WATER AND WASTEWATER PUBLIC PRIVATE PARTNERSHIPS (P3s)

HOW P3s CAN SAVE MONEY, MITIGATE RATE HIKES AND PROTECT THE ENVIRONMENT.

The Challenge

Municipal water and wastewater operations are facing numerous challenges often including:

- Aging and deteriorating infrastructure, some of which may be 50 to 100 years old
- Overall cost increases for chemicals, energy and skilled labor
- Federally mandated Combined Sewer Overflow (CSO) obligations for sewer systems
- Federally required municipal separate storm sewer system (MS4) obligations
- Other, increasingly stringent federal environmental and safety mandates

Unsurprisingly, rate payers and residents have concerns over the rate increases required to address these challenges. At the same time, many Cities are struggling with competing financial challenges. These issues include other, non-utility infrastructure needs, under-funded employee pensions, long-term health care costs, and the desire to make important investments into local economic development initiatives.

A Solution

Communities have generated amounts ranging from tens of millions to hundreds of millions of dollars from the lease or sale of their water and wastewater utilities. In order to reduce future rate hikes for water and sewer services, and to mitigate stormwater fees, hundreds of cities have turned to P3s to deliver water and wastewater services. P3s take many forms and the solutions can be tailored to the needs of each community. Options include operations and maintenance (O&M) contracts, concession-lease agreements, and asset sales. While each structure has advantages and disadvantages, these strategies can be effective at mitigating rate increases, protecting incumbent employees, improving service, preserving utility infrastructure assets, transferring risk, ensuring long-term environmental compliance and maximizing asset value.

TYPICAL CONCERNS WITH UTILITY P3 PROJECTS AND HOW TO ADDRESS THEM

CONCERN	SOLUTION
Potential job losses for existing utility employees	Private partners view existing employees as valuable assets that are needed to run the utility in the future. Projects typically require (a) a no-layoff policy and (b) that private partners hire all of the incumbent employees at comparable wages and benefits.
Unions	Private partners usually have workforces that are already unionized. Projects typically require that private partners recognize existing unions and negotiate with them in good faith.
Rate increases	Many utilities are already raising user rates. While it may be difficult to reduce rates from existing levels, a common goal for a P3 transaction includes future rate mitigation. That is, rates will grow more slowly than they would have without the P3 project.
"Loss of control"	Well-managed projects with strong contracts and contract oversight will actually increase control and transparency. Performance guarantees and financial penalties can also enhance control.
Loss of an existing PILOT or similar subsidy	It is possible to continue making a payment in lieu of taxes (a PILOT) as part of a P3 transaction.

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TYPICAL CONCERNS WITH UTILITY P3 PROJECTS AND HOW TO ADDRESS THEM (CONTINUED)

CONCERN	SOLUTION
Existing debt loads	It is typical for existing utility-related bonded indebtedness to be paid off or assumed.
Ongoing environmental compliance	It is standard for the private partner to assume responsibility for ongoing environmental compliance requirements and agreements, including compliance with all applicable permits.
We already do a good job running our utility – and it makes money	P3s are an opportunity to use economies of scale, global best practices and innovative technologies to do an even better job and become even more efficient.

CASE STUDIES

SCRANTON, PENNSYLVANIA

In 2016, the Scranton Sewer Authority (the Authority) agreed to sell its sewer system to Pennsylvania American Water for $195 million, using the proceeds to pay off about $75 million in existing utility debt. In addition, the project committed about $350 million to customer rate savings over the next 28 years, and provided the system's owners, the City of Scranton and the Borough of Dunmore (combined population of about 85,000), with net proceeds of about $90 million to spend on other priorities. In that project, the acquirer hired all of the incumbent staff at comparable wages and benefits and negotiated a new, multi-year agreement with the employees' union.

FAIRVIEW TOWNSHIP, PENNSYLVANIA

In 2015, the Township sold its wastewater system (4,000 customers) for $16.8 million. The transaction facilitated a multi-year rate freeze, a 50 percent property tax cut starting in 2016, a 50 percent reduction in tap-in fees, and it helped avoid $14 million in additional debt for planned projects. No employees were laid off, and the acquirer invested $13 million in system improvements and reimbursed a $1 million cost to relocate a sewer line adjacent to the Pennsylvania Turnpike.

WESTFIELD, INDIANA

In 2012, the City of Westfield, Indiana, a 32,066-person community near Indianapolis, sold its water and wastewater assets to the Citizens Energy Group (Citizens), a local nonprofit public charitable trust that serves as the regional gas utility. The $91 million transaction allowed the City to pay off all of the utilities' $45 million in debt, reduce user rates from projected levels, and produce a $46 million net payment that the City spent on other local infrastructure improvements. Citizens retained all of the Westfield Utilities staff and offered them new positions. Along with lower utility rates, residents also benefitted from an additional revenue stream of about $2 million per year in property taxes that Citizens paid.

INDIANAPOLIS, INDIANA

In 2011, the City of Indianapolis completed the transfer of the community's water and wastewater utilities to Citizens Energy, a local nonprofit public charitable trust that serves as the regional gas utility. The wastewater system is operated by a third-party partner, United Water. The transaction was valued at $1.9 billion and generated $400 million in net proceeds that the City used to fund other non-utility infrastructure improvements. All of the existing debt was assumed or paid off and all employees were hired at comparable wages and benefits. The acquirer assumed responsibility for future environmental compliance.

OTHER TRANSACTIONS

Other water and wastewater P3 transactions from across the country include Rialto, California (30-year concession); Allentown, Pennsylvania (50-year lease concession agreement with an up-front payment of $220 million); Camden, New Jersey ($2 million in savings over a 20-year contract); Danville, Virginia ($807,000 in savings over a 10-year contract, including eliminating an 8.5 percent rate increase); Bessemer, Alabama (15 percent reduction in costs); Easton, Pennsylvania ($660,000 in savings over 10-year contract); Gardner, Massachusetts ($1 million savings in the first year, estimated at $11 million over 20 years); and Milwaukee, Wisconsin ($140 million in savings over the 10-year contract with an initial rate decrease of 16 percent).