  - Perform 'look-ahead' for appropriate financial-legal firms
- **Complete Financial Analysis only if look-aheads surface no study 'show-stopper' issues**
- **Maintain ongoing communication at multiple levels with Aquarion/Macquarie executives**



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# BACKUP



## Chapter 139 – An Act to incorporate the Hingham Water Company

**Section 11.** The town of Hingham shall have the right at any time during the continuance of the charter hereby granted, to purchase the corporate property, and all the rights and privileges of said company at the actual cost of the same, together with interest thereon at a rate not exceeding ten per centum per annum, said cost to include all actual loss or damage paid or suffered by said company for injury to person or property, deducting from said cost any and all dividends which may have been paid by said corporation, or at such a price as may be mutually agreed upon between said corporation and the town of Hingham; and the said corporation is authorized to make sale of the same, and this authority to purchase said franchise and property is granted on condition that the same is assented to by said town by a two-thirds vote of the voters present and voting thereon at any annual meeting, or at a legal meeting called for that purpose.



# Annual Town Meeting 2012, Article 19



## Article 19 : Water Company Acquisition Feasibility Study

**Will the Town raise and appropriate, borrow, or transfer from available funds, a sum of money to be used by the Board of Selectmen for professional fees and costs, including, but not limited to, engineering services, financial services, valuation services and legal services, to investigate the feasibility of the acquisition of the corporate property, and all rights and privileges, including the assets of the Town's water company, now known as Aquarion Water Company of Massachusetts and/or affiliated and related companies, pursuant to St. 1879, c. 139, or through any other method of acquisition, including any negotiation or litigation the Board of Selectmen may determine to be necessary, in order to determine whether the acquisition is feasible and advisable for further Town Meeting consideration, or act on anything relating thereto?  
(Inserted by the Board of Selectmen)**