South Orange Water Utility Sale

COMMUNITY MEETING

WEDNESDAY, SEPTEMBER 11, 2024

SOUTH ORANGE VILLAGE

PANELISTS

South Orange Village

- Sheena Collum, Mayor
- Douglas Newman, Chair, Water Utility Task Force
- Julie Doran, Village Administrator
- Howard Levison, Water Administrator
- Chris Battaglia, CFO
- Clyde Otis, Village Attorney

COMMUNITY MEETING AGENDA

- What prompted considering selling the Village's water utility?
- Why have this community meeting?
- About South Orange's Water Utility
  - Infrastructure
  - Water supply
  - Operations & maintenance
  - Finances
  - Capital improvement plan
- Background and process
- NJ American Water proposal
- Recommendation to the community
- NJAW introductions & company background
- Questions

WHAT PROMPTED CONSIDERING SELLING THE VILLAGE'S WATER UTILITY?

- Cost and financial impact of state-mandated **identification and replacement of lead/galvanized lines** and direct costs to property owners.
- Long-term utility debt, currently $18.3M, coupled with Capital Improvement Plan (CIP) to address **aging infrastructure requires additional ~$50 million investment over next 10 years.**
- New Jersey American Water (NJAW) indicated it won't provide **Operations and Management (O&M)** services after its agreement expires mid-2026.
- Village anticipates **cost increases to its bulk water purchased** from NJAW, due to stricter environmental and testing regulation.

WHY HAVE THIS COMMUNITY MEETING?

- After a 2+ year, extensive review, South Orange's Village Council adopted Ordinance #2024-15 to advance the sale of Village's water system – subject to a public referendum/vote.
- In November's general election, South Orange voters will be asked:

  "Shall South Orange Village, in the County of Essex, New Jersey, be authorized to sell its water distribution and transmission system (commonly known as the "System") to New Jersey American Water Company Inc. for the sum of $19,700,000?" __ *Yes* / __ *No*

- This community forum will provide an in-depth look at the process, analysis, and ultimate recommendation, asking voters to approve the sale.

ABOUT SOUTH ORANGE'S WATER UTILITY

SOUTH ORANGE WATER UTILITY

- Infrastructure
- Water supply
- Operations & maintenance
- Finances
- Capital improvement plan

INFRASTRUCTURE

- 5,000 service locations
- 3,000 water valves
- 600 fire hydrants
- 75 miles water mains (oldest early 1900's)
- 3 water storage facilities (3.7M gallons)
  - Main reservoir (1912) – South Orange Ave
  - Standpipe (1950's) – Newstead
  - Water sphere (1952) – Newstead
- 3 pressure zones – controlled by pumping stations & supplied by storage facilities
  - Low-pressure zone
  - High-pressure zone
  - Mountain zone

WATER SUPPLY

- **The Village does not have its own water supply; the majority of the Village water has been purchased for almost 30 years.**
- Purchased from NJAW since 2017, based on rates set by NJ Board of Public Utilities.
- Water treated at NJAW's state-of-the-art Millburn facility, regulated by NJ Department of Environmental Protection (DEP).

North America's largest floating solar array supports New Jersey American water treatment plant

The Canoe Brook floating solar array is turning underutilized space into a source of clean energy. (Photo: Business Wire)

OPERATIONS & MAINTENANCE (cont'd)

Since 2016

- In 2016, the Village terminated EOWC contract
- The Village engaged NJAW to provide bulk water supply (up to 60 years) and all O&M (10 years)
- Village outsources infrastructure engineering, repairs, replacements, and work
- Village employees
  - Part-time water utility administrator
  - Share of other employees' time (1.25 FTE)
- Village Council approves water rates and Capital Improvement Plans (CIP)

FINANCES

Self-liquidating rate structure ➔ rates set annually to cover expenses. As expenses (including debt service) increase, rates must increase.

- $5.67 million revenue
- $5.24 million expense
  - $4,184K operations & maintenance (79.9%)
  - $895K debt service (17.1%)
  - $144K salary & wages (2.7%)
  - $16K statutory expense (0.3%)
- $0.43 million surplus
- $18.3 million debt

FINANCES (cont'd)

Operating Budget - Historic and Current Operations	2021 Actual	2022 Actual	2023 Actual	2024 Budgeted	2025 Projected
OPERATING REVENUE					
Rents	$ 4,291,000	$ 4,995,000	$ 4,852,000	$ 4,850,000	$ 4,850,000
Miscellaneous Revenue	-	$ 8,000	$ 45,000	$ 25,000	$ 26,000
Other Revenue	$ 428,000	$ 286,000	$ 172,000	$ 497,000	-
Surplus Anticipated	$ 233,000	$ 139,000	$ 224,000	$ 299,000	$ 250,000
TOTAL REVENUE	**$ 4,952,000**	**$ 5,428,000**	**$ 5,293,000**	**$ 5,671,000**	**$ 5,126,000**
OPERATING EXPENSES					
Salaries & Wages	$ 114,000	$ 134,000	$ 144,000	$ 144,000	$ 147,000
Operations & Maintenance	$ 3,610,000	$ 3,717,000	$ 3,802,000	$ 4,184,000	$ 4,268,000
Other Expenses	-	-	-	-	-
Statutory Expenses	$ 14,000	$ 16,000	$ 16,000	$ 16,000	$ 16,000
Existing Debt Service	$ 406,000	$ 629,000	$ 830,000	$ 895,000	$ 684,000
Pay-go Capital	$ 231,000.00				
TOTAL EXPENSES	**$ 4,375,000**	**$ 4,496,000**	**$ 4,792,000**	**$ 5,239,000**	**$ 5,115,000**
NET INCOME/SURPLUS	**$ 577,000**	**$ 932,000**	**$ 501,000**	**$ 432,000**	**$ 11,000**

CAPITAL IMPROVEMENT PLAN

Near-term $14.25 million; long-term (10 years) $50 million

- $6.5M Crest Drive Standpipe replacement & infrastructure upgrades
- $2.0M Lead Line identification & replacement
- $1.5M Newstead/Brentwood Water Tank rehabilitation
- $1.5M Infrastructure upgrades
- $1.5M Water Main replacements
- $1.25M Capital Improvements & Repair/Replacements (CIRR)

BACKGROUND AND PROCESS

PROCESS & TIMELINE

- **November 2021** – System valuation completed and provided to Village Council.
- **September 2022** – S.O. Water Utility Task Force established (Resolution #2022-VP04) with elected officials, employees, and community volunteers

  > *"…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"*

- **November 2023** – Task Force issued its 'Report of Findings' to Village Council
- **March 2024** – Village Council adopted Resolution #2024-096: "Resolution Deeming It Advisable to Consider the Sale of the South Orange Water Utility and System and Authorizing Advertisement for Bids for the Sale of Same."

Note: Winter 2022 to now, Village apprised residents about ongoing process – through quarterly *Gaslight* newsletter (mailed to every home), Village website, press releases, and Village Council meetings.

PROCESS & TIMELINE (cont'd)

- **June 2024** – Bids received from two, major regulated water companies
  - Veolia: $12.5M + additional considerations
  - NJAW: $19.7M + additional considerations

- **July 2024** – Village Council adopted Ordinance #2024-15: "An ordinance of South Orange Village Advancing the Sale of the Village's Water System and Authorizing a Proposal to be Printed on the Ballot for Consideration by the Voters within the Village at the General Election on November 5, 2024

- **September-October 2024** – Community meetings and public education

- **November 5, 2024** – General Election referendum

Note: Winter 2022 to now, Village apprised residents about ongoing process – through quarterly *Gaslight* newsletter (mailed to every home), Village website, press releases, and Village Council meetings.

WATER UTILITY TASK FORCE'S FINDINGS

- Task Force's investigation supported by Remington & Vernick Engineers' Water & Wastewater Division – retain vs. sell water system

- **Option 1: Retain Village ownership scenarios** – assumed NJAW continues supplying water under long-term agreement, at least through 2075
  - Scenario 1: Continue outsourcing O&M to third party
  - Scenario 2: Provide in-house O&M with Village personnel
  - Scenario 3: Hybrid using Village personnel and third-party contractors

- **Option 2: Sell the system** to regulated, third-party provider
  - Researched regulatory process
    - Voter referendum or
    - Water Infrastructure Protection Act
  - Researched experience of other New Jersey municipalities – recent sales & adjacent communities
  - Held informal discussions with regulated water companies

NJAW PROPOSAL

PROPOSAL OVERVIEW

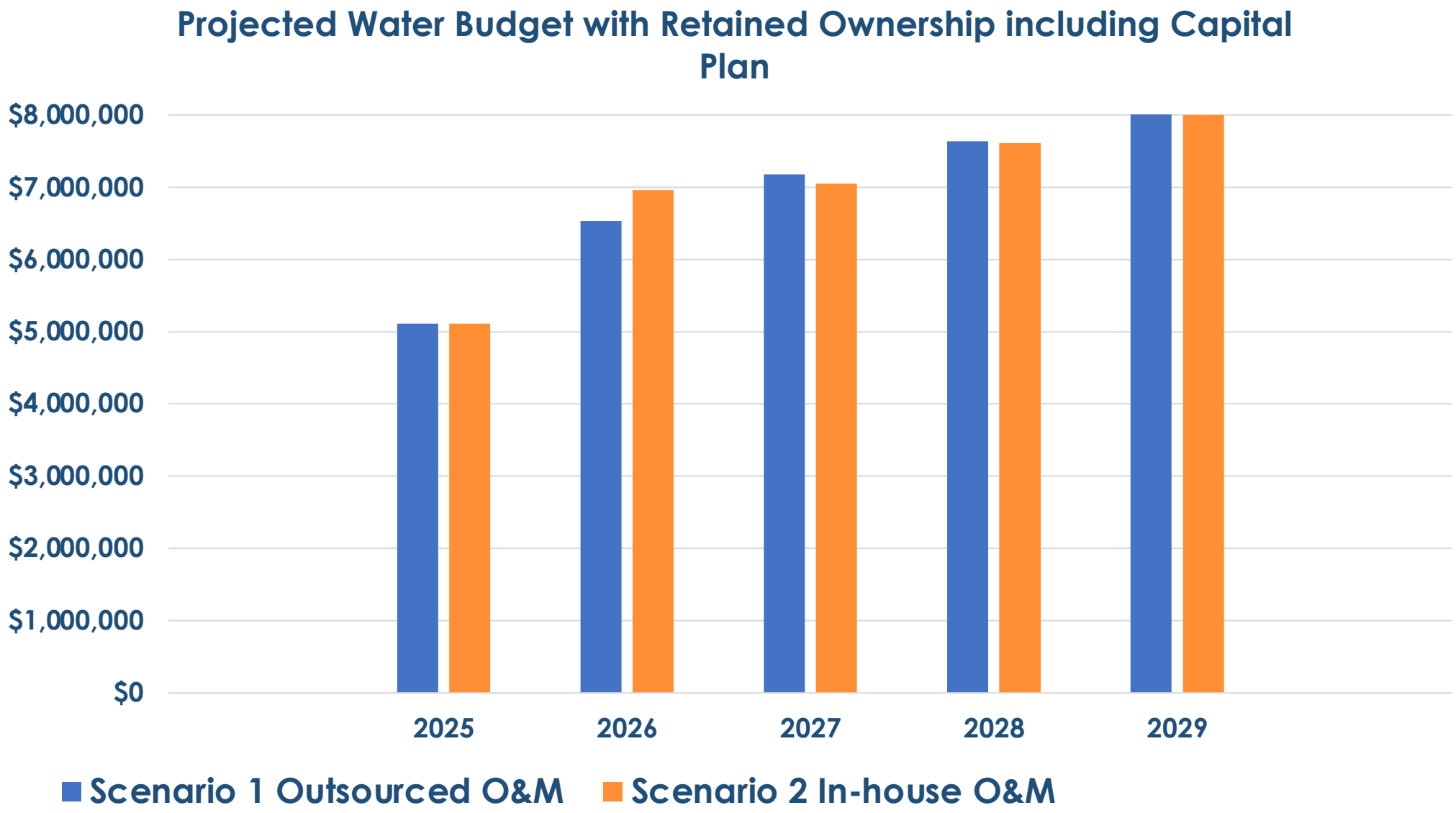
- **$19.7 million purchase price** – eliminate all water utility debt ($18.3M) and ~$1.4M general municipal debt
- Infrastructure investment – **$50 million over 10 years**; $35 million in first five years
- **Lead line replacement** – full compliance with identification & comprehensive replacement on both utility and customer side
- **Rate predictability** – phased-in increases totaling 9% over first five years (vs. historically 5% annually in South Orange)
  - Years 1-2: no increases
  - Years 3-5: 3% increases
  - Years 6-15: rates eventually converge with NJAW statewide rates
  - NJ BPU regulates all rates and changes

REFERENDUM CONSIDERATIONS

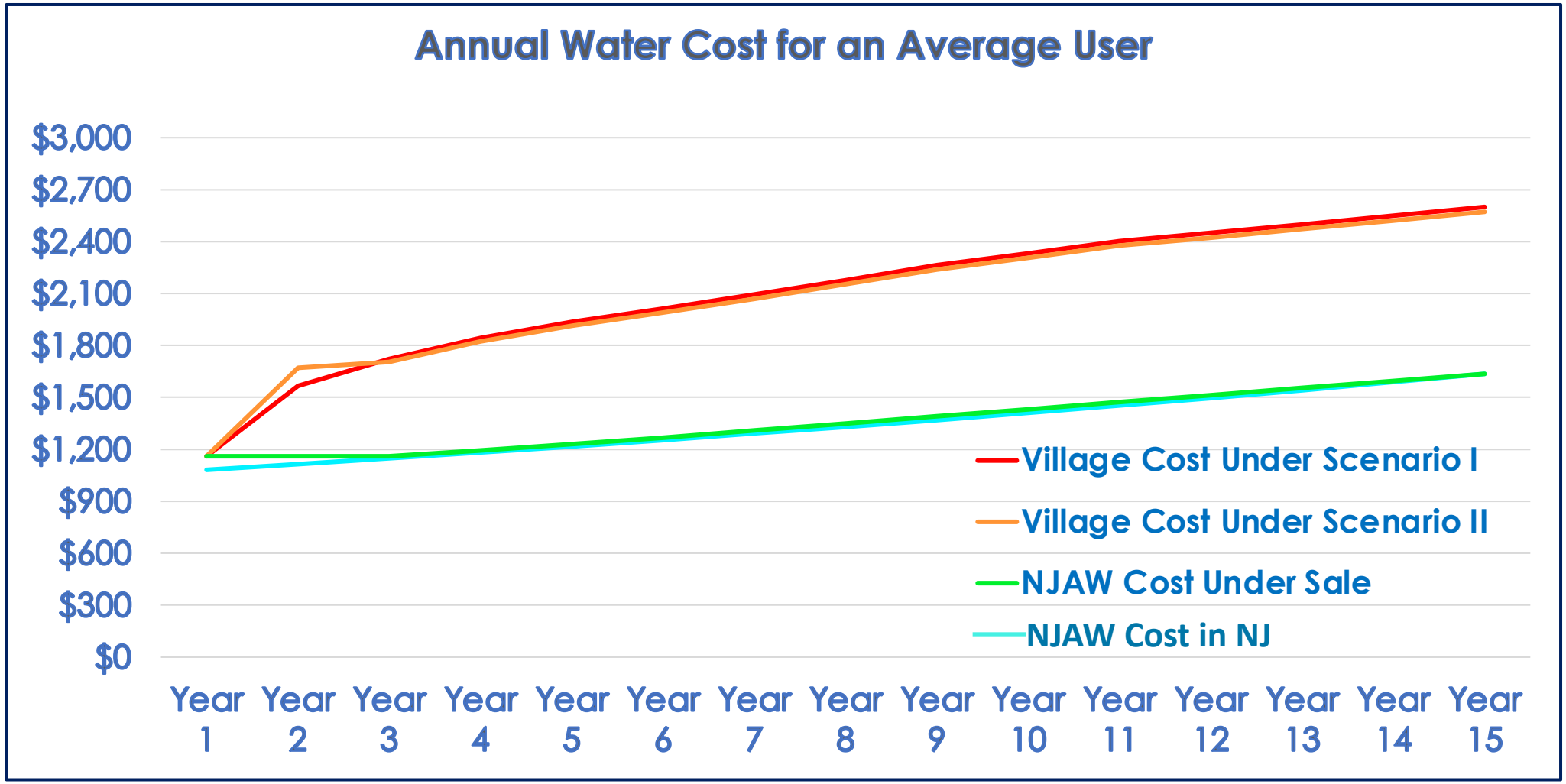
General Election: November 5, 2024

- **'Yes' vote = sell**
  - Investment – $69.7 million = $19.7M purchase + $50M upgrades
  - Purchase price statutorily required to eliminate water utility debt; excess then applied to reduce municipal debt
  - Lead line replacement – comprehensive and timely; cost allocated across NJAW's entire customer base
  - Rate stability – predictable and regulated rate increases; only 9% in initial five years, then converging with rates in adjacent municipalities
  - Infrastructure improvements – modernized and upgraded water system
  - Water-related Village properties converted taxable ratables
  - Similar to West Orange, Maplewood, Millburn, and Irvington
- **'No' vote = retain ownership**
  - Projected rate increase – 74% over next 5 years
  - Capital improvements – major investments required to maintain & upgrade
  - Identify new, qualified O&M provider or increase staffing by ~12 employees

WATER UTILITY BUDGET PROJECTION



WATER RATE PROJECTION



*The average South Orange customer uses 9,000 gallons of water per month. After a six-year set-rate schedule, NJAW would slowly increase the South Orange Village rate to match the NJAW rate.

EXHIBITS

Exhibit 1A: WATER SYSTEM FACILITIES INVENTORY

YEAR OF PURCHASE	ITEM	AGE (YEARS)	ORIGINAL COST	LIFE	DEPRECIATION FACTOR	DEPRECIATION COST	OCLD
1912	**Main Reservoir, South Orange Avenue - 2 MG**	109	$480,000.00	100	1.00	$480,000.00	$0.00
1912	**South Orange Avenue Reservoir Pump Station**	109					
1912	Building - 1000 sf	109	$8,000.00	100	1.00	$8,000.00	$0.00
2005	75 hp Toshiba motor	16	$9,600.00	20	0.80	$7,680.00	$1,920.00
2005	900 gpm Peerless pump	16	$160,000.00	20	0.80	$128,000.00	$32,000.00
1999	75 hp US Electric motor	22	$7,560.00	20	1.00	$7,560.00	$0.00
1999	900 gpm Peerless pump	22	$126,000.00	20	1.00	$126,000.00	$0.00
2009	Emergency Generator - 140 KW, natural gas, ATS, Cummins	12	$75,776.00	30	0.40	$30,310.40	$45,465.60
1997	Electrical/ Controls/ Instrumentation: Flow Meters, Pressure Transmitters, PLC	24	$25,773.20	50	0.48	$12,371.13	$13,402.06
1912	Valves	109	$1,200.00	100	1.00	$1,200.00	$0.00
1958	**Crest Drive Standpipe - 64' height, 1.5 MG**	63	$975,000.00	100	0.63	$614,250.00	$360,750.00
1958	**Crest Drive Standpipe Pump Station**	63					
1958	Building - 1000 sf	63	$40,000.00	100	0.63	$25,200.00	$14,800.00
2005	(2) 30 hp Toshiba motors	16	$6,615.12	20	0.80	$5,292.10	$1,323.02
2005	(3) 360 gpm GA Industries Pumps	16	$45,842.78	20	0.80	$36,674.23	$9,168.56
2001	(1) 15 hp Toshiba motor	20	$1,757.73	20	1.00	$1,757.73	$0.00
2009	Emergency Generator - 80 KW, diesel, ATS, Cummins	12	$66,304.00	30	0.40	$26,521.60	$39,782.40
2009	Electrical/ Controls / Instrumentation: Flow Meters, Pressure Transmitters, PLC	12	$40,000.00	50	0.24	$9,600.00	$30,400.00
1958	Valves	63	$2,200.00	100	0.63	$1,386.00	$814.00
1952	**Newstead Water Sphere - 125' height, 0.2 MG**	69					
1952	Elevated Tank	69	$270,000.00	100	0.69	$186,300.00	$83,700.00
1997	Electrical and Controls, PLC, Allen Bradley SLC 5/03	24	$31,000.00	50	0.48	$14,880.00	$16,120.00
2018	Valve Vault	3	$47,500.00	50	0.06	$2,850.00	$44,650.00
	Interconnections (2)						
1978	Vault, Pressure Transducer/Transmitter, Flow Meter, Electrical, Valves; Allis-Chalmers Pump - 1050 gpm at 72'; Marathon Motor (1987)	43	$120,000.00	50	0.86	$103,200.00	$16,800.00
1978	vault, pressure tranducers/transmitters and pressure switches, valves, electrical, PLC; Allis-Chalmers Pump - 1050 gpm at 128';Marathon Motor, 50 hp	43	$120,000.00	50	0.86	$103,200.00	$16,800.00
	Miscellaneous						
1950	**Pressure Relief Valves and Vaults (6)**	71	$64,800.00	50	1.00	$64,800.00	$0.00
2005	**5,000 Water Meters**	16	$143,084.00	20	0.80	$114,467.20	$28,616.80
			$2,868,012.83			**$2,111,500.39**	**$756,512.44**

Exhibit 1B: WATER SYSTEM WATER MAINS INVENTORY

YEAR OF PURCHASE	ITEM	LINEAR FEET OF PIPE	AGE (YEARS)	LIFE	ORIGINAL COST	DEPRECIATION FACTOR	DEPRECIATION COST	OCLD
1990 or Later								
2020	12" Ductile Iron	4,192	1	100	$1,676,800.00	0.01	$16,768.00	$1,660,032.00
2015	12" Ductile Iron	1,760	6	100	$633,600.00	0.06	$38,016.00	$595,584.00
1990	4" Cast Iron	576	31	100	$110,592.00	0.31	$34,283.52	$76,308.48
1990	6" Cast Iron	402	31	100	$77,184.00	0.31	$23,927.04	$53,256.96
1990	8" Cast Iron	1,190	31	100	$228,480.00	0.31	$70,828.80	$157,651.20
1990	4" Ductile Iron	75	31	100	$14,400.00	0.31	$4,464.00	$9,936.00
1990	6" Ductile Iron	1,085	31	100	$208,320.00	0.31	$64,579.20	$143,740.80
1990	8" Ductile Iron	12,138	31	100	$2,330,496.00	0.31	$722,453.76	$1,608,042.24
1990	10" Ductile Iron	2,292	31	100	$440,064.00	0.31	$136,419.84	$303,644.16
1990	12" Ductile Iron	251	31	100	$48,192.00	0.31	$14,939.52	$33,252.48
1990	16" Ductile Iron	4,576	31	100	$878,592.00	0.31	$272,363.52	$606,228.48
1950 to 1982								
1960	8" Ductile Iron	467	61	100	$20,548.00	0.61	$12,534.28	$8,013.72
1960	12" Ductile Iron	2,290	61	100	$100,760.00	0.61	$61,463.60	$39,296.40
1960	6" Asbestos Cement	190	61	100	$8,360.00	0.61	$5,099.60	$3,260.40
1960	8" Asbestos Cement	4,893	61	100	$215,292.00	0.61	$131,328.12	$83,963.88
1960	4" Cast Iron	6,177	61	100	$271,788.00	0.61	$165,790.68	$105,997.32
1960	6" Cast Iron	9,889	61	100	$435,116.00	0.61	$265,420.76	$169,695.24
1960	8" Cast Iron	27,088	61	100	$1,191,872.00	0.61	$727,041.92	$464,830.08
1960	10" Cast Iron	5,055	61	100	$222,420.00	0.61	$135,676.20	$86,743.80
1934 to 1949								
1940	6" Asbestos Cement	2,873	81	100	$68,952.00	0.81	$55,851.12	$13,100.88
1940	8" Asbestos Cement	4,109	81	100	$98,616.00	0.81	$79,878.96	$18,737.04
1940	2" Cast Iron	251	81	100	$6,024.00	0.81	$4,879.44	$1,144.56
1940	4" Cast Iron	3,248	81	100	$77,952.00	0.81	$63,141.12	$14,810.88
1940	6" Cast Iron	9,378	81	100	$225,072.00	0.81	$182,308.32	$42,763.68
1940	8" Cast Iron	684	81	100	$16,416.00	0.81	$13,296.96	$3,119.04
1940	10" Cast Iron	2,147	81	100	$51,528.00	0.81	$41,737.68	$9,790.32
1940	24" Cast Iron	3	81	100	$72.00	0.81		$72.00
1940	0.75" to 2" GALV	1,341	81	100	$32,184.00	0.81	$26,069.04	$6,114.96
Prior to 1934								
1930	4" Cast Iron	6,195	91	100	$148,675.20	0.91	$135,294.43	$13,380.77
1930	6" Cast Iron	24,538	91	100	$588,902.40	0.91	$535,901.18	$53,001.22
1930	8" Cast Iron	10,159	91	100	$243,825.60	0.91	$221,881.30	$21,944.30
1930	10" Cast Iron	8,807	91	100	$211,372.80	0.91	$192,349.25	$19,023.55
1930	12" Cast Iron	2,298	91	100	$55,147.20	0.91	$50,183.95	$4,963.25
1930	16" Cast Iron	2,576	91	100	$61,824.00	0.91	$56,259.84	$5,564.16
1930	20" Cast Iron	1,514	91	100	$36,340.80	0.91	$33,070.13	$3,270.67
1930	8" Asbestos Cement	314	91	100	$7,545.60	0.91	$6,866.50	$679.10
1925	4" Cast Iron	10,841	96	100	$260,181.60	0.96	$249,774.34	$10,407.26
1925	6" Cast Iron	42,941	96	100	$1,030,579.20	0.96	$989,356.03	$41,223.17
1925	8" Cast Iron	17,779	96	100	$426,694.80	0.96	$409,627.01	$17,067.79
1925	10" Cast Iron	15,413	96	100	$369,902.40	0.96	$355,106.30	$14,796.10
1925	12" Cast Iron	4,021	96	100	$96,507.60	0.96	$92,647.30	$3,860.30
1925	16" Cast Iron	4,508	96	100	$108,192.00	0.96	$103,864.32	$4,327.68
1925	20" Cast Iron	2,650	96	100	$63,596.40	0.96	$61,052.54	$2,543.86
1925	8" Asbestos Cement	550	96	100	$13,204.80	0.96	$12,676.61	$528.19
1920	1" Cast Iron	160	101	100	$3,840.00	1.00	$3,840.00	$0.00
1920	2" Cast Iron	15	101	100	$360.00	1.00	$360.00	$0.00
1920	4" Cast Iron	13,938	101	100	$334,519.20	1.00	$334,519.20	$0.00
1920	6" Cast Iron	55,210	101	100	$1,325,030.40	1.00	$1,325,030.40	$0.00
1920	8" Cast Iron	22,859	101	100	$548,607.60	1.00	$548,607.60	$0.00
1920	10" Cast Iron	19,816	101	100	$475,588.80	1.00	$475,588.80	$0.00
1920	12" Cast Iron	5,170	101	100	$124,081.20	1.00	$124,081.20	$0.00
1920	16" Cast Iron	5,796	101	100	$139,104.00	1.00	$139,104.00	$0.00
1920	20" Cast Iron	3,407	101	100	$81,766.80	1.00	$81,766.80	$0.00
1920	8" Asbestos Cement	707	101	100	$16,977.60	1.00	$16,977.60	$0.00
		390,802			**$16,462,060.00**		**$9,926,347.62**	**$6,535,712.38**

Exhibit 1C: WATER SYSTEM MAIN VALVES INVENTORY

YEAR OF PURCHASE	ITEM	# OF VALVES	AGE (YEARS)	LIFE	ORIGINAL COST	DEPRECIATION FACTOR	DEPRECIATION COST	OCLD
1920	Water Main Valves	553	101	100	$165,900.00	1.00	$165,900.00	$0.00
1925	Water Main Valves	429	96	100	$128,700.00	0.96	$123,552.00	$5,148.00
1930	Water Main Valves	245	91	100	$73,500.00	0.91	$66,885.00	$6,615.00
1940	Water Main Valves	105	81	100	$31,500.00	0.81	$25,515.00	$5,985.00
1960	Water Main Valves	244	61	100	$134,200.00	0.61	$81,862.00	$52,338.00
1990	Water Main Valves	98	31	100	$235,200.00	0.31	$72,912.00	$162,288.00
2015	Water Main Valves	8	6	100	$36,000.00	0.06	$2,160.00	$33,840.00
2020	Water Main Valves	18	1	100	$90,000.00	0.01	$900.00	$89,100.00
		1700			**$895,000.00**		**$539,686.00**	**$355,314.00**

Exhibit 1D: WATER SYSTEM FIRE HYDRANT INVENTORY

YEAR OF PURCHASE	ITEM	# OF HYDRANTS	AGE (YEARS)	LIFE	ORIGINAL COST	DEPRECIATION FACTOR	DEPRECIATION COST	OCLD
1920	Fire Hydrants	197	101	100	$141,840.00	1.00	$141,840.00	$0.00
1925	Fire Hydrants	153	96	100	$110,160.00	0.96	$105,753.60	$4,406.40
1930	Fire Hydrants	87	91	100	$62,640.00	0.91	$57,002.40	$5,637.60
1940	Fire Hydrants	37	81	100	$26,640.00	0.81	$21,578.40	$5,061.60
1960	Fire Hydrants	86	61	100	$113,520.00	0.61	$69,247.20	$44,272.80
1990	Fire Hydrants	34	31	100	$195,840.00	0.31	$60,710.40	$135,129.60
2015	Fire Hydrants	3	6	100	$32,400.00	0.06	$1,944.00	$30,456.00
2020	Fire Hydrants	6	1	100	$72,000.00	0.01	$720.00	$71,280.00
		603			**$755,040.00**		**$458,796.00**	**296,244**

RECOMMENDATION TO VOTERS

VOTE YES