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SOUTH ORANGE
WATER UTILITY TASK FORCE

Report of Findings

November 20, 2023
(Revised July 30, 2024)

Report of Findings

Table of Contents

1. Water Utility Task Force

On September 12, 2022, the South Orange Village President adopted Resolution #2022-VP04, *Village President's Appointment Resolution Designating Members of a Water Utility Task Force*. See Exhibit 1.

The Village President formed the Task Force to:

> …evaluate the most efficient and cost-effective structure to deliver high-quality and safe water to the residents and stakeholders in South Orange and, in performing that evaluation, to consider (without limitation) capital investments, consequential water rate(s), staffing, operations, maintenance, alternative ownership structures and potential sale of the utility to a private regulated utility

The Task Force is comprised of South Orange elected official, employees, and volunteers:

Elected Officials

- Sheena Collum, Village President
- Bill Haskins, Trustee
- Steven Schnall, former Trustee (Alternate Member)

Village Employees

- Julie Doran, Village Administrator
- Howard Levison, Village Water Utility Administrator
- Ellen Foye Malgieri, Village Tax Assessor & Purchasing Agent
- Chris Battaglia, Village CFO
- David Battaglia, Village Engineer
- Walter Clarke, Recycling Programming Aide

Volunteers

- Douglas Newman, Task Force Chair
- Kirk Barrett
- Clifford Pomerantz
- Victoria Pivovarnick (replaced John Signorello), Seton Hall University

2. Executive Summary

The Task Force was established to examine, analyze, and recommend action on the continued operation and maintenance of South Orange Village's Water Utility (the "Water Utility"), including the feasibility and/or desirability of selling it. This largely was precipitated by New Jersey American Water ("NJAW"), which contractually supplies water and performs Operations and Management ("O&M") for the Water Utility, after it indicated it does not intend to continue offering its O&M services after the July 2026 expiration of its O&M service

agreement with the Township of South Orange Village (the "Village"). [Its water supply agreement's term ends in 2045 and automatically renews for two successive 15-year terms to 2075.]

The Water Utility supplies water to all of South Orange, including Seton Hall University, under two agreements with NJAW. One is for the *water supply* of roughly three million gallons a day. The second is for the *O&M* of the system with billing and collections sub-contracted by NJAW to a third-party supplier.

With the understanding the present operation cannot continue as is, after 2026, the Task Force assessed alternatives and how they would impact the Village. Task Force members:

- Researched the experience of other New Jersey municipalities that had sold their water systems to gauge their practical experience;
- Researched the New Jersey regulatory framework for selling a municipal water system;
- Held informal discussions with regulated water companies regarding their acquisition processes; and
- Engaged Remington & Vernick Engineers' Water & Wastewater Division ("RVE") to investigate the implications and costs for three alternative O&M scenarios, if the Village retains ownership of its water system:

    1. Outsourcing O&M to a third-party;
    2. Providing in-house O&M by Village personnel; and
    3. Hybrid of the first two scenarios, utilizing Village personnel and third-party contractors.

    In all three scenarios, it is assumed NJAW will continue to supply water under its long-term agreement with the Village, at least through 2075.

Based on its work and RVE's findings, the Task Force recommends the Village:

1. Hire a Water Utility Assistant Administrator to ensure adequate resiliency and succession planning.[1]
2. Postpone Capital Improvement Plan projects, except those truly essential during next 2-3 years or mandated by NJ.
3. Solicit bids for a third party to continue providing outsourced O&M services to the Water Utility (Option 1, Scenario 1).
4. Determine whether to use a public referendum or Water Infrastructure Protection Act (the "WIPA") sales process and pursue sale of the Water Utility (Option 2) to a BPU-regulated water company.
5. Evaluate and compare qualified bids for both retaining ownership of the water system and outsourcing O&M services versus selling the water system.
6. Select and implement the optimal option for the Village.

[1] Assistant Administrator also will support soliciting bids for O&M services and the Water Utility's sale and then transitioning to new provider(s).

3. Description of South Orange Water Utility

A. Organization & Leadership

The Village, at the expiration of its 20-year outsourced water system agreement with the East Orange Water Commission (the "EOWC"), which had provided all water services to the Village, issued a Request for Proposal/bid specification for both its future bulk water supply and O&M services – to operate under the management control of the Village.

New Jersey American Water was the successful bidder to provide both bulk water for up to 60 years and O&M services for 10 years.

A part-time Water Utility Administrator was employed to serve as the liaison between the Village and NJAW and oversee all capital improvement initiatives. The Water Utility also is supported by 1.25 full-time equivalent Village employees from Administration, Finance, Purchasing, Clerk, Legal, Public Works, and Engineering.

In addition, the Village maintains a professional service agreement with HDR, Inc., a consulting engineering firm, to provide design, planning, engineering, and implementation support for Capital Improvement Plan (the "CIP") projects and projects resulting from emergent conditions. These projects adhere to purchasing procedures, Board resolutions, and capital ordinances.

B. Water Supply

The Water Utility water source is obtained from NJAW under a NJ Board of Public Utilities ("BPU") regulated bulk water purchase agreement, requiring payment for a minimum of two million gallons of water per day (gpd) and a maximum draw of 3.6 million gallons per day ("mgd") – and averaging 1.8 - 2.8 mgd. Under emergency conditions, the Village has interconnect agreements with EOWC and a NJAW connection at West Orange, that could provide supplemental water.

Delivered but unbilled/non-revenue water currently averages 30%-45% of water purchased from NJAW. Major initiatives are underway to reduce this to 15%.

The January 2015 NJAW bulk water purchase agreement was amended in 2017, 2018, 2020, and 2021, and extends for 30 years from its initial service delivery effective date, August 2016, and includes two successive, automatic 15-year renewal terms to 2076.

C. Operations & Maintenance (O&M)

NJAW provides all day-to-day, emergency repair/replacements, preventive maintenance, customer service, billing and collection services under a fixed-price (with annual CPI increases), 10-year July 2016 agreement that expires in July 2026.

D. Physical Plant

The Water Utility is a three pressure-zone system, comprised of distribution mains, valves, dual-fed local pipes of varying size, fire hydrants, and pressure relief valves (PRV's).

Each pressure zone has a water storage facility (i.e., Reservoir – Low-pressure Zone, Crest Drive Standpipe – High-pressure Zone, and Brentwood Sphere – Mountain Zone) that provides system pressure, a fire-fighting emergency supply, and peak demand water.

E. Current Capital Improvement Plan

The CIP is multi-faceted, including improvements mandated by NJ statute and others to meet the Village's strategic initiatives of reliability, redundancy, resiliency, and preventive maintenance. See Exhibit 2.

F. Lead Service Line Identification and Replacement

Under enacted and pending NJ statutes, including P.L.2021, c.183 and P.L.2021, c.184, lead water service line identification and replacement have become a priority mandate for NJ water systems. The Water Utility currently is implementing a combination of the following:

a. Identification of lead service lines
Statutorily to be completed by October 2024, lead and galvanized service lines are being identified through:
- Water meter replacements – Ongoing Advanced Meter Infrastructure (AMI) replacement program reports customer water service line material.
- Certificates of Continued Occupancy (CCO) – When properties are sold, CCO inspections determine if a property' water supply lateral line (i.e., curb box valve to water meter) is lead/galvanized.
- Water Utility-side lateral replacements – Customer-side water supply lateral line is exposed with hydro-excavation and may be identified as lead/galvanized.
- Main repair/replacements – Exposes customer-side supply lateral lines at the curb box valve and determines if it's lead/galvanized.

b. Replacement of lead service lines
Statutorily to be completed within 10 years, by January 2033, at least 10% annually of identified lead/galvanized service lines.
- Water Utility-side replacement – Current policy is to replace identified lead/galvanized lines as capital expense
- Customer-side replacement – Proposed to be required by local ordinance, pending policy decision. Replacement cost recovery options under consideration:
  - Property owners
  - Property buyers, with escrow hold-back at sale
  - Village special tax assessment using 30-year bonds

c. Customer-side replacement installation alternatives

- Village's plumbing contractor, based on public bid
- Property owner's plumber with Village permit

d. Service line replacement estimated cost: $10.8 million

- Water Utility-side – $7.2 million = 600 locations (15% of 4,000 locations) @ $12,000 each
- Customer-side – $3.6 million = 450 locations (4,500 customers @ 10% incidence) @ $8,000 each

G. Major Issues

After 25 years without capital improvement investments, the Water Utility has been restoring, updating, and modernizing its aging water system infrastructure to a maintainable level, while providing ongoing planned maintenance.

H. Water Utility Debt

The Water Utility finances its CIP with long term serial bonds, short-term bond anticipation notes ("BAN's"), and NJ Infrastructure Bank Loans. As of December 31, 2023, $23 million of Water Utility debt will have been authorized and $16.6 million of it will have been spent or encumbered.

Here's the status of projected spending and encumbered funds anticipated through 2023 for the 12 CIP projects the Village has authorized:

Project	Project	Adopted	Spent	Encumbered	Spent + Encumbered	Unexpended
16-01	Various Water	$3,500,000	$ 3,494,213	$ 5,787	$ 3,500,000	$ -
16-02	Various Water	$2,300,000	$ 2,205,395	$ 94,605	$ 2,300,000	$ -
18-28	Crest Drive Standpipe	$4,000,000	$ 1,837,101	$ 297,194	$ 2,134,295	$ 1,865,705
18-29	Newstead Sphere	$1,000,000	$ 378,591	$ 15,065	$ 393,656	$ 606,344
19-07	Scotland Road	$3,292,500	$ 2,532,943	$ 759,557	$ 3,292,500	$ -
19-18	Scotland Road	$700,000	$ 348,053	$ 3,713	$ 351,766	$ 348,234
20-08	Various Water	$500,000	$ 493,109	$ -	$ 493,109	$ 6,891
21-03	AMI Infrastructure	$3,000,000	$ 2,047,781	$ 316,429	$ 2,364,210	$ 635,790
21-22	Various Water	$500,000	$ 500,000	$ -	$ 500,000	$ -
22-16	Various Water	$1,250,000	$ 984,763	$ 46,059	$ 1,030,822	$ 219,178
22-21	Crest Drive Standpipe	$1,500,000	$ 16,565	$ 113,229	$ 129,794	$ 1,370,206
22-22	West End Road	$1,500,000	$ 104,409	$ 20,486	$ 124,895	$ 1,375,105
	TOTAL	**$23,042,500**	**$ 14,942,923**	**$ 1,672,124**	**$ 16,615,047**	**$ 6,427,453**

4. System Valuation

To establish a baseline understanding of the economic value of South Orange's water utility system, the Board of Trustees retained Remington & Vernick Engineers. In November 2021, RVE produced a Water Utility System Valuation based on the system's condition at that time.

Upon RVE's completion of an inventory and review of historic information, a replacement cost was determined for each component of the system. Replacement cost was determined based on its experience, industry standards, and regional bid tabulations. A lifespan or useful life was assigned to each component based on RVE's experience with previous utility valuations, subsequent BPU regulatory reviews and comments, and the components' condition. Straight-line depreciation then was used to depreciate the value of components, based on their age and lifespan. While functional assets past their useful life can remain in service, they have no book value. South Orange's water system has many components dated older than 1920 and some likely 1912 and 1890.

With this information, the value of the water system was developing utilizing four accepted methodologies:

1. Original Cost Less Depreciation – utilizing the Handy-Whitman Index of Public Utility Construction Costs, trend factors were applied to replacement costs to determine original costs to which depreciation was applied.
2. Replacement Cost New Less Depreciation – calculated by subtracting depreciation from the replacement cost new amount.
3. Market Values – based on recent, similar utility system sales in New Jersey.
4. Income Approach to Value – study performed with discounted cash flow by Holman Frenia Allison, which considered the water utility's revenues, operating expenditures, debt service, capital expenditures, changes in working capital, cash flow, and other financial parameter projections.

Since four valuation methods were utilized, a weighted average was employed to calculate the water system's estimated value:

- Original Cost Less Depreciation – 30% weight. Most widely accepted method. For utility sale under a referendum, this methodology is preferred by the BPU.

- Replacement Cost New Less Depreciation – 30% weight. Typically used for sale under Water Infrastructure Protection Act ("WIPA").

- Market Value – 20% weight. Uses utility sale market, taking into consideration system purchasers' willingness to pay for acquisitions; however, it's inherently difficult to compare different systems.

- Income Approach to Value – 20% weight. Uses revenue generated by utility; however, method doesn't consider purchasers' recovery of future investments into the system.

However, the fair market value of related property was not estimated and included.

5. Option One – Retain Water Utility

See Remington & Vernick Engineers October 2023 report, Exhibit 3 and memorandum of report revisions, Exhibit 4.

An evaluation of retaining the Water Utility is addressed in this section. As part of this evaluation, the existing utility organization and structure were considered.

The existing utility organization and structure is not a long-term option for these reasons:

- The current O&M provider, NJAW, informally advised the Village it *may* not continue to offer O&M services after its contract expires in December 2026. NJAW apparently has made long-term corporate business decisions to focus on purchasing existing water and wastewater systems and providing water and/or sewer services directly to residents and water users. Locally, NJAW currently provides water under this scenario to Maplewood, West Orange, Millburn, and Irvington.
- The Water Utility is currently administered by Howard Levison with support, on an as needed basis, from other Village Government departments. The Administrator is responsible for ensuring the Utility always delivers safe and high-quality water at sufficient pressure to maintain service and provide 24/7 fire protection. This position is charged with advising and coordinating with the Village Government, reporting, and coordinating with the state Department of Environmental Protection and administering all of the Utility-related contracts, including the water supply and O&M contracts (with NJAW) and the Capital Improvement Program (CIP). The CIP includes multiple consulting engineering and construction contractors as well as coordination with residents and other utilities. *Although budgeted as part-time position, the Water Utility's administrative requirements exceed this level of oversight. Staffing this function with one part-time person places the Village at risk and is not a viable long-term staffing model.*

A. Alternative Water Utility Organizations

The Task Force developed three alternative organizational scenarios to succeed the current Water Utility structure. The Village retained consulting engineers Remington & Vernick Engineers (RVE) to assist by developing these alternatives, including descriptions of necessary services, preliminary organizational charts, and costs. See Exhibit 3 for RVE's scope of work.

RVE developed the following list of necessary functions and services for a re-imagined Water Utility:

Table 6.1 – Water Utility Services and Descriptions

Service	General Description
Supervision/Administration	Supervise/administer all services and coordinate with Village and State government
Contracting	Hiring and managing of CIP contractors
Legal Services	Legal services

Engineering Services	Hiring and managing consulting engineers to support the CIP and general system operation and performance
Financial Planning & Audit	Capital/bond planning and developing water rates
Billing and Collection	Issuing timely water bills and collecting monies due
Community Liaison	Coordinating with residents and stakeholders and addressing issues and concerns
Utility Locating	Providing utility locating for buried pipes and facilities
Coordinate NJAW Supply	Coordination and administration of the long-term supply contract
Licensed Operator	Provide the required licensed operator personnel
Daily Oversight	Daily oversight of all services
Routine Maintenance	Provide routine maintenance to all utility equipment
Emergency Response	Arrange for timely responses to emergencies such as broken and/or leaking water mains
Electrical Services	Provide electrical maintenance to village owned equipment
Buildings and Grounds	Maintain the site for village reservoirs, tanks, and pump stations
SCADA System Monitoring	Operate, maintain system monitoring equipment that monitors the Utility 24/7
Testing and Sampling	Sample and test for water quality
Mechanical Services	Provide mechanical maintenance for village owned valves, pumps, and other mechanical equipment

Under all three scenarios, the Village would address in-house administrative resilience through a long-term staffing and succession plan, including hiring a second water professional, who could be a potential successor to the Water Utility Administrator.

A general description of each scenario follows:

a. Scenario 1 – Outsourcing O&M to a Third Party

The Village would contract with a qualified firm to replace the services currently provided by NJAW under its O&M contract. A draft organizational chart is included in the RVE report.

RVE identified three potential New Jersey firms, in addition to NJAW, that could meet the Village's O&M requirements in 2026:

- Veolia New Jersey - Northern NJ Operations
- Middlesex Water
- Woodward & Curran

The Task Force had a very preliminary, informal meeting with Veolia at which it confirmed its preliminary interest. No contacts have been made with Middlesex Water or Woodward & Curran. If the Village chooses to move forward with this scenario, additional contacts with all potential bidders would be required to confirm their market interest, compatibility, and viability. A consultant would be required to develop comprehensive bid documents and contract stipulations. These documents and

stipulations should reflect any issues/concerns the Village has experienced under its current O&M agreement.

b. Scenario 2 – In-house O&M

The Village would hire staff to perform the O&M tasks currently contracted to NJAW. A draft organizational chart is included in the RVE report.

This scenario was developed based on O&M services being provided by Village personnel. It is likely that if the Village chose to move forward with this scenario some services may be outsourced. Under this scenario, the Village also will be required to purchase vehicles, tools, and equipment and provide space to store them and house its staff.

c. Scenario 3 – In-house O&M with Some Outsourced Services

The Village would provide in-house operations with a combination of new Village personnel and contracted services. A draft organizational chart is included in the RVE report.

Under this scenario, the Village also will be required to purchase vehicles, tools, and equipment and provide space to store them and house its staff.

B. Comparison of Scenarios

The three scenarios provide a broad array of possibilities for a future Water Utility. While these do not comprise all possibilities, within these scenarios are realistic options for a municipality of South Orange's size. If the Village chooses to retain ownership of its Water Utility, regardless of the selected scenario, additional development of the final organization will be needed.

a. Staffing

Each scenario will require the Village to hire and retain personnel with the specialized skills and experience to provide the necessary water utility services. Table 6.2 shows required services and allocation of responsibilities between outsourced/contracted services and Village staff:

Table 6.2 – Allocation of Responsibilities

	Scenario 1 – O&M Outsourcing		Scenario 2 – O&M by Village		Scenario 3 – Hybrid of Outsourcing & Village Personnel	
Service/Activity	**Contractor**	**Village**	**Contractor**	**Village**	**Contractor**	**Village**
Supervision	X	X		X		X
Contracting		X		X		X
Legal Services		X		X		X
Engineering Services		X		X		X
Financial Planning & Audit		X		X		X

Billing & Collection Services	X			X		X
Community Liaison		X		X		X
Utility Locating Services	X			X		X
Coordination with NJAW Supply		X		X		X
Licensed Operator	X			X	X	
Day to Day Utility Oversight	X			X		X
Routine Maintenance	X			X		X
Emergency Response	X			X	X	
Electrical Services	X		X		X	
Building & Grounds		X		X		X
SCADA System Monitoring	X			X		X
Testing/Sampling	X		X		X	
Mechanical Services	X		X		X	
Physical & Cyber Security	X	X		X	X	X

Here's the number of Village staff estimated for each scenario:

Scenario	Staff
Scenario 1 – Outsourcing O&M to Third Party	2+
Scenario 2 – In-house O&M	12+
Scenario 3 – In-house O&M with Some Outsourced Services	10+

Staffing potentially could be a major challenge – including recruiting, hiring, training, management, and retention of qualified personnel. Many water utility positions require relevant experience and specialized expertise. As a small water utility, there are limited opportunities for career advancement, thus impacting retention and recruitment.

b. Costs

Preliminary comparative costs for each scenario were developed by RVE and supplemented by the Task Force. For 2023 to 2026, 14.83% total inflation was applied to labor and 10.33% was applied to other costs. O&M costs were projected as follows:

Table 6.3 – Summary of O&M Costs		
Item	**2023**	**2026 (est.)**
Village Certified Budget	$1,215,223	$1,358,072
Scenario 1	$1,346,086	$1,509,148
Scenario 2	$2,262,033	$2,582,835
Scenario 3	$2,154,033	$2,461,439

Note: Excludes cost of water supply.

The Task Force augmented these costs to include all Village costs and services, as described in a memorandum amending the RVE Report; see Exhibit 4. These costs are summarized in Table 6.4:

Table 6.4 – Summary of Water Utility Costs		
Item	**2023**	**2026 (est.)**
Village Certified Budget		
Certified Budget	$5,151,600	$5,692,300
Water Rate - $/Unit	$7.65	$8.45
Scenario 1 – Outsourcing of O&M		
Estimated Budget	$5,284,500	$5,843,400
Estimated Water Rate - $$/Unit	$7.85	$8.68
Scenario 2 – Full O&M by Village		
Estimated Budget	$6,156,000	$6,862,400
Estimated Water Rate - $$/Unit	$9.14	$10.19
Scenario 3 – Hybrid – Village Personnel & Third-party Contractors		
Estimated Budget	$6,048,000	$6,741,000
Estimated Water Rate - $$/Unit	$8.98	$10.01

c. Pros and Con's

Pro's and con's for each scenario are included in the RVE Report in Exhibit 3. Critical pro's and con's for each scenario are summarized here:

1. Scenario 1 – Outsourcing O&M

a. Pro's
- Experience with this operating model
- Issues with current contract can be addressed with new agreement.

b. Con's
- NJAW is not likely to bid – will need to establish a relationship and work with new firm.
- New firm will need to coordinate with NJAW as water supplier.
- Village will need to hire and retain personnel to manage Water Utility.

2. Scenario 2 – Full O&M by the Village

a. Pro's
- Village will have control over operations, so residents will not have to deal with a third party.
- Staff available for Village service in emergencies

b. Con's
- Village government unfamiliar with this operating model; potential risks as new organization is implemented.
- Highest costs.
- Village will have to recruit and retain large staff.
- Village will need to provide facilities, offices, and equipment to support operations.

3. **Scenario 3 – Hybrid**

   a. Pro's
      - Ultimate organization can reflect the best attributes of Scenarios 1 and 2
      - Costs lower then Scenario 2

   b. Con's
      - Village government unfamiliar with this operating model; potential risks as new organization is implemented.
      - Village will have to recruit and retain a large staff.
      - Village will need to provide facilities, offices, and equipment to support operations.

C. Recommended Scenario

The Task Force recommends **Scenario 1 – Outsourcing O&M** as the best Retain Water Utility option to compare to the Sell Water Utility option for these reasons:

a. Implementation

This is the easiest scenario to implement because it will require development and management of a single contract to provide all services from a single entity. This contractor can use sub-contracts for some services allowing the Village to benefit from and have access to a broad range of entities and expertise. The Village can identify issues with the existing agreement that can be addressed by a new contractor.

b. Costs

Scenario has lowest probable costs, when compared to Scenarios 2 and 3.

c. Risks

Scenario has lowest risk. However, if NJAW chooses not to pursue and/or the contract goes to another firm, the Village must develop a new, significant vendor relationship.

d. Staffing

Scenario requires the fewest village staff. The Task force recommends the Village hire an additional water utility administration professional to support the part-time Water Utility Administrator.

e. Other

Implementing Scenario 1 does not preclude the Village from implementing another O&M scenario in the future.

6. Option Two – Sell Water Utility

A. Similar Recent Sales

The Task Force investigated sales of water/wastewater assets in three NJ communities. Key information for each community is summarized here and detailed in Exhibit 5:

Community	County	Population	Utility	Years	Bidders (buyer first)	Amount	Referendum
Egg Harbor City	Atlantic	4,400	water	2019-2023	NJAW, Aqua America	$21.8M	No
Allendale	Bergen	6,800	water	2019-2022	Suez/Veolia, NJAW	$18.0M	Yes
Long Hill	Morris	8,600	sewage	2019-2020	NJAW only	$12.7M	Yes

B. Impact of Historical Sales

The Task Force investigated the experience of nearby, older Essex County communities that previously sold their water systems to NJAW. Interviews were conducted in February 2023 with administrators in:

- West Orange
- Maplewood
- Millburn
- Irvington

Overall, interviewees had no historical knowledge of their municipality's sale of its system. And everyone generally was pleased with the service received from NJAW.

a. West Orange

Interview: John Gross, Business Administrator / CFO

- Transaction is pre-historic for John. NJAW bought system from Commonwealth Water Co. in 1970's.
- NJAW – No operational issues; he sees them as the "Gold Standard"; Mike Malloy helpful.
- Good service levels; BPU regulates rates.
- Nothing to learn about the transaction or transition, but just that he is happy that he doesn't have to worry about water.

b. Maplewood

Interview: Paul Kittner, Township Engineer / Director of Public Works; Husan Zeidan, Assistant Engineer

- Biggest concern is system's age and lead replacement liability.
- NJAW is very responsive with township and me. Among all utilities, it's the easiest with which to deal, for example versus PSE&G. It 'sets the bar'.
- Seems like they've maintained our infrastructure, working closely with us.
- Coordinate road programs in advance. Certain projects planned two years in advance. Always provide advance notice.
- E.g., Oakland Road 16" main busted; restored better than before.
- Typically respond within an hour, even on weekends.
- Municipal pool filled with well water and tested to save money.
- Fire hydrants – notification only program.
- May not exercise valves as often as they should.
- Consumer complaints about NJAW occur only 2x-4x annually.

c. Millburn

Interview: Thomas Doty, Superintendent of Public Works

- Doty has been there 20 years. NJAW has owned the system the whole time; so, he had no insight about selling process.
- The town has little interaction with NJAW except that NJAW must apply for a street-opening permit when doing work.
- NJAW handles all maintenance, capital, billing, complaints. He said it's working well and there are no complaints. NJAW will handle the lead service line replacement program.
- The most useful thing I learned is that NJAW charge the town $56 per hydrant per month, but not sure for what service.
- Costs them about $400k a year! We should watch out for that.

d. Irvington

Interview: Musa Malik, Business Administrator; Malik checked with Municipal Clerk Harold Wiener, who reported:

- I checked the files and could not locate any agreements with New Jersey American Water or its predecessor Commonwealth Water, nor any agreements regarding when the service changed to New Jersey American Water. I am uncertain if NJ American is an affiliate of Commonwealth.
- There is a piece of correspondence from December of 1964 contemplating taking over the Commonwealth Water Company water system, to be run by the municipality, but it apparently never came to fruition.

[Commonwealth Water Company of Summit may have provided water to Irvington. However, it was acquired by American Water Works & Electric Company in 1922 -- a hundred years ago. American Waterworks now is NJAW's parent company.]

C. Approaches to Selling

The sale of a New Jersey public water system to a private or public entity can be authorized by a voter referendum or under the Water Infrastructure Protection Act (the "WIPA"). With a referendum, a bid process is used and with WIPA, an RFQ/RFP process is used.

Under NJSA 40:62-6, the proceeds from any public water system sale shall be used for the retirement of bonds issued for the purposes of such system or in case no such bonds are outstanding, then to the retirement of other bonds of the municipality. If no such bonds are outstanding, the proceeds or any balance thereof may be used for the general purposes of the municipality.

a. Referendum

Under NJSA 40:62-4 and 40:62-5, a municipality's governing body can sell or lease its water system by resolution and advertise for bids for its sale or lease. A responsible bid must be approved by the governing body, which then may adopt an ordinance providing the terms of the lease or sale.

The municipal clerk forwards the ordinance to the county clerk of elections and requests the question of the sale or lease be placed on the ballot at the next general election in the municipality. If a majority of legal voters voting at this election approve the sale or lease, the governing body *may* accept the bid of the *highest responsible bidder* and carry out the sale or lease authorized by the election; namely, a referendum to sell is not binding on the governing body.

This process involves a 6-steps that take approximately eight months to complete, subject to the timing of the next general election. See Exhibit 6.

1. Prepare bid package
2. Adopt resolution determining to sell or lease system
3. Advertise bid package – six times no less than 30 days before bid deadline
4. Review bids received
5. Introduce and adopt ordinance providing for sale or lease to highest, qualified bidder
6. Send certified ordinance to clerk of elections, at least 81 days before next general election, requesting referendum question on next general election ballot

b. WIPA

The Water Infrastructure Protection Act, Act, N.J.S.A. 58:30-1 et seq., (the "Act") was passed by the NJ Legislature in 2015. The Act authorizes certain owners of water or wastewater systems to enter a long-term lease contract or sell their water or

wastewater assets to a capable private or public entity, without a referendum, if "emergent conditions" exist. To qualify for WIPA consideration, an owner must demonstrate the existence of at least one of the five Emergent Conditions specified by the Act.

Any municipality with a population less than 270,000 that owns water or wastewater assets qualifies for the WIPA process. [Municipalities constituting a joint meeting and the joint meeting itself do not qualify for the WIPA process.]

WIPA identifies five emergent conditions ("EC's") of which at least one must be met for a municipality to qualify for the WIPA process:

- **Emergent Condition #1** – the system is located in an Area of Critical Water Supply Concern I or II, or any Consultation with other agencies as needed.
- **Emergent Condition #2** – the system is a significant noncomplier, as defined pursuant to the Water Pollution Control Act, N.J.S.A. 58:10A-1 et seq., the system has been the subject of a formal enforcement action initiated by the Department or is substantially out of compliance with an administrative consent order, settlement agreement, or has entered a stipulation of settlement or judicial consent order with the Department;
- **Emergent Condition #3** – there is a present deficiency or violation of maximum contaminant levels established pursuant to the Safe Drinking Water Act, N.J.S.A. 58:12A-1 et seq., concerning the availability or potability of water, or concerning the provision of water at adequate volume or pressure, or distribution or treatment of wastewater;
- **Emergent Condition #4** – there is a demonstrated lack of historical investment, repair, or sustainable maintenance as determined by the Department, or material damage to the infrastructure of the system; or
- **Emergent Conditions #5** – the system lacks the financial, technical, or managerial capacity to adequately address any of the foregoing on a sustainable basis or own and operate the system in a way that supports economic activity in the municipality on a sustainable basis.

WIPA compliance involves 15 steps that take approximately 20 months to complete, subject to timely regulatory approvals. See DEP WIPA Process Steps and Exhibit 7.

1. Identify at least one Emergent Condition (EC), based on an independent, licensed engineer's assessment
2. Schedule a pre-application meeting with the DEP, Office of the State Comptroller (OSC), BPU, and Department of Community Affairs (DCA)
3. Hire an independent financial advisor to evaluate the public water utility and report on the system's value and estimate of financial resources to address the EC's and operate and maintain the system
4. Submit financial advisor report to BPU, DCA, DEP and publish report
5. Hold a public hearing about the proposed EC's
6. Municipal governing body adopts resolution certifying existence of EC's and submits copy to DEP, BPU, and DCA

7. DEP has 30 days to approve or reject the existence of the EC
8. Public notice of DEP's approval of the EC (if granted), including provision for public petition for a referendum
9. Proceed with RFQ and RFP – advertisement, selection of buyer and negotiation of sale; the Village can accept the purchase proposal it "finds to be the most advantageous to the public, taking into consideration the evaluation criteria set forth in the request for proposals…."
10. Office of State Comptroller sale or long-term lease agreement review
11. Send the proposed sale or long-term lease contract to BPU for review
12. BPU has 90 Days to approve or reject the proposed contract
13. Separate petition for approval of the municipal consent to BPU
14. After BPU approval, seek approval from DCA on use of sale proceeds
15. DCA has 30 days to approve or reject the use of sale proceeds

c. Comparison of Referendum to WIPA

While the voter referendum and WIPA sales processes involve different steps/tasks and timeframes, either can be used for selling the Village's water system. Here's a comparison of the relative pro's and con's of each process:

1. Referendum Sale Process

a. Pro's
- Quicker timeframe and lower preparation cost
- Fewer state regulatory approvals required
- Shorter implementation timeframe
- Quicker determination of water system's fair market value

b. Con's
- Referendum limited to November general elections
- Can recover only traditional costs less depreciation *(tbd)*
- Risk of public voting based on narrow set of factors
- Must accept bid of highest responsible bidder, but not bound to accept any bids

2. WIPA Sale Process

c. Pro's
- Purchase can be based on reasonable range of valuations, including revenue-based, market-based, and replacement cost-based *(tbd)*
- RFQ can be used pre-qualify potential buyers, that then would be eligible to receive an RFP
- Governing body determination, based on public feedback
- Municipality not bound to accept RFP results

d. Con's
- Longer timeframe and higher preparation cost for independent engineering and financial analysis
- Potential challenge demonstrating affordability claim
- Numerous state regulatory approvals required
- Longer implementation timeframe
- Could still result in referendum mandated by public, elongating process

- Longer timeframe for determining water system's fair market value

D. Potential Buyers

There currently are three major, private water companies operating in New Jersey:

- New Jersey American Water
- Veolia Water New Jersey
- Aqua New Jersey

According to the U.S. DEP's Safe Drinking Water Information System (SDWIS), they collectively serve 3.1 million people in 242 communities or a third of NJ's 9.3 million population.

Company	Counties	Municipalities	People	Facilities
NJAW	15	125	1,982,934	828
Veolia	10	92	950,227	307
Aqua	9	25	144,072	238
TOTAL		**242**	**3,077,233**	**1,373**

a. New Jersey American Water

NJAW is subsidiary of American Water Works Company, Inc., known as American Water. It is a publicly traded (NYSE: AWK) water utilities and sewage treatment company headquartered in Camden, NJ. It is the largest for-profit provider of water and wastewater services in the United States. American Water provide regulated and market-based drinking water, wastewater, and other related services to an estimated 14 million people in 24 states, including 18 military installations, and 3.4 million customer connections.

Its regulated operations 53,500 miles of pipe, 570 water treatment plants, 175 wastewater treatment plants, 1,100 wells, and 73 dams. It has 6,500 employees.

In 1H2023, it reported investing approximately $1.2 billion in infrastructure. As of June 30, 2023, it closed on 10 acquisitions in five states, for $33M, acquiring ~7,100 customers. And, it had under agreement 32 acquisitions in 10 states, for $555M, representing ~74,800 customer connections.

b. Veolia Water New Jersey

Veolia North America, a subsidiary of Veolia Group (PAR: VIE), acquired Suez North America in March 2022. Suez was a subsidiary of Suez Environnement, a French utility company.

As of 2022, Veolia Group provided drinking water to 111M people and 97M people connected to its wastewater systems. It operates 8,500 water and wastewater facilities worldwide and currently serves over 550 communities in North America. It also provides energy management services. It employes ~220,000 employees globally and

7,000 in the U.S. working at 250+ locations in North America. Its headquarters is in Boston.

c. Aqua New Jersey

Aqua is a subsidiary of Essential Utilities, Inc. (NYSE: WTRG), headquartered in Bryn Mawr, PA. Aqua provides drinking water services to more than 3M people and wastewater services to 250,000 people in eight states. It owns and operates 1,518 public water systems, 23 surface water treatment plants, 3,269 wells, 227 public sewer systems, and 201 wastewater treatment plants.

Aqua has grown through nearly 400 acquisitions since 1995, including 66 during 2015-2022, serving ~120,000 more people. It invested $627M in infrastructure in 2021 and planned to invest $589M in 2022. In 2023, it's paid $45M to acquire seven system and has $336M of pending acquisitions for four systems.

In New Jersey, it has 25 public water systems, 53 water treatment facilities, and 92 water wells serving 55,354 connections. And, it has nine wastewater treatment facilities serving 6,613 connections. In New Jersey, it has 41 employees.

7. Evaluation of Options

A comparison and evaluation of the options to **retain Water Utility** versus **sell Water Utility** are addressed in this section:

- Section 7.A: Option 1 – Retain Water Utility
- Section 7.B: Option 2 – Sell Water Utility
- Section 7.C: Comparison of Options 1 and 2

A. Option 1 – Retain Water Utility

Three potential organizational scenarios for retaining the utility were studied, as discussed in Section 6. While all are viable, for comparative purposes Scenario 1 – Outsourcing of O&M will be compared to selling of the utility.

a. Pro's

- Village is experienced with ownership model. Any issues with the previous contract have been identified and can be addressed in future agreements.
- Costs are competitive with sell option; see below.
- Accountability remains with the Village.
- Village retains control of the system and can operate as needed to reflect Village's needs.

b. Con's

- Risk of poor performance/relationship with new O&M operator.
- Village must recruit and retain qualified staff and contractors.

- Village assumes costs/risks of implementing CIP and any current and future State mandates. Current State mandates including lead pipe identification/replacement and 150-year replacement of water mains.

c. Financial Impact

Retaining the Water Utility involves these financial impacts:

1. Water Utility Debt

By year-end 2023, $23 million of Water Utility debt will have been authorized and $16.6 million of it will have been spent or encumbered.

Approximately 15% of the $5.15 million 2023 Certified Water Utility Budget was allocated to Debt Service.

The long-term CIP developed by the Village and RVE is included in RVE's report. See Exhibit 3. Long-term CIP costs exceed the current $23 million of authorized bonds, so implementation will require eventual authorization of additional borrowing. Principal and Interest payments on this borrowing will necessitate future increases in water rates.

2. Village Government Operating Costs

The Water Utility is not reimbursed by the Village's government for the municipal government's water consumption (e.g., Village buildings, pool facility, fire trucks, etc.). The Water Utility also doesn't invoice the Village's government for Public Fire Protection Service, which encompasses fire hydrants. Portions of these costs are embedded within Water Utility's NJAW Water Purchase and O&M agreements and ultimately are paid by water rate payers. If the Village retains its Water Utility, these cross-subsidy arrangements likely will continue.

3. Water Rates

Water rates will continue to be set by the Water Utility, based on its administration, BPU-regulated bulk water supply, O&M, future CIP, and debt service costs.

4. Staffing

The Water Utility is managed by a part-time administrator with part-time support from Village government staff, contractors, and consulting engineers. A staffing plan that addresses long-term staffing requirements and labor market recruiting and retention challenges immediately should be implemented. At a minimum, an additional Village water professional should be hired.

B. Option 2 – Sell Water Utility

As described in Section 6.C, the sale of a New Jersey public water system to a private or public entity can be authorized by a voter referendum or under the Water Infrastructure Protection Act (the "WIPA").

The proceeds from a sale must be used for the retirement of bonds issued for the water system or, if no such bonds are outstanding, then for the retirement of other bonds of the Village. If no such bonds are outstanding, the proceeds or any remaining balance may be used for the general purposes of the municipality.

Depending on when a sale might be authorized by the Village and the sales process employed, if an acceptable bid/price were received, the Village would execute an agreement to sell its Water Utility. The goal would be to accomplish this before December 2026, when the Village's O&M agreement expires.

a. Pro's

- Village oversight dramatically simplified; no longer addressing water-related matters and issues.
- Village staff workload reduced.
- Some or all of Water Utility debt and potentially some Village debt will be retired – reducing tax burden.
- South Orange's water service will be comparable to Maplewood, Irvington, and West Orange which do not own their water utilities.
- Future Village capital improvement project costs will be paid by all regional rate payers, not only Village residents.
- Identified capital projects in the current plan may be accelerated.

b. Cons

- Village residents currently interface with NJAW as the Village Water Utility's O&M and billing contractor. The Village Water Utility Administrator is a resource to residents to assist in resolution of issues. After a sale, future interface on water issues would be like the current approach with PSEG, Cablevision, etc. Village government no longer will have dedicated staff but could advocate for customers.
- Depending upon a customer's water use, annual water costs may increase. As noted below in Section 7.C.g, a residential customer annually using less than about 181 units would have higher annual water costs. This could be mitigated as part of the sale by an agreement, as noted below in Section 7.B.c.3.
- Village government would have to pay for its own water consumption, as noted below in Section 7.B.c.2.
- Coordination of street infrastructure work will require coordination with the new water system owner.
- Identified capital projects in the current plan may be delayed or cancelled.
- Water rates will include capital project recovery for projects beyond South Orange
- There will be no Village control of water rates, which will be governed by the BPU, in response to tariff applications of the system owner.

c. Financial Impact/Sale Price

The sale of the Water Utility will have three financial impacts: (1) reducing the Village's debt; (2) increasing the Village's operating costs; and (3) transferring responsibility for water customers' rates to the system purchaser.

1. Village Debt

In 2021, the Village performed a valuation of its water system, which it updated in 2023. However, potential purchasers will perform their own valuations, consider relevant market conditions and their strategic objectives, and bid accordingly. The Village could update its valuation for additional guidance prior to purchaser bidding.

As described in Section 7.B.c and above, depending on the purchase price, the proceeds may be sufficient to pay off the Village's Water Utility debt and potentially other Village debt. However, if the sale proceeds are lower than the Water Utility's debt, it will require continued debt service of the unpaid difference.

As noted above in Section 7.A.c., the Village has authorized $23.0 million in debt. As of 12/31/23, approximately $16.6 million has been spent and encumbered.

Section 4 of this report describes previous valuations of the Water Utility performed by RVE.

As described above in Section 6.A, there have been two recent water system sales in New Jersey:

Community	Population	Sale Price
Egg Harbor City	4,400	$21.8M
Allendale	8,600	$18.0M

2. Village Operating Costs

After a sale, the Village government will become a customer of the new water system owner. Water consumed by Village facilities and equipment will be paid at the BPU-established rate. Further, the Village will be required to pay a monthly Public Fire Protection service fee, based upon its number of fire hydrants. The Village government currently doesn't pay these costs, which are estimated for 2023 (based on NJAW rates) as follows:

Expense	Est. 2023 Cost
Village Water Usage (est.)	$50,000*
Public Fire Protection service	$424,000
Total (est.)	**$474,000**

These water-related costs would increase the Village's overall budget by 1.05%, based on the $45.12 million 2024 certified Village budget.
However, this increase could be offset, if the sale price of the Water Utility exceeded the Water Utility's debt, which currently represents 15.6% of the Village's budget. The excess proceeds would be used to reduce the Village's non-utility debt and corresponding $6.8 million annual debt service.

*S.O. Village Water Utility Administrator revised to $50K, after report was issued.

3. Water Rates

Water rates will be set by the purchaser, based on the review and approval of the BPU. These rates typically include a monthly water meter fee, based on inlet pipe and meter size, and a water fee reflecting water consumption. Depending on meter size and water usage, some water bills may be higher after a sale. To an extent, this may be mitigated for a period through negotiations and/or bid stipulations, but this could impact the sale price.

Today, the Village Water Utility sets water rates based on its administration, BPU-regulated bulk water supply, O&M, future CIP, and debt service costs.
Water rates and annual customer costs are discussed further below in Section 7.C.g.

C. Comparison of Option 1 & Option 2

A comparison of the impact of each option on the Village government and water customers follows:

Impact	Option 1 Retain	Option 2 Sell
a. Security of Clean Drinking Water	0	0
b. Village Government Staffing	–	+
c. Village Government Responsibilities	–	+
d. Costs & Taxes	0	–
e. Water Utility Capital Improvement Plan	0	+
f. Service Impacts on Residents	0	0
g. Current Water Rates*	0	– / 0 / +
h. Future Rates*	– / 0 / +	– / 0 / +
I. Village Debt	0	– / 0 / +
j. Village Operating Costs	0	–

Impact Note: + Positive – Negative 0 No/minimal

*Impacts of rates dependent on customer's water use.

a. Security of Clean Drinking Water

The long-term security of clean drinking water is the same for both options. The quality of water is heavily regulated by the NJDEP. Water is supplied under the Village's current long-term water supply agreement with NJAW.
The responsibility for the water and its quality differs by option. Under Option 1, NJAW is responsible for the water quality delivered to the Village. After receipt of the water from NJAW, the village and its O&M contractor are responsible for any water quality issues resulting from Village-owned storage and distribution equipment. Under Option 2, this responsibility transfers to the system purchaser.
Both approaches have demonstrated the ability to deliver safe, clean drinking water and it is anticipated the option selected will not change this.

b. Village Government Staffing

Under Option 1, the Village would continue to need a Water Utility Administrator and back-up, plus continued support from other Village staff. Further, consulting engineering resources will be required to support implementation of the long-term CIP.
Under Option 2, the Village no longer will require a Water Utility Administrator and back-up or allocation of other staff.

c. Village Governmental Responsibilities

Under Option 1, the Village will retain responsibility for its water supply and delivery. These responsibilities will increase in the future as additional requirements are added by state regulations and compliance is enforced by regulators. For example, recently the state has added the identification and mitigation of lead pipes over a 10-year period and has mandated a 150-year replacement cycle for water mains.
Under Option 2, the Village no longer will have any responsibility for the water supply and delivery.

d. Costs & Taxes

Under Option 1, water customers will continue to cover the Water Utility's cost for municipal water consumption and Public Fire Protection service, in addition to water supply, system O&M, debt service, and administrative costs.
Under Option 2, the sale of the Water Utility will require the Village to purchase the water it consumes and Public Fire Protection service, currently estimated at $724,000 - $924,000 annually. The sale proceeds may be sufficient to pay off the Village's Water Utility debt and potentially other Village debt. However, if the sale proceeds are lower than the Water Utility debt, it will require continuing to service the unpaid difference.

e. Water Utility Capital Improvement Plan

Under Option 1, in addition to mandated lead pipe mitigation and water main replacements, the Village implements CIP projects based on its priorities and willingness/capacity to pay for them. These costs are financed by the sale of short- and long-term Water Utility debt and NJIB loans. The financing costs are embedded in and recovered through the sale of water.

Under Option 2, the Village will cede management control of the CIP implementation to the system purchaser. Some CIP projects potentially could be negotiated and agreed to within a system purchase agreement. Importantly, capital improvement cost recovery for projects by the purchaser in South Orange will come from all of its regional customers, rather than from South Orange. South Orange customers will pay for its pro rata share of non-South Orange capital improvements.

f. Service Impacts on Residents

There should be no water service impacts between these options. However, under Option 2, Village government will have reduced influence to resolve issues with the system purchaser – like the situation with PSE&G and cable television providers.

g. Current Water Rates

Water customers with 5/8-inch water meters (typical for a residence) represent 86% of the water accounts in the Village. A comparison of Option 1 and Option 2 water rates and annual costs based upon a 5/8-inch water meter follows. South Orange rates are based upon units of 100 cubic feet of water. NJAW rates are based upon cost per 100 gallons of water.

Water rates are shown below. Option 1 reflects the Scenario 1 water rate as shown in Section 6 and includes hiring an additional staff person. For minimum water users, South Orange charges a $50.03 minimum quarterly fee which equates to about 6.54 water units/quarter. Option 2 reflects NJAW's current rates (e.g., Maplewood) – a $19.85 monthly meter fee for a 5/8-inch water meter and a water rate of $0.8401 per 100 gallons.

Item	Unit	Option 1 Retain	Option 2 Sell
5/8-inch Water Meter	Per month	N/A	$19.85
Minimum Fee	Per Quarter	$50.03	N/A
Water Rate	Per 100 CF	$7.85	$6.28*
Water Rate	Per 100 Gallons	$1.05*	$0.8401

*Equivalents calculated for comparison: 748 gallons per 100 CF; 13.37 CF per 100 gallons.

When calculated on an equivalent basis, NJAW's water rate is less than South Orange's water rate. However, NJAW's $19.85 monthly meter charge increases the annual residential cost for Option 2, as illustrated below.
Annual costs will differ based on water consumed. The following compares the annual cost for a variety of residential customers with 5/8-inch water meters:

Item	2023 Costs Residential Water Accounts (5/8" Meters)			
Annual Water Costs	**Minimum Use**	**Midpoint Between Min & Avg**	**Avg Use***	**25% Over Average Use**
Water Usage (100 CF)	26	87	145	181
Option 1 – Retain Utility				
S O. Water Rate per 100 CF	$7.85	$7.85	$7.85	$7.85
Total Annual Water Cost	**$204**	**$683**	**$1,138**	**$1,421**
Option 2 – Sell Utility				
NJAW Water Rate per 100 Gals.	$0.8401	$0.8401	$0.8401	$0.8401
NJAW Water Rate per 100 CF	$6.28	$6.28	$6.28	$6.28

Monthly 5/8" Meter Fee	$19.85	$19.85	$19.85	$19.85
Annual Meter Fee	$238.20	$238.20	$238.20	$238.20
Annual Water Use Cost	$163.28	$546.36	$910.60	$1,136.68
Total Annual Water Cost	**$401**	**$785**	**$1,149**	**$1,375**
Comparison of Annual Water Costs				
Option 1 B/(W) Option 2	$197	$102	$11	($46)

*Average water usage based on total water billed annually divided by 4,655 Village water accounts.

Based on this comparison, the annual water cost for 5/8-inch meter customers is higher under Option 2, unless annual water consumption exceeds ~181 units per year.

h. Future Rates

The future water rate under Option 1 will depend on changes to the Village Water Utility's costs for its administration, BPU-regulated bulk water supply, O&M, future CIP, and debt service. A preliminary computation for 2026 is $8.68/unit – 10.6% higher, as explained above in Section 6.

The future water rate under Option 2 will depend on BPU-approved rate increases for the system purchaser. In discussions with NJAW, it was reported that the BPU recently approved a 6% rate increase for two years (i.e., 3% annually) for this region, which also was granted for its last three rate cases.

For customer-side lead line replacement, the BPU has allowed NJAW to recover its actual costs plus debt expense over 10 years, based on 6-month adjustments, made in arrears. Its first allowed recovery surcharge was for more than six months and equated to $0.01643 per 100 gallons per customer per month or $0.91 for an average customer using 5,520 gallons monthly. This cost is included in the water rates reported above in Section 7.C.h.

i. Village Debt

Under Option 1, there is no/minimal impact on Village government debt. All debt is incurred by the Water Utility and is recovered through water rates. Under Option 2, the impact will depend on the amount of water utility debt versus the sale price, as discussed above under Section 7.B.c.1.

j. Village Government Costs

Under Option 1, there is no impact on Village Government costs. All costs are recovered by the Water Utility through the sale of water. Under Option 2, the Village Government will incur incremental costs for its water and Public Fire Protection, discussed above under section 7.B.c.2.

8. Implementation Roadmap

Based on its work and RVE's findings, the Task Force recommends the Village:

1. Hire a Water Utility Assistant Administrator to ensure adequate resiliency and succession planning.
2. Postpone Capital Improvement Plan projects, except those truly essential during 2024 - 2026 or mandated by NJ.
3. Solicit bids for a third party to continue providing outsourced O&M services to the Water Utility (Option 1, Scenario 1).
4. Determine whether to use a public referendum or Water Infrastructure Protection Act (the "WIPA") sales process and pursue sale of the Water Utility (Option 2) to a BPU-regulated water company.
5. Evaluate and compare qualified bids for both retaining ownership of the water system and outsourcing O&M services versus selling the water system.
6. Select and implement the optimal option for the Village.

A. Hire Water Utility Assistant Administrator

The Village currently relies on a part-time Water Utility Administrator. Hiring an Assistant Administrator will ensure critical organizational resiliency and succession planning. Importantly, this individual also will support/lead soliciting bids for O&M services or the Water Utility's sale and transitioning to a new provider.

Development of a suitable position description and Board approval for hiring should be completed within 60 days of approval and hiring within 90 days thereafter.

B. Postpone Non-essential CIP Projects

Proceeds from a municipal water utility sale must be used first to retire the utility's debt. So, minimizing near-term, future CIP projects will increase the potential that the utility's sale price will exceed its debt. From now through June 2026, unless a CIP project is essential or required by New Jersey regulations or mandates, it should be postponed until July 2026 onward.

C. Solicit Third-party O&M Services Bids

With NJAW's O&M agreement terminating in July 2026, the Village must solicit bids for future O&M services thereafter, whether provided by NJAW or an alternate provider. It's estimated this process will require 12+ to 17+ months, depending on whether NJAW is or isn't selected, and will entail:

1. RFP development & acceptance – 4+ months
2. Advertising & bidding – 1+ month
3. Proposal review & vendor selection, if not selling the Village Water Utility – 2+ months
4. Negotiate & execute O&M service agreement – 4 months
5. Implementation & transition to selected O&M vendor – 1 month with NJAW; 6+ months for a new vendor

Consequently, to be prepared to transition O&M service providers in July 2026, the Village should start preparing O&M bid specifications by December 1, 2024 or ideally sooner. Since preparing bid specifications may require engaging a consulting engineer, that RFP process should start no later than October 1, 2024.

D. Solicit Purchaser for Water Utility

The timeframe for soliciting a purchaser for the Village Water Utility will depend on whether the Village uses a public referendum or WIPA sale process. While applicable statutes and regulations specify timeframes for these processes, they should be viewed as minimums. *Importantly, other municipalities' water system sales typically have taken considerably longer than these specified minimums.*

a. Public Referendum

This process involves six steps that take approximately 14-15 months to complete, subject to the timing of the next general election. See Exhibit 6.

1. Prepare bid package – *1-2 months*
2. Adopt resolution determining to sell or lease system – *1 week*
3. Advertise bid package – six times no less than 30 days before bid deadline – *2.5 months*
4. Review bids received – *1 month*
5. Introduce and adopt ordinance providing for sale or lease to highest, qualified bidder – *1 month*
6. Send certified ordinance to clerk of elections, at least 81 days before next general election, requesting referendum question on next general election ballot – *3 months*
7. Implementation – *6 months*

For the referendum to be considered in a year at the November 2024 general election, the Village must decide to proceed with this process by February 1, 2024. However, since preparing bid specifications likely will require engaging a consulting engineer, that RFP process immediately should start.

This process would result in receiving purchase bids by approximately June 15, 2024.

Alternatively, the Village could target the November 2025 general election, in approximately 24 months and pursue a more elongated timetable for receiving bids and educating the public prior to a public referendum.

The Village *may* accept the highest responsible bidder, so a referendum is not binding.

b. WIPA Sales Process

This process involves 20+ steps that take approximately 20 months to complete, subject to response times from regulatory agencies. *Many of these steps can occur concurrently.* See Exhibit 7.

1. Hire engineering consultant and identify and document any Emergent Conditions (EC's) – *90 days*
2. Schedule a pre-application meeting with the DEP, Office of the State Comptroller (OSC), BPU, and Department of Community Affairs (DCA) – *3 weeks (concurrent)*
3. Prepare Request for Qualifications (RFQ) for independent financial advisor – *3 weeks (concurrent)*
4. Advertise for and review submissions for financial advisors – *4 weeks (concurrent)*
5. Resolution awarding contract to independent financial advisor – *3 weeks (concurrent)*
6. Financial advisor's report preparation – 45 days
7. Submit financial advisor's report to BPU, DCA, and DEP – *2 weeks (concurrent)*
8. Notice of public hearing – *4 weeks*
9. Hold public hearing about proposed EC's
10. Municipal governing body adopts resolution certifying existence of EC's and submits copy to DEP, BPU, and DCA – *2 weeks*
11. DEP approves or rejects existence of EC's – *30 days*
12. Public notice of DEP's approval of the EC (if granted), including provision for public petition for a referendum – *60 days, but longer if a referendum is required*
13. Preparation of RFQ to solicit entities to be considered for sale – *30 days (concurrent)*
14. Advertise for and review submissions to determine qualified buyers – *45 days*
15. Issue RFP to qualified respondents – *45 days*
16. Board resolution to designate successful respondent – *14 days (concurrent)*
17. Negotiate sale agreement – *45 days*
18. Board resolution accepting agreement & submitting to BPU & DEP for approval – *14 days*
19. BPU approval/rejection of agreement – *90 days*
20. DEP approval/rejection of use of sale proceeds – *30 days (concurrent)*
21. Board resolution authorizing execution of sale agreement – *14 days*
22. Implementation – *6 months*

E. Evaluate & Compare Bids for O&M Services and System Sale

With both an acceptable bid for O&M services and offer and price for selling its water system, the Village will be positioned to make a well-considered decision to retain or sell its water system and implement the selected solution.

South Orange Water Utility Preliminary Schedules	Mos.	2024												2025												2026											
		Jan	Feb	Mar	Apr	May	Jun	Jly	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jly	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jly	Aug	Sep	Oct	Nov	Dec
OPTION 1 - Retain Water Utilty																																					
Source New O&M Contractor	17+																																				
RFP Development & Acceptance	4																																				
Advertising & Bidding	1+																																				
Proposal Review & Selection	2+																		D																		
Negotiate & Execute O&M Agreement	4																						C														
Implementation & Transition	6+																																				
NJAW O&M Agreement Terminates																															C						
OPTION 2 - Sell Water Utility																																					
A. Public Referendum Sale - *2024 > 2025*	17																																				
Prepare Bid Package	3																																				
Adopt Resolution to Sell	0.3																																				
Advertise Bid Package	2.5																																				
Review Bids Received	1						D																														
Introduce & Adopt Ordinance to Sell	1																																				
Send Ordinance to Clerk of Elections	3																																				
General Election Referendum	0										E																										
Negotiate Sale Agreement	3													C																							
Implementation	6																																				
B. Public Referendum Sale - *2025 > 2026*	17																																				
Prepare Bid Package	3																																				
Adopt Resolution to Sell	0.3																																				
Advertise Bid Package	2.5																																				
Review Bids Received	1																		D																		
Introduce & Adopt Ordinance to Sell	1																																				
Send Ordinance to Clerk of Elections	3																																				
General Election Referendum	0																							E													
Negotiate Sale Agreement	3																									C											
Implementation	6																																				

E General Election # Concurrent w/ other tasks D Decision C Contract execution

South Orange Water Utility Preliminary Schedules

	Mos	2024												2025												2026											
		Jan	Feb	Mar	Apr	May	Jun	Jly	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jly	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jly	Aug	Sep	Oct	Nov	Dec
WIPA Sale - *2024 > 2026*	**23**																																				
Hire Engineering Consultant for EC Identification	3																																				
Schedule Pre-App Meeting w/ DEP,OSC,BPU,DCA	0.8																																				
Prepare RFQ for Financial Advisor	0.8																																				
Advertise & Review Financial Advisors	1																																				
Resolution Awarding Financial Advisor Contract	0.8																																				
Financial Advisor's Report Preparation	1.5																																				
Submit Financial Report to BPU, DCA, DEP	0.5																																				
Notice of Public Hearing re EC's	0.9																																				
Public Hearing	0																																				
Adopt Resolution Certifying EC's > DEP, BPU, DCA	0.5																																				
DEP Review	1																																				
Public Notice of DEP Approval w/ Petition Option	2																																				
Prepare RFQ for Purchasers	1																																				
Advertise & Review to Identify Qualified Buyers	1.5																																				
Issue RFP to Qualified Respondents	1.5																																				
Resolution to Designate Successful Respondents	0.5																		D																		
Negotiate Sale Agreement	1.5																																				
Resolution Accepting Agreement & Submit to BPU, DCA	0.5																																				
BPU Approval/Rejection of Agreement	3																																				
DCA Approval/Rejection of Use of Sales Proceeds	1																																				
Resolution Authorizing Execution of Sales Agreement	0.5																							C													
Implementation	6																																				

E General Election # Concurrent w/ other tasks D Decision C Contract execution

9. Exhibits

1. Resolution #2022-VP04, *Village President's Appointment Resolution Designating Members of a Water Utility Task Force*
2. Capital Improvement Plan Summary
3. Remington & Vernick Engineers Report (October 2023)
4. Memorandum of Revisions to Remington & Vernick Engineers October 2023 report
5. Similar Recent Sales
6. Process for Water System Sale by Referendum
7. Process for Water System Sale under WIPA

# # #

Exhibit 1

SOUTH ORANGE VILLAGE
Municipal Offices
76 South Orange Ave
Suite 302
South Orange
Essex County
New Jersey 07079

www.southorange.org
P 973.378.7715
F 973.763.0987

RESOLUTION #2022-VP04

September 12, 2022

VILLAGE PRESIDENT'S APPOINTMENT RESOLUTION DESIGNATING MEMBERS OF A WATER UTILITY TASK FORCE

WHEREAS, the Township of South Orange Village owns and operates the South Orange Water Utility, which serves approximately 4,500 households and properties; and

WHEREAS, the ownership and operation of an aging water infrastructure requires certain business and practical pivotal decisions when considering significant capital expenditure and ever-evolving compliance and water quality regulations; and

WHEREAS, the input of citizens, professionals and stakeholders would be beneficial as the Water Utility considers these business and practical pivotal decisions together with an evaluation of long-term viability of the current ownership and operational structure of the water utility.

As Village President, I hereby designate the following individuals as members of a Water Utility Task Force that will evaluate the most efficient and cost-effective structure to deliver high-quality and safe water to the residents and stakeholders in South Orange and, in performing that evaluation, to consider (without limitation) capital investments, consequential water rate(s), staffing, operations, maintenance, alternative ownership structures and potential sale of the utility to a private regulated utility:

- Sheena Collum
- Douglas Newman
- Kirk Barrett
- Clifford Pomerantz
- Walter Clarke
- John Signorello
- Julie Doran
- Chris Battaglia
- Howard Levison
- Ellen Foye Malgieri
- David Battaglia
- Bill Haskins
- Steven Schnall (Alternate Member)

Exhibit 1 (cont'd)

Dated: September 12, 2022

Sheena C. Collum
Village President

CERTIFICATION

I, Ojetti E. Davis, Village Clerk of the Township of South Orange Village, County of Essex, State of New Jersey, do hereby certify that this is a true and correct copy of the Resolution adopted by the Board of Trustees at their regular meeting held on Monday, September 12, 2022.

Ojetti E. Davis
Village Clerk

Exhibit 2
South Orange Water Utility
30-Year Capital Improvement Plan (CIP)

Year	Water Main Improvements	Lead Service Lines	Other Improvements	Engineering	Inflation	Total
2023	$1,500,000	$130,000	$10,585,000	$500,000	$0	**$12,715,000**
2024	$1,500,000	$130,000	$4,045,000	$500,000	$247,000	**$6,422,000**
2025	$1,500,000	$130,000	$2,695,000	$500,000	$343,540	**$5,168,540**
2026	$1,500,000	$130,000	$995,000	$250,000	$297,091	**$3,172,091**
2027	$1,500,000	$130,000	$320,000	$250,000	$300,159	**$2,500,159**
2028	$1,500,000	$130,000	$320,000	$250,000	$375,164	**$2,575,164**
2029	$1,500,000	$130,000	$320,000	$100,000	$421,572	**$2,471,572**
2030	$1,500,000	$130,000	$320,000	$100,000	$495,719	**$2,545,719**
2031	$1,500,000	$130,000	$320,000	$100,000	$572,091	**$2,622,091**
2032	$1,500,000	$0	$320,000	$100,000	$609,486	**$2,529,486**
2033	$1,500,000	$0	$300,000	$100,000	$678,232	**$2,578,232**
2034	$1,500,000	$0	$300,000	$100,000	$755,579	**$2,655,579**
2035	$1,500,000	$0	$300,000	$100,000	$835,246	**$2,735,246**
2036	$1,500,000	$0	$300,000	$100,000	$917,304	**$2,817,304**
2037	$1,500,000	$0	$300,000	$100,000	$1,001,823	**$2,901,823**
2038	$1,500,000	$0	$300,000	$100,000	$1,088,877	**$2,988,877**
2039	$1,500,000	$0	$300,000	$100,000	$1,178,544	**$3,078,544**
2040	$1,500,000	$0	$300,000	$100,000	$1,270,900	**$3,170,900**
2041	$1,500,000	$0	$300,000	$100,000	$1,366,027	**$3,266,027**
2042	$1,500,000	$0	$300,000	$100,000	$1,464,008	**$3,364,008**
2043	$1,500,000	$0	$300,000	$100,000	$1,564,928	**$3,464,928**
2044	$1,500,000	$0	$300,000	$100,000	$1,668,876	**$3,568,876**
2045	$1,500,000	$0	$300,000	$100,000	$1,775,942	**$3,675,942**
2046	$1,500,000	$0	$300,000	$100,000	$1,886,220	**$3,786,220**
2047	$1,500,000	$0	$300,000	$100,000	$1,999,807	**$3,899,807**
2048	$1,500,000	$0	$300,000	$100,000	$2,116,801	**$4,016,801**
2049	$1,500,000	$0	$300,000	$100,000	$2,237,305	**$4,137,305**
2050	$1,500,000	$0	$300,000	$100,000	$2,361,424	**$4,261,424**
2051	$1,500,000	$0	$300,000	$100,000	$2,489,267	**$4,389,267**
2052	$1,500,000	$0	$300,000	$100,000	$2,620,945	**$4,520,945**
Total	**$45,000,000**	**$1,170,000**	**$26,240,000**	**$4,650,000**	**$34,939,877**	**$111,999,877**

Exhibit 3

Remington & Vernick Engineers October 2023 report

(See Attachment)

Exhibit 4
Memorandum of Revisions to Remington & Vernick Engineers' Report

Memo

To: South Orange Water Utility Task Force

From: Clifford Pomerantz

Date: October 25, 2023

Re: Proposed Revisions to RVE Report for Inclusion in Task Force Summary Report

RVE submitted the final version of its Municipal Water System Operation Feasibility Report on October 18, 2023. The purpose of this report is to develop three scenarios for the Village to consider, if the Village chooses not to sell its Water Utility. The report did not include several comments and revisions that were provided by the Task Force on previous RVE submittals and agreed to by RVE. The Task Force saw no benefit in continuing repeatedly to ask RVE to address these comments. Therefore, this memo has been prepared to document revisions to the RVE report that will be incorporated into the Task Force's Report of Findings being prepared to submit to the Board of Trustees.

1. Service Responsibility

Table 1 of the RVE report (see below) showed the distribution of responsibilities between contractors and Village staff for the three scenarios considered. However, the RVE cost opinions for each scenario did not include costs for each service/activity included in this list. Costs have been developed for each service as described hereinafter. Further, the following adjustments to responsibilities have been made.

- Under Scenario 1, RVE placed 'Contracting" as a "Contractor" responsibility. This has been moved to a Village responsibility.
- Under Scenarios 2 and 3, RVE placed "Utility Locating" as a "Contractor" responsibility. This has been moved to a Village responsibility to be performed by village operating staff.

The revisions to the table are shown below:

Table 1

	Scenario 1 – Full Outsourcing of O&M		Scenario 2 – Full O&M by Village		Scenario 3 – Hybrid – Village Personnel with Third Party Contractor Support	
Service/Activity	**Contractor**	**Village**	**Contractor**	**Village**	**Contractor**	**Village**
Supervision	X	X		X		X
Contracting	~~X~~	X		X		X
Legal Services		X		X		X
Engineering Services		X		X		X
Financial Planning		X		X		X
Billing & Collection Services	X	X		X		X
Community Liaison		X		X		X

Utility Locating Services	X		X	X	X	X
Coordination with NJAW Supply		X		X		X
Licensed Operator	X			X	X	
Day-to-Day Utility Oversight	X			X		X
Routine Maintenance	X			X		X
Emergency Response	X			X	X	
Electrical Services	X		X		X	
Building & Grounds		X		X		X
SCADA System Monitoring	X		X		X	
Testing/Sampling	X		X		X	
Mechanical Services	X		X		X	

2. Cost Revisions

The costs developed by RVE for the scenarios were not comparable. RVE did not include the total costs of the Village Water Utility. The Task Force's report includes total costs that are based upon the Certified Village Budget, dated April 2023. The inclusion of common items will allow computation of water rates for each scenario. The certified budget is below. Common items added to each scenario are in bold and include all expenses except salaries.

Table 2 – Village Certified 2023 Budget

Water Utility Budget	**2023**	
Salaries	$	144,200
Other Expenses	**$**	**4,229,050**
Debt Service	**$**	**762,387**
Deferred Charges	**$**	**15,956**
total	**$**	**5,153,616**

a. Scenario 1 – Outsourcing of O&M

The RVE Scenario 1 cost is based solely on the current New Jersey American Water (NJAW) O&M contract. It does not include any Village services currently performed by Village staff. Further, Table 1 assigns contracting to the O&M Contractor. However, this service is currently performed by Village staff. This service will be shown as a Village responsibility.

Costs for the Village performed services will be estimated as follows:

The Certified Village Budget for salaries ($144,400) will be doubled to pay for a new water professional staff position to support the Water Administrator.

b. Scenario 2 – Full O&M by the Village

Scenario 2 assigns most tasks to the Village. The utility location service assigned by RVE to a contractor but has been reassigned to the Village staff. As noted above, identified services are without any costs budgeted. These services and estimated costs are as follows:

1. Emergency Response – Assigned to Village staff. Cost estimated at $10,000/month ($120,000/yr.) for a 24-hour operator and retainers and responses for contractors to respond to emergencies. Material and Contractor costs for emergency repairs that exceed this amount are assumed to be minor and part of the Capital Improvement Program.
2. Electrical Services – Assigned to a contractor. Assume one day per week for electrical services at $135/hour. This rate is the average of the rates developed by RVE for a field foreman and a licensed operator. The annual cost is $27,000/year.
3. SCADA System monitoring – Assigned to a contractor. Assumed same as Electrical Services, $ 27,000/year.
4. Testing/Sampling – Assigned to a contractor. Assume half the cost of Electrical Services, $13,500/year.
5. Mechanical Services – Assume the same as Electrical Services, $ 27,000/year.

c. Scenario 3 – Hybrid – Village personnel supported by Third Party Contractors

Under Scenario 3, the five services noted above are assigned to contractors. However, RVE did not include any costs. The costs for scenario 3 are assumed to be the same as for Scenario 2, as noted above. Further, Table 1 above assigns the licensed operator and emergency response to contractors. The costs developed for Village staff under Scenario 2 have been used as contractor costs for Scenario 3.

3. Village Staff

Village staffing differs for each Scenario. The following are the projected staff levels. This is subject to further refinement.

Table 3 – Village Staff Summary

Scenario	Estimated Staff
Scenario 1	2+
Scenario 2	12
Scenario 3	10

4. Estimated Total Costs per Scenario

Estimated Costs for each scenario for 2023 and 2026 have been developed as shown on Table 5 at the end of this memo. The costs are based upon the 2023 Certified Village Budget, costs developed by RVE, and revisions as noted above. RVE estimated labor inflation between 2023 and 2026 at 14.83% and other costs inflation at 10.13%. These values have been used for this evaluation.

Estimated costs are summarized as follows:

Table 4 – Cost Summary

Item	2023	2026 (Est.)
Village Certified Budget		
Budget	$ 5, 151,600	$5,692,300
Water Rate - $/Unit	$ 7.65	$8.45
Scenario 1 – Outsourcing of O&M		
Estimated Budget Cost	$ 5,284,500	$ 5,843,400
Estimated Water Rate - $$/Unit	$ 7.85	$ 8.68
Scenario 2 – Full O&M by the Village		
Estimated Budget	$ 6,156,000	$ 6,862,400
Estimated Water Rate - $$/Unit	$ 9.14	$ 10.19
Scenario 3 – Hybrid – Village personnel supported by Third Party Contractors		
Estimated Budget	$ 6,048,000	$ 6,741,000
Estimated Water Rate - $$/Unit	$ 8.98	$ 10.01

Based upon this evaluation, the costs for Scenario 1 are less than for Scenarios 2 and 3. Scenario 1 will be used as the comparison to the sell option.

The detailed cost development is shown in the following Table 5.

Table 5 – Detailed Costs

			Scenario Comparative Costs based on SO budget & RVE						
	Village Budget		Scenario 1		Scenario 2		Scenario 3		Comments/assumptions
SO Village Budget Item	**2023**	**2026**	**2023**	**2026**	**2023**	**2026**	**2023**	**2026**	
Other Expenses	$ 4,229,000	$ 4,665,856							From Certified 2023 budget; broken down for Scenarios
Water P:urchase	Incl w/other expenses		$ 3,000,000	$ 3,309,900	$ 3,000,000	$ 3,309,900	$ 3,000,000	$ 3,309,900	
JIF Insurance	Incl w/other expenses		$ 50,000	$ 55,165	$ 50,000	$ 55,165	$ 50,000	$ 55,165	
Electric and Gas	Incl w/other expenses		$ 60,000	$ 66,198	$ 65,000	$ 71,715	$ 65,000	$ 71,715	**RVE values for Scenarios 2 and 3**
O&M - NJAW	Incl w/other expenses		$ 907,686	$ 1,001,450					
Debt Service	$ 762,400	$ 841,156	$ 762,400	$ 841,156	$ 762,400	$ 841,156	$ 762,400	$ 841,156	
Deferred Charges	$ 16,000	$ 17,653	$ 16,000	$ 17,653	$ 16,000	$ 17,653	$ 16,000	$ 17,653	
Professional Services	Incl w/other expenses		$ 50,000	$ 55,165	$ 50,000	$ 55,165	$ 50,000	$ 55,165	
Permits and Fees	Incl w/other expenses		$ 50,000	$ 55,165	$ 500	$ 552	$ 500	$ 552	**RVE used $ 500 for Scenarios 2 and 3**
non-Capital Repairs	Incl w/other expenses		$ 100,000	$ 110,330					See RVE Estimate for spare parts Below
Village Labor (Wages and Benefits)	$ 144,200	$ 165,585	$ 288,400	$ 331,170					**double village budget to add one more FTE**
Service/Activity Identified in RVE Report									
Service Provided by Village Labor									
Supervision	Incl. w/Village Labor		Incl. w/Village Labor		$ 325,394	$ 373,649	$ 325,394	$ 373,649	RVE assigned cost for administrator and Assistant - **2 total**
Contracting	Incl. w/Village Labor		Incl. w/Village Labor		Assume included with Supervision				
Legal Services	Incl. w/Village Labor		Incl. w/Village Labor		Assume included with Supervision				
Engineering Services	Incl. w/ prof. services		Incl. w/ prof. services		Assume included with Supervision				
Financial Planning	Incl. w/Village Labor		Incl. w/Village Labor		Assume included with Supervision				
Coordination with NJAW Supply	Incl. w/Village Labor		Incl. w/Village Labor		Assume included with Supervision				
Building & Grounds	Incl. w/NJAW O&M		Incl. w/NJAW O&M		$ 6,000	$ 6,890	$ 6,000	$ 6,890	Assume $500/month paid to PW
Billing & Collection Services	Incl. w/NJAW O&M		Incl. w/NJAW O&M		$ 383,722	$ 440,628	$ 383,722	$ 440,628	**Assume 4 staff per RVE**
Community Liaison	Incl. w/NJAW O&M		Incl. w/NJAW O&M		Assume included with Supervision				
Utility Locating Services	Incl. w/NJAW O&M		Incl. w/NJAW O&M		Include with Routine Maintenance				
Licensed Operator	Incl. w/NJAW O&M		Incl. w/NJAW O&M		$ 269,884	$ 309,907			Assume 1 licenced operator and assistant per RVE - **2 total**
Day to Day Utility Oversight	Incl. w/NJAW O&M		Incl. w/NJAW O&M		Incl w/ic. Operator				
Routine Maintenance	Incl. w/NJAW O&M		Incl. w/NJAW O&M		$ 463,534	$ 532,277	$ 463,534	$ 532,277	Used RVE cost for field foreman and Utility locating services - Assume 3 staff support field Foreman- **4 total**
Emergency Response	Incl. w/NJAW O&M		Incl. w/NJAW O&M		$ 120,000	$ 137,796			No RVE Cost - Assume 10,000/month for 24 hr operator and contractor retainers
Contracted Services									
Licensed Operator			Incl. w/NJAW O&M				**$ 269,884**	**$ 307,667**	Use RVE Costs from Option 2
Emergency Response			Incl. w/NJAW O&M		the licensed operator		$ 120,000	$ 137,796	same as for option 2
Electrical Services	Incl. w/NJAW O&M		Incl. w/NJAW O&M		$ 27,000	$ 29,789	$ 27,000	$ 29,789	No Cost by RVE - assume 1day/week at $ 135,000/yr - Note 2
SCADA System Monitoring	Incl. w/NJAW O&M		Incl. w/NJAW O&M		$ 27,000	$ 29,789	$ 27,000	$ 29,789	No Cost by RVE - assume 1day/week at $ 135,000/yr - Note 2
Testing/Sampling	Incl. w/NJAW O&M		Incl. w/NJAW O&M		$ 13,500	$ 14,895	$ 13,500	$ 14,895	No Cost by RVE - assume 1day/week at $ 135,000/yr - Note 2
Mechanical Services	Incl. w/NJAW O&M		Incl. w/NJAW O&M		$ 27,000	$ 29,789	$ 27,000	$ 29,789	No Cost by RVE - assume 1day/week at $ 135,000/yr - Note 2
RVE Estimated Capital Cost Items									
Outside Laboratory					$ 1,000	$ 1,103	$ 1,000	$ 1,103	RVE cost for scenario 2 and 3
Capital cost for Equipment					$ 298,000	$ 328,783	$ 210,000	$ 231,693	RVE cost for scenario 2 and 3
Staff Office Space					$ 40,000	$ 44,132	$ 20,000	$ 22,066	RVE cost for scenario 2 and 3
SCADA					$ 110,000	$ 121,363	$ 110,000	$ 121,363	RVE cost for scenario 2 and 3
Spare Parts					$ 100,000	$ 110,330	$ 100,000	$ 110,330	RVE cost for scenario 2 and 3
Costs	**$ 5,153,623**	**$ 5,692,275**	**$ 5,284,486**	**$ 5,843,351**	**$ 6,155,933**	**$ 6,862,425**	**$ 6,047,933**	**$ 6,741,029**	
Village Labor Cost only	**$ 144,200**	**$ 165,585**	**$ 288,400**	**$ 331,170**	**$ 1,568,533**	**$ 1,801,147**	**$ 1,178,650**	**$ 1,353,444**	
Village Staff	**1+**	**1+**	**2+**	**2+**	**12**	**12**	**10**	**10**	
Costs/Day	**$ 14,120**	**$ 15,595**	**$ 14,478**	**$ 16,009**	**$ 16,866**	**$ 18,801**	**$ 16,570**	**$ 18,469**	
Ann. Average Water use - MGD	**1.41**	**1.41**	**1.41**	**1.41**	**1.41**	**1.41**	**1.41**	**1.41**	
Ann.Ave water use - units	**1,845**	**1,845**	**1,845**	**1,845**	**1,845**	**1,845**	**1,845**	**1,845**	
Water Rate - $$/Unit	**$ 7.65**	**$ 8.45**	**$ 7.85**	**$ 8.68**	**$ 9.14**	**$ 10.19**	**$ 8.98**	**$ 10.01**	
Notes									
1. Assume 14.83 % inflation for labor, 10.33 % inflation for All others from 2023 to 2026 as per RVE report									
2. Assume annual rate is average of Licensed Operator and Field foreman from RVE report									

Exhibit 5
Similar Recent Sales

Egg Harbor City, Atlantic County

Much of this information is from a June 2023 article in *The Press of Atlantic City*.

The New Jersey Department of Environmental Protection (the "DEP") certified the city's April 2019 request to pursue the sale of its water system. Town officials and the DEP agreed the municipality did not have the minimum of $14 million needed to upgrade its aging systems.

In March 2021, Egg Harbor City Council voted to sell to NJAW for $21.8M under the WIPA. NJAWC filed a petition to BPU to approve the sale under WIPA, but Middlesex Water Company, Aqua New Jersey, and the Association of Environmental Authorities objected based on the procurement methodology, including questions raised about its use of RVE as its financial advisor, because it apparently previously also had been engaged by the municipality as its municipal engineer. The State Comptroller raised concerns with the procurement and independence of the financial advisor used in the course of the city valuing its system. The Comptroller also noted that some provisions allegedly required by WIPA were missing from the contract. However, it concluded the WIPA did not give any agency authority to address these concerns. In August 2022, the BPU approved the sale. Closing was announced in June 2023.

"This agreement provides tremendous benefits for our residents. The sale of our city's water and wastewater systems to New Jersey American Water will provide nearly $22 million to help the city pay off existing debt while leaving additional money to assist in other areas of the city's budget," Mayor Lisa Jiampetti said in a statement. "Additionally, the company is committed to investing $14 million into much-needed system improvements. All told, this means better infrastructure, stable water rates and millions in funds for the city, none of which would be possible without the sale of the systems." Under the agreement, New Jersey American Water will invest $14 million in the first 10 years to upgrade the city's water and wastewater systems, including $9 million in the first five years, while keeping rates stable for customers, New Jersey American Water said in a news release.

Egg Harbor's Water & Sewer Department Superintendent, Keith Adams, was interviewed by the Task Force in January 2023. He said he thinks the sale will turn out to be the right decision for Egg Harbor in the long run. Getting the interconnection will be beneficial and there will be an economy of scale because NJAW has other systems nearby. He recommended holding a referendum (which Egg Harbor did not do) to get public confirmation. He noted that South Orange does not own a water supply or treatment facility, so we cannot be an independent full-service utility. South Orange is already halfway toward outside ownership, and towns rarely go back to more inhouse work.

Superintendent Keith Adams interview by Task Force:

1. What was your primary reason for selling your system? *Town council believed it would be impossible for the municipal utility to adhere to a capital improvement plan that*

would keep the system in good condition – because of too much political pressure to limit spending.

2. Why was NJAW selected as the buyer? *Their bid amount was about the same as the other bidder. NJAW offered an interconnection (providing supply in an emergency) which the other bidder could not. Plus, NJAW guaranteed $10M in capital spending in 9 years.*

3. Was a public referendum conducted? *If not, was there a public petition to instead conduct a referendum? No referendum. Not petition. Not much public opposition to the sale, possibly because it was during covid lockdown.*

4. What WIPA Emerging Condition was cited? *#5 -- the system owner lacks financial, technical, or managerial capacity.*

5. Prior to your sale/lease, did you supply your own water or purchase it? *If purchased, what entity was the provider? The Town owned water supply and treatment system.*

6. Prior to your sale/lease, were you managing your own operations & maintenance (O&M)? *If not, what entity provided your O&M? Emergency and small work done in house.*

7. How did water rates change? *Contract says rates will be reduced by 5% initially. Thereafter, set per BPU rating-setting process.*

8. How was the cost of hydrant maintenance and municipal water accounts addressed in your sale/lease agreement? *Phased in over 5 yrs. Contract said free water for municipal buildings for 10, but that was reduced to 3 years by BPU.*

9. While you owned your water system, did you have a capital improvement plan? *No; had a draft but rejected by town council, perhaps superseded by the sale.*

10. When you decided to pursue selling/leasing your system, did you continue making non-emergency capital improvements? *No.*

Allendale, Bergen County

According to the *Bergen Record*, Allendale did not have a water department; since 2013, it had a contract with Suez Water, which was sold to Veolia North America, to operate and maintain the Allendale Water System. Since 2001, Allendale purchased 50% of its water from Suez and the remainder comes from the borough's five wells.

In October 2021, The Ridgewood Blog posted that faced with the increasing costs and complexity of operating the borough's water system, beginning in 2019, the Allendale Water Committee began considering a sale to an experienced water company as well as several other options.

Allendale website's Water Sale Archive includes extensive water sale-related documents, including FAQ's. These reveal the Borough thoroughly investigated whether it should sell, lease, keep the system, or try some other option. Continuing to own the system or leasing it would mean the Borough would continue to be responsible for major investments in aging infrastructure. A sale to a water company with the staff, expertise, and resources to maintain and improve the system was deemed its best option. The sale for $18M was approved by residents in a November 2021 referendum: 1,511 (78%) Yes to 434 (22%) No votes.

Bidding opened in Spring 2022 and the sale transaction closed in November 2022. Suez/Veolia was the high bidder and NJAW was the alternate bidder. The winning bid exceeded the Borough's valuation report.

According to the *Bergen Record*, the sale will allow the borough to "retire all our municipal debt" and provide "a very strong balance sheet going forward," said Mayor Ari Bernstein. Veolia has provided half of the borough's drinking water for more than 20 years and operated its system under contract for 10 years, Councilwoman Homan said. The Water Committee began a more in-depth search for long-range solutions in 2019, when faced with aging water infrastructure, increasing complexity of regulatory compliance and water treatment protocols, especially for PFAS[2].

SUEZ agreed to a 10-year rate plan, allowing for increase of 0.5% in year two and 5% in each of years five, seven and ten. SUEZ will make the infrastructure investments -- including PFAS treatment and upgrades to water infrastructure – that the system needs. The company plans $26 million in infrastructure projects in the first 10 years.

Allendale's Councilwoman Liz Homan December 2022 interview by Task Force:

1. What was your primary reason for selling/leasing your system? *Financial and technical burden of capital expenditures; increasing complexity of managing water, including contaminants.*

2. Was there a secondary reason? *Aging system causing more potential issues for future; management and oversight would be huge and need for new skills; other nearby municipalities not ready to team/collaborate.*

3. Did you conduct a referendum to authorize your sale/lease or satisfy the Water Infrastructure Protection Act's (WIPA's) emerging conditions requirements? *Referendum. They wanted town to support recommendation and did lots of communication with major outreach and discussion.*

4. Did you conduct a public education program? If so, what was done? *Lots of town halls and discussions*

5. Approximately what percent of voters supported your sale/lease? *73% supported.*

[2] PFAS are widely used, long lasting chemicals, components of which break down very slowly over time. The NJDEP has adopted minimum drinking water standards for three PFAS: Perfluorooctanoic acid (PFOA), perfluorooctanesulfonic acid (PFOS), and perfluorononanoic acid (PFNA).

6. After your sale/lease, how long did your transition take? *Opened bids in Spring 2022, public education before to describe the whole process; referendum November 2021; closed November 30, 2022.*

7. What water or O&M issues, if any, did you experience? *Water main breaks due to older system; concern with valves.*

8. How was the cost of hydrant maintenance and municipal water accounts addressed in your sale/lease agreement? *BPU said "must be fire protection charge"; rate instruction must include this; contract is for 10 years; uncoupled after that for all charges and then must be negotiated.*

9. While you owned your water system, did you have a capital improvement plan? *A plan was not mentioned but there was a mention of $25 quarterly bill per resident for capital improvements until the deal.*

10. When you decided to pursue selling/leasing your system, did you continue making non-emergency capital improvements? *Still maintained basic maintenance so system is still at same quality when the takeover is done.*

11. Did your sale/lease agreement include future capital improvement commitments from buyer? If so, were timeframes specified? And, has the buyer satisfied its commitments or have there been issues? *They committed to $25M improvements over 10 years; they must put in PFAS treatment.*

12. What, if anything, would you do differently? *Take closer look at fire protection; tight controls on future capital improvement plans and enforcement.*

Long Hill, Morris County

Long Hill's wastewater system, including sewers, pump stations, and a treatment plant, was owned, operated, and maintained by the township. It required significant maintenance and upgrades to operate properly, including upgrades to comply with NJDEP conditions. A 2017 study by RVE found the township needed to spend $27 million over the next 20 years to upgrade its system. The township council voted to sell the system in 2017 but was rejected in a public referendum in which a national nonprofit, Food & Water Watch, which generally opposes public asset privatization, was involved. Following the failed referendum, the township increased sewer rates dramatically and spent $500,000 to develop a $7 million capital plan. It had a one-year operations agreement with Suez/Veolia, which expired in December 2019.

In January 2019, the township council restarted its efforts to sell the system. The township's objectives were:

a. Obtain highest value for the Wastewater System;
b. Utilize proceeds to pay off Wastewater System debt and other liabilities;
c. Minimize rate volatility for ratepayers;

d. Transfer responsibility for regulatory requirements to the Buyer;
e. Have the Buyer undertake specified capital improvements;
f. Lift the sewer ban;
g. Increase capacity of the wastewater treatment plant in order to meet the Township's COAH obligations and support future growth;
h. Reduce the environmental and financial risk to the Township; and
i. Connect septic areas to the sewer.

This was the process' timeline:

- Jan 2019: Submitted notice of intent to sell system to State Comptroller.
- Feb 2019: Town council authorized Request for Bids. No mention of WIPA in the RFB.
- Jun 2019: Bidder selected. Only NJAW submitted a bid, $12.7M. NJAW had been the water provider for many years.
- July 2019: Ordinance passed to authorize the sale.
- Nov 2019: Ordinance referendum approved: 2006 (67%) Yes vs. 982 (33%) No votes.
- May 2020: Sale approved by BPU.
- Oct 2020: Sale completed.

According to the October 2019 The Long Hill Ledger newsletter, a sale of the system would eliminate these risks and provide property tax and rate stabilization. The sewer rates would revert to those of 2018 (an 11% saving for the average residential customer), followed by a two-year rate freeze. Following that, rates would rise by no more than 3% each year for the next three years. After the initial five-year binding rate plan expires, New Jersey American Water (NJAW) will have to go to the Board of Public Utilities for rate approval, just like all our other utilities, PSEG, Verizon, JCPL, etc. The historical rate increase approved by the BPU in the last 10 years is 2.5 percent per year. If the Township maintains control over the system, rates will rise by double digits over that time period. In addition, the sale would relieve the Township of all current debt we have and pay interest on each year. According to the Township CFO, this would free up more than a million dollars in each of the next four years, helping to stabilize property taxes and allow funds for other projects that improve our community. The Township Committee authorized a $7.2 million bond to fund improvements if the referendum fails. This bond ordinance will be cancelled, and no debt will be incurred with the sale of the wastewater system

From an October 22, 2020 NJAW press release: As part of the acquisition agreement, New Jersey American Water committed to invest more than $13 million in critical sewer system improvements in the next five years. "Selling the system to New Jersey American Water is the best solution for our town," said Brendan Rae, Mayor, Long Hill Township. "The proceeds from the sale will eliminate our debt, freeing up over $1 million in our annual budget, but more importantly we expand upon the partnership we have with New Jersey American Water. Fixing our troubled sewer system is of critical importance."

Interesting elements of the Request for Bids (the "RFB"):

- The Buyer shall be responsible for obtaining BPU approval.

- The Bidder will be required to provide its plan for implementing a binding rate structure for the ratepayers following the sale. The 5-year binding rate schedule must reflect that rates will not be increased for at least two (2) years from the Closing (based on 2018 sewer rates) and that rates will not be raised more than 9% in total over the three (3) years after that. In addition, Bidders will be required to submit a projected (non-binding) rate schedule that projects rates for a minimum of 20 years following the Closing Date.
- The Township will require that the Buyer provide a payment in the amount of $100,000 to cover the Township's administrative costs in connection with the sale.
- The RFB contains a draft contract of sale.

Business Administrator Nancy Maloof's January 2023 interview by Task Force:

- 9,000 residents, 12 square miles;
- Sewer system serves only Long Hill;
- Long Hill was under pressure to fulfill NJDEP requirements;
- First referendum failed; Food & Water Watch involved;
- Long Hill had to respond to failed referendum by preparing a $500K plan to upgrade system to fulfill NJDEP requirements (~$7 million);
- Second referendum passed; NJAW did community outreach;
- $13 million sale to NJAW;
- Rate restrictions and required upgrades in sale;
- Two years after sale, NJAW seems to be doing the upgrade work as per its commitment, but a few billing glitches; and
- 'Best decision we ever made'.

Exhibit 6

Process for Water System Sale by Referendum

Task	Action to Be Taken	Time to Completion (Est.)	N.J.S.A. Authority	Days	Cumul. Days	Cumul. Months
1	Preparation of Bid package (which must include "general description of the property, and such terms and conditions as [the Governing Body] shall deem advisable,...)	30 days	40:62-4	30	30	1.0
2	Adopt resolution determining it is advisable to sell or lease system in advance of advertising	Concurrent with preparation of bid package	40:62-4	0	30	1.0
3	Bid package must be advertised 6 times, once a week, no less than 30 days before bid responses are due	72 days	40:62-4	72	102	3.4
4	Review bids received	14 days		14	116	3.8
5	Governing body review & decision	14 days		14	130	4.3
6	Introduce and adopt ordinance providing for sale or lease to highest bidder	30 days (does not include 45 days for possible perogative writ)	40:62-5	30	160	5.3
7	Certified copy of ordinance must be served upon "officer charged with the duty of preparing election ballots" with request to place the question upon the ballots of the next general election	81 days before general election (or August 15, 2024)	19:37-1	0	160	5.3
8	General election public referendum	81 days from submission		81	241	7.9

Exhibit 7

Process for Water System Sale under Water Infrastructure Protection Act (WIPA)

Task	Action to be Taken	Time to Completion (Est.)	WIPA NJSA Authority	Days	Cumul. Days	Cumul. Months
1a	Preparation of report by Engineer that emergent condition(s) exists and Resolution of Board of Trustees (BOT) making determination that emergent condition(s) exist	90 days	58:30-5(a)	90	90	3.0
1b	Resolution of BOT to hire independent financial advisor to set value of system, impacts to rate payers of cash flow structure of deal, financial requirements to address conditions and to operate system	21 days	58:30-5(c)	0	90	3.0
1c	Preparation of Request for Qualifications (RFQ) for Independent financial advisor	21 days	Under Local Public	0	90	3.0
2	Advertisement for and review of submissions for independent financial advisor	30 days	Under Local Public	0	90	3.0
3	Resolution awarding of contract to independent financial advisor	21 days	58:30-5(c)	0	90	3.0
4	Preparation of report by Independent financial advisor with SOV review and approval	45 days		45	135	4.4
5	Transmission of reports to Department of Environmental Protection (DEP), Board of Public Utlitiies (BPU) and Department of Community Affairs (DCA)	within 10 days of approval of financial report	58:30-5(c)	0	135	4.4
6	Notice of public hearing	No less than 30 days before hearing date	58:30-5(d)	31	166	5.5
7	Resolution of BOT certifying existence of emergent condition(s) and intent to sell or lease system	After public hearing	58:30-5(e)	14	180	5.9
8	Transmission of reports to DEP, Director of DEP, BPU and DCA	within 5 days of adoption	58:30-5(e)	0	180	5.9
9	Acceptance or rejection of certification by DEP	within 30 days of receipt	58:30-5(e)	30	210	6.9
10a	If SOV chooses to proceed, we must publish notice of approval from DEP which must state that a petition may be filed within 45 days (signed by at least 15% of the total SOV votes in last election) requiring that question be put to public referendum pursuant to 40:62-4 and 5	No less than 45 days from notice	58:30-5(f)	60	270	8.9
10b	Preparation of RFQ to solicit private or public entities wishing to be considered for lease or sale of system	concurrent with petition period	58:30-6(a)	0	270	8.9
11	Advertisement for and review of submissions from interested entities with determination of qualified respondents	Must be advertised for no less than 30 days. With review, total of 60 days	58:30-6(a)	45	315	10.4
12a	Issuance of Request for Proposals (RFP) to qualified respondents (RFP must include technical documents, description of assets and evaluation criteria) and review of submissions	Must be open for no less than 14 days. With review, total of 45 days	58:30-6(b)	45	360	11.8
12b	Resolution of the BOT to designate successful respondent including summary of findings	concurrent with RFP period	58:30-6(c)	0	360	11.8
13	Negotiation of agreement of lease or sale	45 days	58:30-7(a)	45	405	13.3
14	Resolution of BOT accepting agreement and causing same to be submitted to BPU for approval and usage of proceeds to be reviewed by Director of DEP	21 days	58:30-7(b)(2)	14	419	13.8
15	Approval or rejection of agreement by BPU	Within 90 days of receipt	58:30-7(c)(2)	90	509	16.7
16	Approval or rejection of proposed use of proceeds by Director of DEP	Concurrent with BPU review and within 30 days	58:30-7(c)(3)	0	509	16.7
17	Resolution of BOT authorizing execution of agreement	After BPU and DEP	58:30-8	14	**523**	**17.2**