



Water Company Acquisition Study Update

Town Forum

March 2, 2014



What happened prior to the Town's Complaint?

- **April 23rd, 2012**
 - Town Meeting authorized \$320,000 to investigate the feasibility and advisability of Town acquisition of the Town's water company
 - Amended from \$500,000, based on the Board of Selectmen's hope that litigation would not be likely
- **June 25th, 2013**
 - Water Company Acquisition Study Committee recommended that *"although there is still more work to do...the Board of Selectmen take the steps necessary to begin a potential acquisition"*
 - No financial, engineering, or governance 'showstoppers' yet identified
- **Late June, 2013**
 - The Town queried Aquarion's President regarding willingness to negotiate a purchase price
 - No response has yet been received from the Aquarion President



The Town's Complaint

On July 3rd, 2013, the Town filed a Complaint naming Aquarion as defendant

- The Complaint—requesting the court to declare the water company purchase price—is being heard in the Suffolk County Superior Court Business Litigation Session

The issues in dispute include:

- The appropriate calculation and purchase price under the 1879 statute forming the Hingham Water Company
 - Aquarion's July 2012 report to the Town prices the water company and intangible assets at \$184.5M
 - The Town's preliminary analysis of the purchase price pursuant to the 1879 statute: ~\$56M - \$60M
- Whether the water treatment plant—now in a separate holding company—must be sold as part of Hingham's exercise of its rights under the 1879 statute

➔The first Court hearing occurred on October 22, 2013

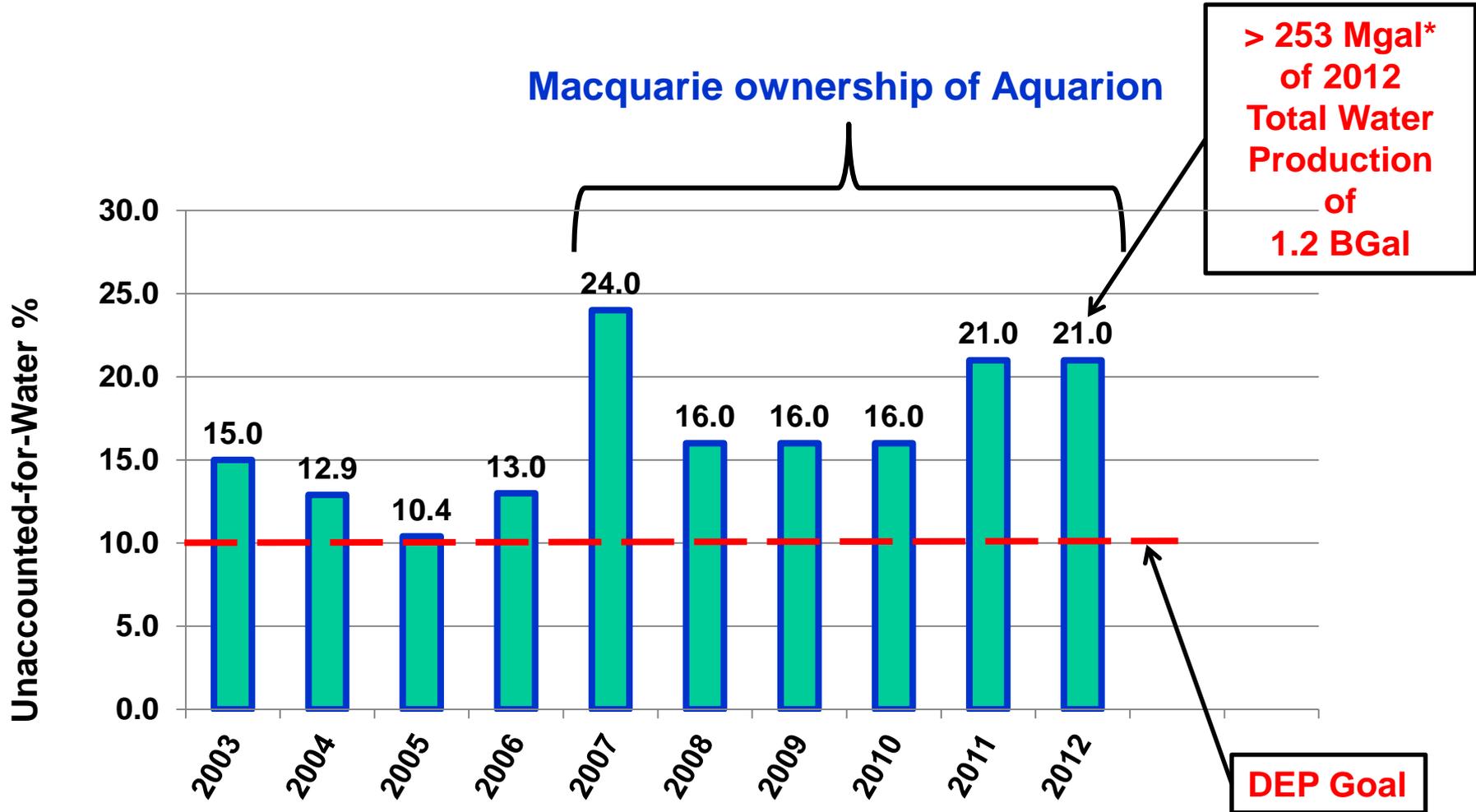


Substantiation of the Town's Position

- **Financial Analysis**
 - **Operating Costs**
 - Three face-to-face meetings with Aquarion, with exchange of financial documents
 - **Purchase Price**
 - Based on analysis by Town volunteers, a water-utility expert, and a nationally-recognized financial valuation firm (Duff & Phelps, LLC), the Town currently believes the ultimate purchase price should be in the range of **\$40M - \$70M**
 - Duff & Phelps is currently completing its analysis, and its Expert Report is scheduled to be produced by April 15th, 2014
- **Engineering**
 - Letter estimate for outsourced operation by a nationally-recognized water-utility outsourcing firm
 - Discussions with two other engineering firms regarding outsourced capital-infrastructure improvement
- **Governance**
 - Amicus brief filed by Town of Hull supporting Complaint
 - Meetings with Hull & Cohasset regarding a mutually-agreeable governance model



The System's Unaccounted-for-Water



*Note: Accord Pond storage capacity is ~523 Mgal



Financial Impact of the Town's Position

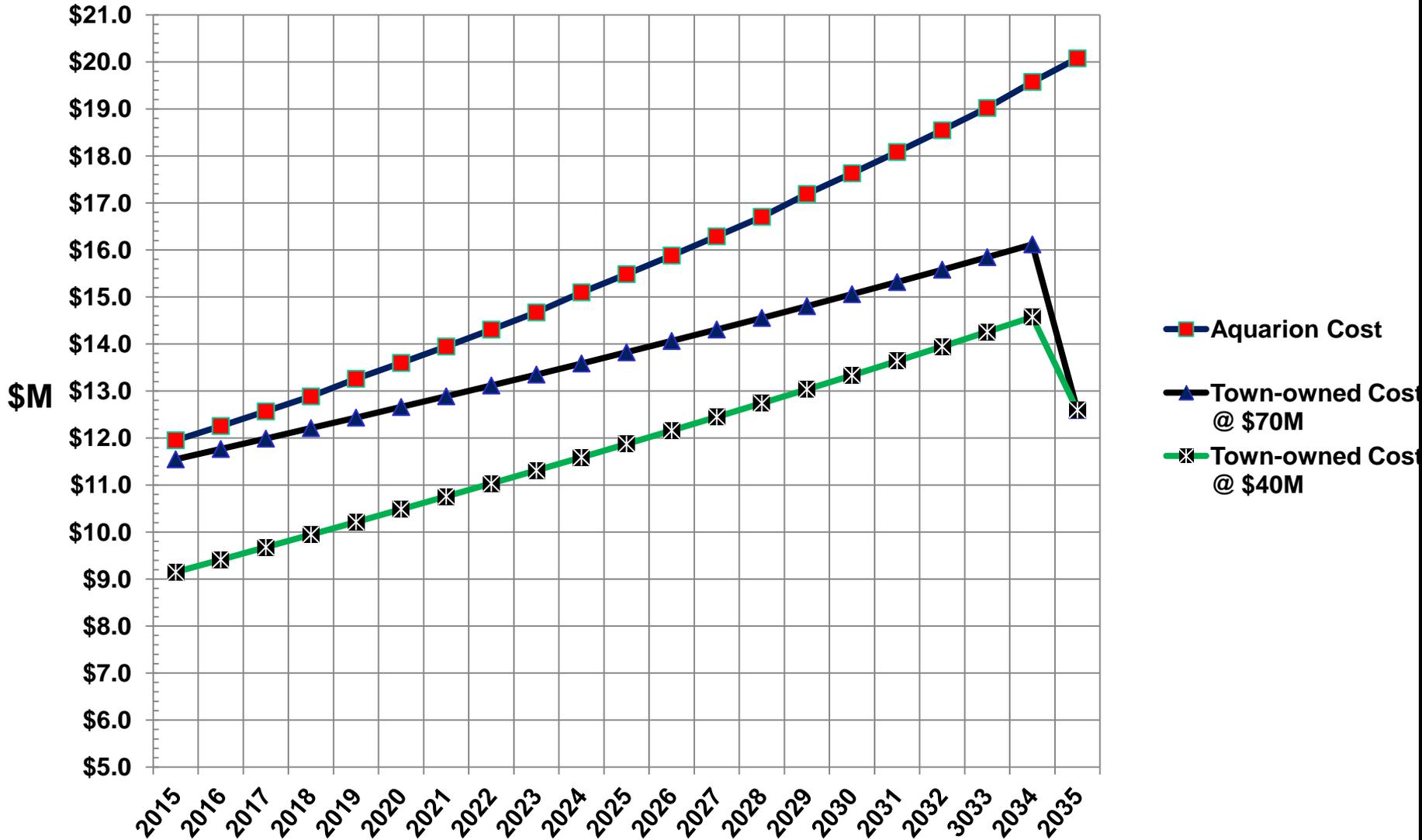
Acquisition Price:	\$40M	\$70M
Cost elimination over 21 years	\$80.8M*	\$41.4M*
Average annual cost difference available for additional system improvements and/or rate adjustments	\$3.8M	\$2.0M

*** Includes:**

- Establishment of a **\$3M** capital reserve
- At least **\$2M** annual capital for system improvements
- Repayment to Fund Balance of all expenses incurred during Article 19 study and Town Complaint



Cost Differential: Aquarion vs. Town ownership





What are the near-term next steps?

- **March 25th, 2014**
 - Conference with the Judge, Suffolk County Superior Court Business Litigation Session
- **April 15th**
 - Town's disclosure of expert witnesses and production of expert witness reports
- **April 28th**
 - Town Meeting consideration of an article funding the Complaint through possible trial
- **May 15th**
 - Aquarion's disclosure of expert witnesses
- **June 30th**
 - Aquarion's production of expert witness reports
- **Post-September, 2014**
 - Trial date to be set by the Court, absent an earlier negotiated settlement
- **Date TBD**
 - If a reasonable price is adjudicated or negotiated, the Board of Selectmen to decide whether or not to put the matter before Town Meeting