

MEMORANDUM

TO: Andrew Morosky, P.E. , Director of Public Works
FROM: Christopher Woodcock
DATE: June 26, 2013
SUBJ: Sale of Town Water System

We understand that the Town of Bethel is considering the sale of its municipal water system to the Aquarion Water Company (Aquarion) and has asked for an independent review of the Town’s analysis of the potential impact on the water rates. The analysis we were provided included a projection of the average residential water bill under continued Town ownership with the average water bill under ownership by Aquarion.

The recent past and the projected water bills under the two ownership scenarios were:

(Based on Consumption of 18,000 Gallons per quarter)

<u>Year</u>	<u>Bethel – Approved Water Rates</u>	<u>Bethel Rates Including \$4.5M Additional Capital</u>	<u>Aquarion Rates</u>	
2007	\$ 172.55	\$ 172.55	\$ 449.75	
2008	\$ 203.00	\$ 203.00	\$ 449.75	
2009	\$ 203.00	\$ 203.00	\$ 449.75	
2010	\$ 203.00	\$ 203.00	\$ 502.57	
2011	\$ 203.00	\$ 203.00	\$ 502.57	
2012	\$ 274.05	\$ 274.05	\$ 513.82	
2013	\$ 369.97	\$ 369.97	\$ 369.97	*
2014	\$ 462.46	\$ 557.46	\$ 462.46	*
2015	\$ 485.58	\$ 580.58	\$ 485.58	*
2016	\$ 500.15	\$ 595.15	\$ 534.00	**

Note: Aquarion rates for 2007-2012 are for their Southern and Eastern Divisions; applies to more than 80% of Aquarion customers.

* Aquarion rates for Bethel Municipal Water System customers.

** Assumes a 10% rate increase following capital improvement program.

Woodcock & Associates, Inc. provided an analysis of the Town’s water and sewer rates in January 2011. That analysis included projections for the Town’s water rates through fiscal year (FY) 2015 that have served as the basis for rate increases since that report. More recently, the Town has identified an additional \$4.6 million of capital improvements necessary for the water system. To fund these improvements, it is expected that the Town would issue long term (20 year) bonds at an annual average interest rate of approximately 3.25%.

To estimate the average annual water bill under continued Town ownership of the water system, the Town started with the rates we had projected in 2011 and added a 3% increase for FY 2016. Next, an additional \$95 per year was added beginning in FY 2014 to reflect the cost of bonding the \$4.6 million of improvements to the rates we had projected in 2011.

Based on our review, we believe the analysis and projections of the annual residential water bill under Town ownership are reasonable. Specifically:

- We have reviewed our prior rate projections and believe the projected increases are still appropriate.
- We have calculated the impact of the additional bonding costs and believe the additional \$95 per year is a reasonable estimate of this cost.
- We believe the additional 3% increase in FY 2016 is a reasonable estimate.

Next we reviewed the annual water bills under ownership by Aquarion. The rates under ownership by Aquarion have been provided by and reviewed by representatives of the Company¹. We understand that the Company has agreed to charge the same rates that the Town would have charged² for 2013 through 2015. Because the Company would undertake the capital program outlined by the Town, they have assumed a 10% rate increase in 2016.

The analysis provided to us and the representations of the Company indicate that there would be no impact on customer's water rates through 2015 since the Company has agreed to charge the same rates that the Town would assess. The Company has projected a 10% rate increase in 2016 to reflect the increased costs of the Town's capital plan. We have no way of checking or validating this increase and have accepted the Company's projection. If the Town goes forward with the \$4.6 million of needed construction projects, it appears that the rates under Aquarion ownership may be substantially less in 2016

We note that the analysis only reflects the impact on average residential water bills. The analysis does not reflect additional considerations, including:

- added property tax revenues that would be paid to the Town by Aquarion. We understand these are estimated in the range of \$100,000 - \$125,000 per year.
- income tax implications. While not a direct benefit to the Town, the Company would also have additional state and federal income tax payments that could provide a small, indirect benefit.

¹ The Aquarion Water Company filed for an increase in rates on March 28, 2013 with the Connecticut Public Utilities Regulatory Authority (PURA). If granted, the requested increase would become effective in September 2013 and would increase the average water bill nearly \$100 per year or 18.3%. Because it is not known what increase will be granted by the PURA, this requested increase was not considered in the Town's analysis.

² These are the rates that were provided in our January 3, 2011 memorandum to the Town.