



Frequently Asked Questions and Answers Concerning a Potential Utility Sale vs City Improvements

1. Can you please help me understand why improving our water a wastewater systems became necessary?

Like towns all over the country, Villa Grove is facing a challenge with its aging wastewater system infrastructure and recent significant investment (debt) in our water system. Because of the concerns of high debt, significant capital improvement costs, regulatory challenge, utility management turnover, and other reasons, the mayor and board of trustees explored several courses of action. They believe that a sale to a regulated water utility is the best option to help provide dependable long-term solutions that can fix these issues and adequately maintain the system for the families and businesses of Villa Grove.

2. What specific challenges are we facing with our system?

The highest priority is to rehabilitate the parts of the system that pose environmental and health risks.

- Fehr Graham’s 11/5/2020 report for just wastewater treatment alone reflected a Phase 1 capital cost of \$5,309,000, Phase 2 that is also needed is another \$9,400,000 at a later date.
- Parts of the City’s wastewater collection system is beyond its useful life and needs significant repairs. Because of that, the system experiences operational problems far beyond its capacity during heavy rainfalls.
- There are areas in the City where the water mains “dead-end,” which means they don’t currently loop to allow for continuous water flow. Fixing this is important because the stagnation causes iron and rust to collect at these dead-ends, which leads to water quality issues. A major priority is to loop the mains together to improve water quality.
- There are only a few fire hydrants in the City that currently do not work. Initial work will be to restore these hydrants to working conditions for the safety of those living and working in our communities.

3. Specifically, what are we looking at for near-term capital improvements?

<u>Project</u>	<u>Estimated Amount by an Engineer</u>
1. Wastewater Treatment Plant	\$5,309,000
2. Wastewater Pump Stations (Six (6) Lift Stations)	240,000
3. Inflow/Infiltration Repairs	400,000
4. Wastewater Renewals and Replacements	660,000
5. Hydrants, Looping and Water Distribution System Improvements	750,000
6. Water Renewals and Replacements	350,000
Rounded total	\$7,700,000

4. These improvements will raise my rates, correct?

Fehr Graham addressed just the wastewater customers and just for treatment assuming an average flow of 3,386 gallons per month per user.

Wastewater Treatment Improvements Only – City Program

Existing Average User	\$39.23/month
Required City Rate for User	\$58.01/month
Increase Amount	\$18.78/month
Increase Percentage	48%

The other wastewater improvements would increase the above amount \$5 to \$6 per month.

The water system would only have 3% per year increases. The average water bill approximately \$38 per month would increase by approximately \$1 per month.

In summary based on Fehr Graham report:

<u>Average</u>	<u>Existing</u>		<u>2021</u>
Wastewater	\$39.23	FG Rest	\$58.01
			6.00
Water	\$38.00		\$39.00
Total Rounded Per Month	\$77.00		\$103.00

5. What are the major companies charging for water and wastewater at 3,700 gallons per month per user?

The City surveyed the Statewide/District-wide rates of major water companies and found that the combined rate for a city customer was approximately \$74/month.

6. So the company's rates would be much lower than the City's?

Yes. Company about \$74/month and City \$103/month.

7. Will an investor-owned utility raise my rates faster and more than the City?

The City has a relatively large capital cost coming as well as increased operations and maintenance costs with a small customer base. That is one reason the City future rates will probably increase faster.

The second reason that the large investor-owned utilities can dampen rates is that the capital needs for the Statewide/Districtwide are pooled together. The Chicago and Champaign, and Kankakee areas have much lower capital needs per customer.

The third reason is that the ICC regulates the IOU's rates and has public/customer counsel available to intervene or challenge cost increases.

Recent proposals by the three (3) largest Illinois water company obtained last half of 2020 reflect a past ten-year rate increase per year range from under 1% to 2.2% per year in rates.

8. Is it true that private water companies don't have as much accountability as our public system?

Actually, the City can look forward to extremely high levels of accountability and oversight at both the state and local levels. The three largest water companies all meet or surpass stringent federal and state Environmental Protection Agency (EPA) rules for water quality. Their top priority is to provide customers with safe drinking water and to return highly treated wastewater back to our rivers and streams responsibly. In addition, each company is regulated by the Illinois Commerce Commission (ICC) and Illinois Environmental Protection Agency (IEPA) and will be bounded by the terms of our Franchise Agreement and Asset Purchase Agreement.

9. What is the process as we move forward?

The next step is to have our City Attorney prepare a request for proposals (RFP) with the help of our consultant.

After, the City reviews and approves the RFP, then competitively advertise.

Answer bidder questions and supply information to the bidders and allow the bidders to inspect the system.

Receive the bids and proposals from the respondents.

Evaluate the responses, check references, check performance review of the various elements important to the City.

Have the City Attorney and consultant recommend an award and provide the rationale why. The City will consider the proposals, recommendations, and the issue with the public at an advertised public hearing.

Thereafter, the City will decide whether or not to award the bid.

10. You referenced that the City commissioned two different reports concerning this issue. What are they, and can I get a copy?

Yes, they are:

- 1) City of Villa Grove
Independent Utility Review Optimization or Disposition Consideration
Dated: July 16, 2020
By: Hartman Consultants, LLC

- 2) 2020 Facility Plan
Wastewater Treatment Plant
Project No: 19-406
Dated: November 5, 2020
By: Fehr Graham

Both are on the City's website. You can take a look at them.

11. Is the market better or worse due to the COVID pandemic for a sale?

Water and wastewater utilities are monopolies, are essential services, protect the public health, safety (fire protection), and welfare (environmentally, economic development, etc.). Over the past nine (9) months, our consultant has informed us that sales are down about 5% as an average in the 36 States he works in. The market was overvalued, in his opinion, and the 5% is a market correction. The water and wastewater utility market is very stable and creditworthy.

12. Who would I be able to contact with questions about my service if a big company owns the system?

Every service area has an area manager responsible for a different part of the state. City officials will have your area manager’s personal contact information and will be a partner to the City. Plus, each company has a main customer service center in Illinois, and through our website, you will be able to pay bills and sign up for service alerts.

13. Will this arrangement change the free water our community buildings and fire department receive?

Yes.

14. What will happen to our current water and wastewater department employees?

Each company will be offering a job to the current operators. We will add additional positions to ensure reliable service to you and your neighbors.

15. Can you compare the considerations for the two options?

Factor Comparison of Ownership vs a Sale

<u>Factor</u>	<u>Ownership</u>	<u>Sale</u>
System Sustainable Management/Resources	---	✓
Willingness for Effective Investment	✓	✓
Control of Operations	✓	---
Customer Service	✓	✓
Economic Development	---	✓
Rates	Requires Updating	✓
Major Rate Increase	Lower Rates than Currently and Lower Rates in Future	✓
Tax Benefit	---	✓
Franchise Fee	---	✓
General Fund Income	---	✓
Equity Recapture from City Investments	---	✓
Public Works Flexibility	✓	---
Risk (Liability, Legal, Regulatory, and Financial)	---	✓
Admin Offices	✓	---
Staffing (Local)	✓	---
Economy of Scale	---	✓
Capital Improvements	---	✓
Staffing of Operations	---	✓

⁽¹⁾ Benefits favor a sale.

Summary of Comparative Benefits ⁽¹⁾

City 6 Superior Benefits

Sale 14 Superior Benefits

16. Will a sale pay off all of the City utility debt?

Yes.

17. Will the City be liable for any future utility debt?

No. Yet, a component of the total “pool” on a per customer basis is included in the company rate to all of the company customers.

18. What net proceeds will the City get?

- a) The net difference between the purchase price and paying off existing utility debt. Potentially the amount could be four million or more.
- b) The City will keep the:
 - Accounts Receivable
 - Value of the services provided but not yet billed
 - Currently restricted and unrestricted cash and fund balances

The above three items “free-up” over an additional one million dollars.

19. What on-going revenues will the City have that currently do not exist?

- a) Tax revenue
- b) Franchise Fee Revenue
- c) Potentially utility tax or other levy’s as the City may determine in the future

20. Do customers have rights if a company buys?

Yes. There is a customer bill of rights under the ICC and even more so provided by each company.

21. How long will this process take?

Approximately eight (8) months to one (1) year from February, 2021.

22. Who are potential bidders for our systems?

- American Water
- Essential/AQUA
- Utilities, Inc./Corix
- Liberty Utilities
- Central States Water Resources
- EJ Water Coop or other Coop
- Others

We would anticipate at least two (2) and potentially four (4) bidders with responses to our RFP.

23. Will the City continue to update the customers through this process?

Yes. We will have more meetings on the topic and provide updates on our website.

24. Will the selected bidder hold community meetings before and after closing?

Yes. All companies do that to answer questions and to address concerns.