

PUBLIC UTILITIES COMMISSION

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Information concerning Aquarion Water Company proposal

By now most Bethel residents are aware that the Public Utilities Commission and Board of Selectmen have voted to recommend selling the Bethel water department to Aquarion Water Company. The following question and answer guide was written to provide you with details concerning the recommendation.

A public hearing to hear questions concerning this proposal will be held on Monday,, July 8th in the Bethel High School auditorium beginning at 7:00pm.

Please remember: Even though the sale will only directly affect the rate paying customers of Bethel water department, it can only be approved by all of the voters of Bethel via referendum (date to be determined). No sale can take place without approval by our residents. We strongly encourage all Bethel residents to attend this public hearing.

Why did the B.O.S. and P.U.C. recommend selling the water department?

In short, because we believe Aquarion has the ability to provide Bethel's 3,408 water users with better service at lower rates over the long term than the town can provide by itself.

Bethel is not alone. The state of Connecticut is currently served by over 500 independent public and private water operations. It is impossible for them to operate as cost effectively as larger regionalized systems can. Smaller operations around the state have been regionalizing in this manner for years.

Our water system needs immediate upgrades in order to meet new state health standards, improve water volume for adequate fire protection and replace older wells that are no longer working properly. The costs of these upgrades would force the town to borrow millions, adding to the two-million dollar debt the department still owes. Selling the department would provide immediate debt relief as well as begin work to improve water supply.

We also believe all town residents will benefit from the financial advantages of selling. The sale would repay the water department's \$2 million debt plus interest still owed to the town's general fund. It would relieve the need for millions in new borrowing and boost the town's financial reserves, making it more likely for the town to earn an upgrade in its bond rating in the future.

The significant cost factors include the following:

- **Water volume:** The capacity of our system is stretched to its limit. There are numerous locations where water pressure is weak and can be easily disrupted, inconveniencing residential and business users and putting fire safety at risk. At least one new high volume storage tank is needed to address this problem at a cost over one million dollars, and a second tank will be required in the future to balance water demand throughout the system.
- **Economic development:** In order to hold down the rise in our residential property taxes, Bethel must attract more commercial development. At present our water supply is insufficient to support further development of Bethel's Clarke Business Park.
- **Danbury's refusal to allow Bethel's water tank:** Both of the problems noted above could have been solved if the city of Danbury had not repeatedly blocked Bethel's plan to build a 750,000 gallon storage tank on Bethel's Eureka Lake property on Long Ridge Road in Danbury. Aquarion will not be subject to the same protracted approval procedures and will most likely be allowed to build the tank. Additionally, over the long term, the company could use its ability to interconnect Bethel with the larger network to better serve Clarke Park.
- **Need for new wells:** Some wells that serve Bethel are nearing the end of their useful life span, as reported by independent inspectors. In addition, new water quality standards are making it increasingly costly to purify surface water from reservoirs. Aquarion will invest in new wells and begin taking the reservoirs off line as soon as the wells are operational.

What the sale would mean to Bethel:

- Upon completion of the sale, Aquarion would begin developing new wells to replace older wells that are no longer producing adequate water volume.
- Immediate repayment of the approximately \$2 million debt plus interest owed by the water department to the town's General Fund.
- Over the next few years, decommissioning of reservoirs as a source of drinking water as new wells are brought online, freeing use of these bodies of water for expanded recreational use by Bethel residents.
- New tax revenue for the Town of Bethel. In taking ownership of the system, Aquarion would begin paying about \$110,000 in property taxes per year.

Aquarion Water Proposal Question and Answer Guide

Q: How much would the sale be worth?

A: If approved at referendum, the water system would be sold for \$7.2 million dollars.

Q: Is the price negotiable?

A: No. Even if approved by Bethel voters, it will still need approval by state regulators. In order to prevent bidding wars that drive up water rates, regulators will only consider a sale at the book valuation. Bethel's auditors have reviewed the purchase agreement and have issued an opinion that the department's book valuation of \$7.2 million is accurate.

Q: Was the proposal put out for a competitive bid? If not, why not?

A: No, the proposed sale was not put out to bid. First, as noted above, because utilities are regulated by the state, competitive bidding would not result in higher revenue for Bethel. Second, Aquarion is the largest supplier in New England and the only regional supplier in our area, currently serving 47 communities in Connecticut, as well as towns and cities in Massachusetts and New Hampshire. It makes sense to work with the supplier that has the financial and engineering resources to meet Bethel's needs.

Q: What would be included in the sale?

A: The sale would include the assets and infrastructure of the operation, including all pipes, pumps, purification and treatment facilities and maintenance equipment. Due to state public health regulations, it would also include real estate that is part of the water supply plan that on file with the state. However, the contract requires the real estate surrounding the reservoirs to be returned to town ownership as new wells are drilled and the reservoirs are no longer needed.

Q: What is NOT included in the sale?

A: The sales does not include "all of Bethel's water," nor would Bethel be "selling off its natural resources." Aquifers are strictly regulated by the state departments of environmental protection and public health. The same regulations that currently apply to Bethel's water department would also apply to Aquarion.

Q: What has to happen for the sale to take place, and who decides?

A: The decision will be made by voters. A town meeting is required, but the Board of Selectmen feel that the question should be adjourned to a town-wide referendum and will recommend such at the town meeting. A public hearing has been scheduled for July 8th at BHS to provide a forum for questions.

Q: Who will be present at the public hearing to answer questions?

A: All members of the Public Utilities Commission will be present along with Mr. Kozlowski, town Comptroller and Mr. Morosky, Director of Public Works and Town Engineer, as well as senior officials

from Aquarion Water Company. Representatives from the state Department of Energy and Environmental Protection and Department of Public Health will also be invited to send representatives to answer questions.

Q: If approved by Bethel voters, when would the sale take place?

A: The sale would take approximately three to six months to complete, as it would be subject to approval by the state Public Utilities Regulatory Authority (PURA) and the Department of Public Health.

Q: What impact will the sale have on Bethel water rates?

A: The simple truth is Bethel's water rates must increase no matter who owns the system. Throughout most of the last decade, Bethel was not charging enough to cover its basic operating costs, nor setting aside funds for repairs or upgrades, causing the system to go deeply into debt. In 2011 the P.U.C. approved rate increases to be phased in over a five year period, shown below, to stop the red ink:

Year 1 35% (Jan 2012, now in place)

Year 2 35% (Jan 2013, now in place)

Year 3 25% (Jan 2014)

Year 4 5% (Jan 2015)

Year 5 3% (Jan 2016)

Aquarion plans to follow this same schedule, subject to PURA approval (which is expected).

Q: But if our own rates are going up anyway, can't Bethel keep its water operation and run it at the same cost?

A: Unfortunately, it does not appear possible for the town to operate the system and perform the necessary upgrades at the same cost. As a regional supplier, Aquarion has economies of scale that no small supplier can match. The company has technical expertise that Bethel would have to hire out to private contractors, and they can spread the cost of upgrades over their regional network. When the costs of heavy borrowing and contracted engineering are factored, Bethel's rates would have to go higher than Aquarion's current rates.

Q: Would selling the water system have a negative impact on Bethel's grand list?

A: No, in fact it will have a positive impact. The value of the system is already included in the grand list, but it generates no tax revenue because it is owned by the town. If acquired by Aquarion, the company will pay property taxes on the equipment and real estate.

Q: How much would Bethel realize in new tax revenue from Aquarion?

A: Approximately \$110,000 per year.

Q: What would happen if Bethel chose not to proceed with the sale and instead continue operations as they are?

A: In the short term, the town would need to sell bonds in an amount between \$4 million to \$6 million to cover the immediate costs of infrastructure upgrades and building new storage tanks. These costs would need to be factored into the water rates to be paid by Bethel customers (Please note this includes only customers of Bethel water department, not water users in Stony Hill, which is separate).

But the costs noted above reflect only the most urgent upgrades that are currently known. A more comprehensive long term capital plan is needed, and its cost is unknown. The expense of replacing failing underground water lines, as we've seen in the case of the Bethpage water system failure a few years ago, runs at \$200 to \$300 per foot, or up to about one million dollars per mile.

Although selling bonds to cover these costs would need to be approved by a town wide vote, the cost of that borrowing would be assessed only to Bethel water users, pushing their rates higher.

Q: Would this affect the Stony Hill water systems (Berkshire Office Park and Chimney Heights systems)?

A: No, the Berkshire Office Park and the Chimney Heights systems are already owned and operated by Aquarion, following its acquisition of United Water Connecticut, Inc. in 2012. Aquarion also owns and operates the Meckauer system.

Q: Would Aquarion purchase the real estate associated with the water department?

A: Yes. The real estate immediately surrounding the well fields and reservoirs would be transferred as part of the sale. This is due to the Connecticut Department of Public Health requirement that each water supplier own the real estate immediately surrounding the source of the water it delivers. However, as mentioned above, the reservoirs will be taken off line as soon as new wells are on line and will be transferred back to Bethel ownership at no charge.

Q: During the time the reservoir lands are owned by Aquarion, would Bethel residents still be allowed access for recreational purposes?

A: Yes, Bethel residents will still be allowed to use the property for most recreational purposes, subject to state public health regulations as well as Aquarion security policies necessary for the protection of the residents of Bethel, the public water supply and the associated critical infrastructure.

Q: Would the sale affect the Bethel sewer department?

A: No, operations of the Bethel sewer department would continue as they are today under the authority of the Bethel Public Utilities Commission. Sewer rates will not be affected.

Q: Will any Bethel water department employees be affected?

A: Yes. Three positions within the water department will be eliminated. However, as part of the purchase agreement Aquarion will hire any displaced town employees for a minimum of one year.

Q: Is there a danger of pumping too much water out of the aquifer?

A: No. The volume of water derived from aquifers is strictly regulated, regardless of whether it is delivered by the town of Bethel or by a private water company.

Q: How would the proceeds of the sale be used?

A: The first priority is the immediate repayment of the \$2 million debt owed to the general fund plus its associated interest. Following that, some of the funds would be used to dismantle and remove the unused Hickok storage tank and two abandoned pump stations, which have become eyesores and liability problems in recent years. The contract then calls for the remaining funds to be put into an escrow account for a period of three years as an allowance against unanticipated legal or technical claims. Following that time period, disposition of the funds would need to be determined by vote by the appropriate elected boards. One recommendation is to create a “windfall revenue” policy, which would restrict one-time revenues of this nature for use only on capital projects that benefit the entire town and are subject to town-wide referendum.

More questions? Please attend the public hearing on Monday, July 8th at Bethel High School beginning at 7:00pm.

To read the full text of the asset purchase agreement, please visit the town website: www.bethel-ct.gov

To learn more about Aquarion Water Company, visit their website at: www.aquarion.com