

WATER AUTHORITY OF SOUTHEASTERN NASSAU COUNTY

PRESS RELEASE

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FOR IMMEDIATE PUBLICATION

Water Authority Releases Takeover Study Findings: Rate Hikes Likely, Uncertain Takeover Costs Could Drive Rates Even Higher

A report completed by consultants to the Water Authority of Southeastern Nassau County (WASENC) has revealed likely water rate hikes for customers over the first 25 years under a public takeover of the private water provider, New York American Water (NYAW). Additionally, the study disclosed that the acquisition costs could exceed estimated amounts under an eminent domain proceeding in which a court would determine the final price (value) for the private water provider's assets. Such a cost increase would drive up water rates beyond estimates contained in the study.

The WASENC board members have completed their review of the valuation report and feasibility study relating to the potential acquisition of New York American Water (NYAW) system performed by its consultant, George Sansoucy, P.E., LLC, a firm specializing in the valuation of utility systems and rate case analysis. The study looked at the potential value which could reasonably be placed on the NYAW system if it were to be acquired by WASENC and the potential rate structure under Authority operation.

The Sansoucy firm looked at a number of industry standard methods of valuation to determine a market value for the assets of NYAW. Each of the methods resulted in similar values with a final determined estimated value of \$80 million, this figure being the price that WASENC could be expected to purchase the water system for if it were sold in an arm's length transaction. It is noted in the report that the acquisition by WASENC would most likely occur by means of the eminent domain process whereby WASENC would take ownership and operation of the company and the final purchase price would be determined by a judge at a later date, creating a situation where the purchase price may be greater than or less than the estimated value determined by the valuation consultant. If the price were greater, the annual cost to satisfy the debt payments would be greater and rates could be higher than those presented in the report.

Using the anticipated acquisition price, Sansoucy then reviewed the current financial operations of NYAW to determine the current operating costs and the basis of the current rate structure. Utilizing this information, a future rate projection was calculated for the next 30 years if NYAW were to remain the owner of the system. These costs were then broken down and categorized into costs specific to private ownership which would be eliminated under authority operation (such as income taxes, corporate taxes and profit) and costs that would be carried under operation by WASENC (personnel costs, energy costs, treatment costs). Currently NYAW pays property taxes to a number of entities including schools districts and local governments. These funds must be provided to the taxing agencies regardless of ownership, they will either be paid by NYAW as they currently are and passed through to ratepayers, paid by WASENC through payments in lieu of taxes (PILOTs) and passed through to ratepayers, or paid directly by the ratepayers through increased taxes on each individual line of their property tax bill. Accordingly, these costs were figured into all rate analysis to provide a better understanding of the actual costs to the ratepayer.

This information was then used to calculate an anticipated rate schedule for 30 years under WASENC operation. A 30 year comparison of rates was used as 30 years is the anticipated life of the bonds which WASENC would sell to cover the purchase of the company.

Unlike under private ownership by NYAW, if a takeover were accomplished, WASENC would not need to produce a “profit” or return on investment for stockholders as NYAW currently does nor would it have to pay income taxes, both items being reduced from the ratepayers bill; however the cost of acquisition must be borne by the ratepayers as a payment of debt service. Based on current bond rates, the annual cost of debt would be approximately \$6.28 million per year. This amount exceeds the savings realized resulting in an increase in rates under the WASENC ownership scenario. Over 30 year period studied, this extra cost flattens out and it is projected that by 2038, rates will reach a point where WASENC rates would be equal to the projected rates of NYAW and a savings could begin to be realized under WASENC operation from this point forward.

One of the findings of the report was that in 2013 the local company had 17 fewer employees than it did three years earlier, a staff reduction of 34%. Many of these local employees’ duties were absorbed by employees throughout the corporate structure of American Water. In addition, filings of NYAW show additional liabilities not covered in the projected rate schedule of WASENC which may need to be satisfied by the Authority. These items coupled with the fact that employees of WASENC would more than likely be Civil Service employees and as such become members of the New York State Pension System, all of which would increase probable expenses under a WASENC operation, the consultant ran an additional operational scenario which included a 10% increase in operational expenses to provide funding to bring the

workforce back to its earlier level and cover the potential added liabilities. Under this scenario, savings would not materialize within the 30 year scenario but would more than likely materialize with the satisfaction of the debt service in the 31st year (2045). It should again be noted that the above scenarios are all based on WASENC being given ownership for the \$80 million price. Any purchase price in excess of this figure resulting from eminent domain proceedings would dramatically increase costs to the ratepayer.

The WASENC Board recognizes that all of this above information may be a lot to digest and understand and there is much more information within the report than can be explained in this article. In order to better inform the ratepayers, WASENC will hold a public meeting in the near future at which time a representative of George Sansoucy, P.E. LLC will give a full presentation of the findings in the report. The WASENC Board will also be making the report available on its website (WWW.WASENC.ORG) in the near future. Details will be provided in future press releases.