Borough of Matawan
Water & Sanitary Municipal Utility Facilities

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Borough of MATAWAN

NW FINANCIAL GROUP, LLC
Exceeding Expectations
NW CAPITAL MARKETS INC.
Member FINRA/SIPC

REMINGTON & VERNICK ENGINEERS

Background

Objectives of Study:

- Review the system for Borough to consider a potential utility sale under the Water Infrastructure Protection Act (WIPA)
- Evaluate existing water & sanitary infrastructure
- Develop a 10 Year Capital Improvement Plan (CIP) including costs
- Conduct a Financial Analysis and Impact of CIP on rates by Independent Financial Advisor – **NW Financial**
- Develop a Value of the Utility System
- Complete an Emergent Condition Analysis – WIPA requirement
- Discuss Next Steps

Water Infrastructure Protection Act (WIPA)

What is WIPA:

- Act signed into law in February 2015
- Developed to be protective of water and wastewater infrastructure to address aging infrastructure across NJ and protect public health
- Allows municipalities to sell or lease their water and wastewater systems without waiting for a referendum
- The systems that can be sold or leased under WIPA:
  - Must have violations of environmental or health standards
  - Financial instability or inability to maintain the system – despite investments in the system

Utility System Evaluation

Approach:

- Inspected all utility facilities – mechanical, electrical, structural
- Reviewed historic operations and maintenance records
- Interviewed long time utility personnel

Existing Water Utility Infrastructure:

- Approximately 36.6 miles of water main, ranging in size from 4” to 16” diameter
- A portion of the water distribution system is original in nature and was installed between 1910-1920
- Two (2) Wells; each rated at 800 GPD capacity
- Both Wells are located in **Critical Area I** as defined by the NJDEP. This area has pumping limitations imposed by the NJDEP due to over usage of the aquifer.
- Due to pumping limitation, the Borough has an agreement with NJAW to buy water to fulfill daily peak demand requirements

Utility System Evaluation

Existing Water Utility Infrastructure (continued)

- One (1) water treatment plant, originally constructed in 1956. Several improvements were made to the treatment plant in 2012.
- Approximately 2,886 water service connections. Some water meters date back to 1997.
- Meter failure is possible due to the age, which would result in a loss of revenue and additional manpower spent to read and replace failing meters

Utility System Evaluation

Existing Sanitary Utility Infrastructure

- The Borough collects and conveys sewage to the Bayshore Regional Sewerage Authority's pumps station, and eventually to Bayshore's facility in Union Beach for treatment.
- Ten (10) sanitary lift stations; as old as 37 years. Maintenance and repair completed on an as needed basis.
- Approximately 35.6 miles of sanitary main ranging in size from 2" to 36". A portion of the system dating back to 1950.
- Approximately 800 manholes, some dating back to original installation between 1910-1920

Utility System Evaluation

Overall Observations – Water & Sanitary:

- Most of the above grade and below grade infrastructure is original in nature; some components up to 90 years old.
- Utility personnel have done a good job at maintaining clean and orderly facilities. However, sufficient funds are not allocated for the routine maintenance and necessary upgraded for the infrastructure. Work is typically completed as infrastructure fails or an emergency basis.
- Due to insufficient availability of funds and personnel, there is a lack of routine maintenance programs.
- Lack of significant water main, hydrant and water service replacements relative to the age of the system
- Lack of significant sanitary main and sanitary lateral replacements of rehabilitation relative to the age of the system

10 Year Capital Improvement Plan

- Developed as a planning tool to begin the necessary improvements to the system for sustainable operation.
- To be utilized to establish annual budgetary requirements for the Borough.
- Incorporates improvements to address deficiencies in the system.
- Develops routine inspection and maintenance improvements of critical infrastructure elements (i.e. well pumps, sanitary lift station pumps, well inspection/redevelopment).
- Begins a conservative approach to the systematic and biased sanitary and water main replacements/rehabilitation

10 Year Capital Improvement Plan

Capital Improvements Plan results in:

- Annual Average Water System Capital Improvement Cost= $1,700,700
- Annual Average Sewer System Capital Improvement Cost= $930,000
- Annual Average Soft Costs= $969,613
- **Total Average Annual Budgetary Considerations = $3,600,313**

- Recommend review on annual basis and incorporation of additional water and sanitary piping, as feasible due to budgetary considerations.
- **Capital Improvements Plan does not incorporate Operations Budget or Debt Service.**

Capital Impact

- **2022 Debt Service was approximately $1.1 million**
- **2024 Debt Service was nearly $1.75 million**
- **Capital Plan will add an additional nearly $2 million annually in debt service**

Year	Water	Sewer	Total	New Debt Service	Cumulative Debt Service
1	$ 4,711,300	$ 3,204,000	$ 7,915,300	$429,610	$429,610
2	$ 3,081,760	$ 3,375,310	$ 6,457,070	$350,463	$780,074
3	$ 2,271,150	$ 154,500	$ 2,425,650	$131,654	$911,728
4	$ 4,441,875	$ 2,884,000	$ 7,325,875	$397,619	$1,309,347
5	$ 1,722,418	$ 731,300	$ 2,453,718	$133,178	$1,442,524
6	$ 1,038,270	$ 159,000	$ 1,197,270	$64,983	$1,507,507
7	$ -	$ 3,585,450	$ 3,585,450	$194,604	$1,702,111
8	$ 243,800	$ 1,590,000	$ 1,833,800	$99,531	$1,801,642
9	$ 1,950,400	$ 455,800	$ 2,406,200	$130,599	$1,932,241
10	$ 243,800	$ 159,000	$ 402,800	$21,862	$1,954,103
Total	$ 19,704,773	$ 16,298,360	$ 36,003,133	$ 1,954,103	$ 13,770,887

Operating Efficiencies

Operating Costs	Borough Run	Privately Run
Salaries & Wages	$ 1,195,000	$ 700,000
Pension/Health	$ 740,000	$ 280,000
Other Expenses		
Utilities	$ 65,000	$ 65,000
Administration		
Other Expenses	$ 1,455,301	$ 1,200,000
Repairs	$ 333,166	$ 275,000
Sewer Treatment	$ 1,225,000	$ 1,225,000
Water Purchases	$ 460,000	$ 460,000
Costs	$ 5,473,467	$ 4,205,000

Operating Efficiencies associated with a private operator are expected to be greater than 20% driving economic value.

Financial Analysis

Valuation		
Income Approach	$	42,589,953
Comparable Sales Approach	$	31,170,914
Replacement Cost	$	63,322,369
Average	$	45,694,412

Conclusion of value utilizing a weighted average of sales comps and comparable sales leads to an expected value of $35 million.

Valuation Study

- As part of this project, RVE was requested to complete a valuation of the system. This analysis puts a current worth on the system.
- Each element of the infrastructure was incorporated into the valuation.
- The system was analyzed utilizing costs less depreciation methods.
- Accordingly, each element of the infrastructure provides a value to the system. Since depreciation is considered, newer infrastructure provides a greater value in the system.
- The valuation resulted in a current worth **of $39.3 million.**

Emergent Condition Review

- In 2015, P.L. 2015, Chapter 18, cited as the Water Infrastructure Protection act (WIPA) was enacted. The WIPA established legislature which declared that the maintenance and operation of water and wastewater treatment and conveyance system is vital to ensure the protection of water quality and clean drinking water in the State of New Jersey.

- The law identified and defined conditions in a public utility system which may be classified as an “emergent condition”. An emergent condition for a utility system shall exists if the system meets **one (1) of the following (5)** conditions:

Emergent Condition Review

As Defined by Law:

1. The system is located in Critical Supple Area I or II;
2. The owner is a significant non-complier and has been the subject of enforcement;
3. There is a present deficiency of violation of maximum contaminant levels concerning the availability of potable water or concerning the provisions of water at adequate volumes or pressure or distribution or treatment of wastewater;
4. There is a demonstrated lack of historical investment, repair or sustainable maintenance;
5. The owner lacks the financial, technical or managerial capacity to adequately any of the foregoing on a sustainable basis or operate the system in a way that supports economic activity on a sustainable basis.

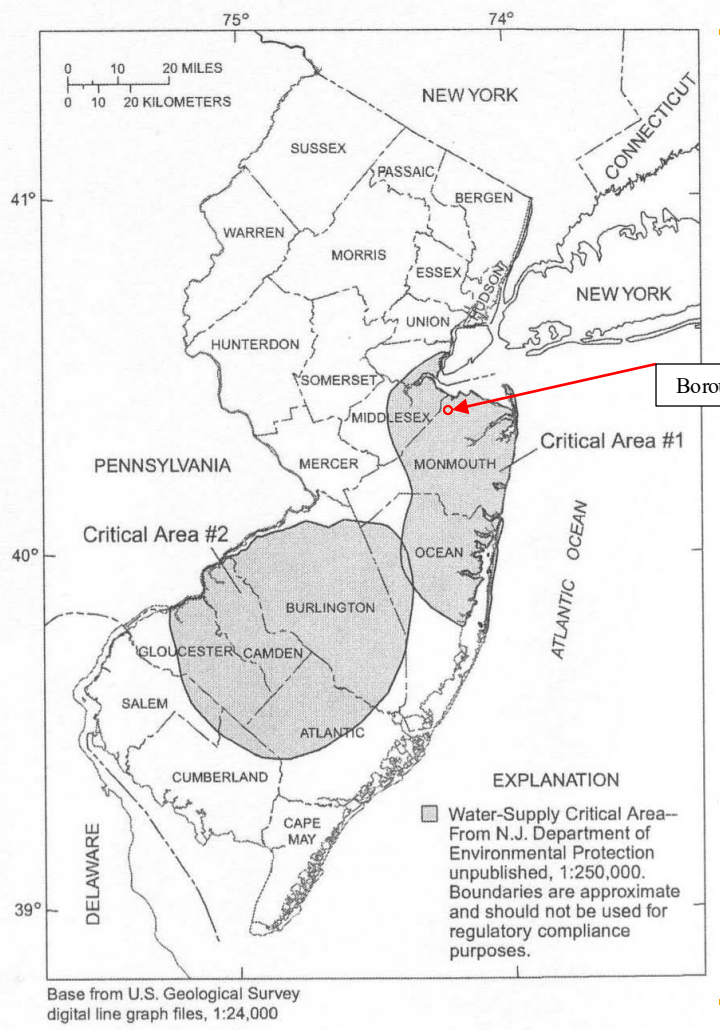
Emergency Condition Review

During the review, it was established that the Borough of Matawan meets the following Emergent Conditions as defined by the Water Infrastructure Protection Act (WIPA):

- Emergent Condition #1
- Emergent Condition #4
- Emergent Condition #5

Emergent Condition #1 – Critical Supply Area I

- As the entirety of the Borough is located within Critical Area I, all assets are located within the area



Emergent Condition #4 – Lack of Historical Investment, Repair, or Maintenance

- The City has made improvements to the system. However, due to budgetary limitations, the improvements have not been to the extent or degree as necessary for sustainable maintenance of the system.
- The Borough currently budgets $500,000 biannually to both the water and wastewater systems. This allows the Public Works Department to inspect and improve critical elements, however portions of each system required significant rehabilitation or replacement.
- Two key areas requiring attention are the Borough's pump stations and the underground infrastructure (water and wastewater).
- The minimum anticipated costs associated with these rehabilitations and/or replacements exceed the resources available.

Emergent Condition #5 – Lack of Ability to Provide Suitable Technical, Managerial, or Financial Capacity

- Technical Capacity: The Borough has been successfully operating the water and sewer utilities without violations or disciplinary actions from DEP. The Borough Sources water from NJAW to supplement allocation.
- Managerial Capacity: The Borough has fourteen (14) full-time employees within the Public Works Department. The Borough also contracts with an outside contractor to respond to emergency repairs
- Financial Capacity: The current budget for capital improvements, maintenance, and repairs along with the lack of rate increases, has resulted in the Borough being unable to fund necessary capital improvement projects. This represents a lack of financial capacity.
- System Capacity: This describes a combination of technical, managerial and financial capacity. As the Borough is deficient in financial capacity this results in the Borough's lack of system capacity.

Next Steps

- NJDEP is the only entity that can confirm if an Emergent Condition Exists
- Upon approval by Governing Body, the reports will be submitted to NJDEP, BPU and DCA
- If approved by NJDEP, there is a 45 Day waiting period for public review / comment
- After 45 days – Governing Body can request Qualifications and Commitments from purveyors
- Purveyors are interviewed to determine who will address Emergent Conditions, invest in the system etc.
- Governing Body can enter int price negotiations
- Nothing is binding. Borough can pull out of process at anytime before sale or lease contracts are signed

Questions?