

South Orange Water Utility Task Force Findings & Recommendations

PRESENTATION TO SOUTH ORANGE BOARD OF TRUSTEES

November 27, 2023 Executive Session

(Revised July 30, 2024)

Agenda

- Background
- Recommendations
- South Orange Water Utility
- Water System Valuation
- Future Options & Scenarios
- Option 1 - Retain Water Utility
- Option 2 - Sell Water Utility
- Comparison of Options
- Implementation Roadmap
- BOT Next Steps

Background

- September 2022: Village President adopted Resolution #2022-VP04
- Resolution Designating Members of a Water Utility 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

Background (cont'd)

Task Force of 13 South Orange elected officials, employees, and volunteers

Elected Officials

- Sheena Collum, Village President
- Bill Haskins, Trustee

Volunteers

- Douglas Newman, Chair
 - Kirk Barrett
 - Clifford Pomerantz
 - Steve Schnall*
 - Victoria Pivovarnick, Seton Hall
- *Initially appointed as alternate Trustee

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

Background (cont'd)

- Examine, analyze, recommend action on S.O. Water Utility continued operations & maintenance (O&M)
- Feasibility and/or desirability of selling water system
- NJAW informally indicated it doesn't intend to continue O&M after July 2026 contract expires
- Water supply agreement can extend to 2075
 - 30-year term + two 15-year extensions
 - Supplies all Village water, including Seton Hall University

Background (cont'd)

- Task Force assessed alternatives
 - Researched experience of NJ municipalities that sold their water systems
 - Researched NJ regulatory framework for selling a water system
 - Held informal discussions with water companies re: their acquisition process
 - Engaged Remington & Vernick Engineers (RVE) to investigate three O&M scenarios, if Village retains water system ownership
 1. Outsourcing O&M to third party
 2. Providing in-house O&M with Village personnel
 3. Hybrid of first two scenarios
 - All scenarios assumed NJAW continues supplying water under its long-term agreement

Recommendations

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

South Orange Water Utility

- Transitioned from E.O. Water Commission to NJAW 2015/16
 - O&M services for 10 years (2026)
 - Bulk water supply for up to 60 years (2076)
- Part-time Water Utility Administrator – Howard Levison
- Plus 1.25 FTE support from Village Administration, Finance, Purchasing, Clerk, Legal, Public Works & Engineering
- Consulting engineer engaged to design, plan, engineer, and support implementation of CIP projects and address emergent conditions

South Orange Water Utility (cont'd)

- BPU-regulated bulk water supply agreement
 - Permitted 2.0-3.6 mgd, but averaging 1.8-2.8 mgd
 - 30%-45% of purchased water unbilled/non-revenue; but, now targeting 15%
- O&M services
 - All day-to-day operations & maintenance
 - Emergency repair/replacements
 - Preventive maintenance
 - Customer service
 - Billing & collections (NJAW sub-contractor)

South Orange Water Utility (cont'd)

- Physical plant
 - 3-pressure zone system with mains, local pipes, valves, and hydrants
 - Each zone has water storage facility – Reservoir, Crest Drive, Brentwood
- Capital Improvement Plan (CIP)
 - NJ mandates
 - Strategic initiatives: reliability, redundancy, resiliency & maintenance
- Lead service line identification & replacement
 - NJ mandate: identification lead lines by 2024; replace by 2033
 - Estimate Village-wide cost: \$6.6M
 - Water utility side: \$4.8M (10% incidence, est. 400 locations @ \$12K)
 - Customer side: \$1.8M (5% incidence, est. 225 locations @ \$8K) – *payment policy TBD*

South Orange Water Utility (cont'd)

- Major issues – 25 years without capital improvements
 - Initial catch-up to achieve steady-state condition
 - Restoring, updating & modernizing aging infrastructure
 - Providing ongoing, planned maintenance
- Water Utility debt
 - 12 CIP projects authorized - \$500K to \$4M each
 - Long-term serial bonds, short-term BAN's, and NJ Infrastructure Bank loans
 - YE 2023: \$23M debt authorized; \$16.6M spent or encumbered
 - Operating efficiencies will result in potential future CIP reserve

Water System Valuation

- November 2021 RVE valuation
 - Original cost less depreciation: \$9.7M (30% weight)
 - Replacement cost new less depreciation: \$35.9M (30% weight)
 - Market analysis: \$25M (20% weight)
 - Income approach to value: \$14.9M (20% weight)
- Weighted average estimated value: \$21.7M (excluded FMV of related properties)
- October 2023 RVE update – no meaningful changes

Future Options & Scenarios

- Option 1 – Retain Water Utility
 - Scenario 1 – Outsource O&M to third party
 - Scenario 2 – Provide in-house O&M with Village personnel
 - Scenario 3 – Hybrid of first two scenarios
- Option 2 – Sell Water Utility
 - Referendum process
 - Water Infrastructure Protection Act process

Option 1 – Retain Water Utility

- Current organization/structure unviable long-term option
 - NJAW likely won't continue O&M services after July 2026 (~2.5 years)
 - One dedicated, part-time administrator plus part-time support of various other Village staff, consulting engineers, and construction contractors
- RVE analyzed three scenarios for Village
 1. Outsource O&M to third party
 2. Provide in-house O&M with Village personnel
 3. Hybrid of first two scenarios
- Task Force recommendation under Option 1 (Retain Water Utility)
 - Scenario 1 - Outsource O&M to third party
 - Hire Water Utility Assistant Administrator

Option 1 – Retain Water Utility (cont'd)

Comparison of scenarios

- Costs

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.

- Scenario 1 has lowest probable cost
- Estimated 2026 water rate \$8.68/unit – 15% less than Scenario 2 (\$10.19/unit), 13% less than Scenario 3 (\$10.01/unit)

Option 1 – Retain Water Utility (cont'd)

Comparison of scenarios (cont'd)

- Implementation – easiest scenario to implement; single contract; can address existing NJAW O&M issues
- Risks – lowest risk, but likely requires significant, new vendor relationship
- Staffing – requires fewest Village staff

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+

- Flexibility – doesn't preclude alternative future O&M implementation

Option 2 – Sell Water Utility

- Similar recent sales investigated
 - Egg Harbor City, Atlantic (water) – NJAW, 4.4K pop., \$21.8M
 - Allendale, Bergen (water) – Veolia, 6.8K pop., \$18.0M
 - Long Hill, Morris (sewage) – NJAW, 8.6K pop., \$12.7M
- Impact of historical nearby sales researched
 - West Orange
 - Maplewood
 - Millburn
 - Irvington

Option 2 – Sell Water Utility (cont'd)

Approaches to selling

- NJ public water system sale authorized by: (a) voter referendum or (b) under Water Infrastructure Protection Act (WIPA)
- Proceeds used to retire water system debt, then municipal debt, then for general purposes
- Referendum sales process – *~17 months*
 1. Prepare bid package to sell
 2. Adopt resolution to sell
 3. Advertise bid package
 4. Review bids & select highest qualified bidder
 5. Adopt ordinance to sell to highest qualified bidder
 6. Ordinance to request next general election ballot referendum (81 days pre-election)

Voters approve: Board *may* accept bid & sell; i.e., referendum not binding

Voters reject: (a) conduct second referendum; (b) pursue WIPA process; or (c) retain ownership

Option 2 – Sell Water Utility (cont'd)

Approaches to selling (cont'd)

- WIPA sales process – *~23 months*
 - Sell water system to capable entity without referendum
 - At least one “emergent condition” must exist, subject to DEP approval
 - Independent financial advisor must review, analyze, and report on value and impact on ratepayers of cashflow structure of proposed transaction and provide estimate of financial requirements to address emergent conditions and operate & maintain system
 - 15-step process includes public hearings and BPU/DCA/DEP/OSC approvals
 - RFQ/RFP sales process

Option 2 – Sell Water Utility (cont'd)

Comparison of selling approaches

- Referendum

- Pro's

- Quicker timeframe, lower preparation cost
 - Fewer regulatory approvals
 - Quicker valuation determination
 - Public input quantified

- Con's

- Referendum limited to November elections
 - Recover only traditional cost less depreciation (tbd)
 - Risk of public voting focused only on price/rates
 - Must accept highest *qualified* bid, but not bound to accept any bids

Option 2 – Sell Water Utility (cont'd)

Comparison of selling approaches (cont'd)

- WIPA

- Pro's

- Purchase can be based on range of valuations (tbd)
 - RFQ can be used to pre-qualify buyers
 - Governing body determination, based on public feedback
 - Village not bound to accept RFP results

- Con's

- Longer timeframe & higher preparation cost
 - Potential challenge demonstrating affordability claim
 - Numerous state regulatory approvals required

Option 2 – Sell Water Utility (cont'd)

Potential buyers – collectively serve 3.1M people in 242 communities (1/3 of NJ's populations)

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

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

Option 2 – Sell Water Utility (cont'd)

- Pro's

- Oversight dramatically simplified; no longer addressing water issues
- Staff workload reduced
- Some/all Water Utility & potentially some Village debt retired; cost savings
- Water service comparable to Maplewood, Irvington, West Orange
- Future CIP project costs paid by all regional ratepayers

- Con's

- No dedicated Village resource to assist customer or promote conservation; would be like PSE&G, Cablevision, etc. customer support
- Annual water costs may increase, depending on consumption levels
- Village will have to pay for its own water consumption & public fire protection service
- CIP projects may be delayed/cancelled, depending on purchaser's priorities
- Rates will include capital project recovery for projects beyond South Orange
- Water rates will be governed by BPU, without Village input/control

Comparison of Options

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.

Comparison of Options (cont'd)

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)

Comparison of Options (cont'd)

- Village debt
 - Sale proceeds used to retire Water Utility debt, then municipal debt
 - If proceeds less than Water Utility debt, remaining debt service continues
 - At YE 2023, \$23M debt authorized, \$16.6M spent & encumbered
- Village operating costs
 - Village's own water consumption & public fire protection fees now embedded in Water Utility costs and, therefore, current water rates
 - After sale, Village will become water customer

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

- \$474K annually equates to a 1.05% Village 2024 budget increase, which could be offset by sale price exceeding Water Utility debt, reducing \$6.8M non-utility annual debt service

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

Comparison of Options (cont'd)

- Village water rates
 - Currently set by Water Utility based on its administration, BPU-regulated bulk water supply, O&M, future CIP, and debt service costs
 - After sale, water rates will be based on BPU review and approval – typically monthly water meter rate, based on inlet pipe size and water usage fee
 - After sale, depending on meter size and usage, some water bills may be higher
 - Increases could be mitigated through negotiations and/or bid stipulations, but could impact sale price offered

Implementation Roadmap

1. Hire Water Utility Assistant Administrator to ensure adequate resiliency, succession planning & transition support
 - Hired individual also will support/lead soliciting bids for O&M services and/or sale and transition to new provider
 - Develop position description within 60 days of approval; hire within 90 days thereafter
2. Postpone Capital Improvement Plan (CIP) projects, except those truly essential during next 2-3 years or mandated by NJ
 - Minimize near-term CIP projects to increase likelihood sale will exceed debt
 - Unless CIP project is essential or required by NJ regulations/mandates, postpone until July 2026 onward

Implementation Roadmap (cont'd)

3. Solicit bids for third-party to continue providing O&M services (Option 1, Scenario 1)
 - Will take 12+ to 17+ months, depending on whether NJAW is re-selected
 - Be prepared to transition O&M provider Jly'26
 - Start preparing bid specifications by Dec'24 or sooner; if consulting engineer needed, start its RFP process by Oct'24
4. Determine whether to use (a) referendum or (b) Water Infrastructure Protection Act (WIPA) sales process to pursue sale (Option 2)
 - Statutes & regulations stipulate timeframes, including many concurrent steps; other sales typically took longer
 - Referendum process: ~17 months, start by Jan'24 or Jan'25 – two schedules developed, tied to Nov'24 (accelerated) and Nov'25 elections (elongated)
 - WIPA process: ~23 months, start by Jly'24

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 Utility																																						
Source New O&M Contractor	17+																																					
RFP Development & Acceptance	4																																					
Advertising & Bidding	1+																																					
Proposal Review & Selection	2+																																					
Negotiate & Execute O&M Agreement	4																																					
Implementation & Transition	6+																																					
NJAW O&M Agreement Terminates																																						
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																																					
Introduce & Adopt Ordinance to Sell	1																																					
Send Ordinance to Clerk of Elections	3																																					
General Election Referendum	0																																					
Negotiate Sale Agreement	3																																					
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																																					
Introduce & Adopt Ordinance to Sell	1																																					
Send Ordinance to Clerk of Elections	3																																					
General Election Referendum	0																																					
Negotiate Sale Agreement	3																																					
Implementation	6																																					

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

Implementation Roadmap (cont'd)

5. Evaluate & compare (a) retaining ownership & outsourcing O&M versus (b) selling water system
 - Will require timely decision-making
 - Will require dedicated, focused resources – including staff, consultants, and BOT ad hoc committee (with mission & timeframes)
 - Critical to coordinate O&M bids and purchase bids/proposals to align decision making
6. Select & implement optimal option for Village
 - Target decision June 2025 – convergence of O&M and sale processes
 - 12-month implementation

Board Next Steps

- Postpone non-essential CIP projects – 3Q'23 ✓
- Accept Task Force recommendations or review/revise – *Dec'23*
- Authorize Board ad hoc Water Utility Transition Committee – *Jan'24*
- Develop & approve transition budget – *Jan'24*
- Approve hiring Water Utility Assistant Administrator – *Jan'24-May'24*
- Determine whether to use referendum or WIPA sales process – *1Q'24*
 - Referendum: select targeting Nov'24 or Nov'25 election date
 - WIPA: select independent consulting engineer and financial advisor 1Q'24