



Sewer Referendum Background and NJAW Bid Assessment

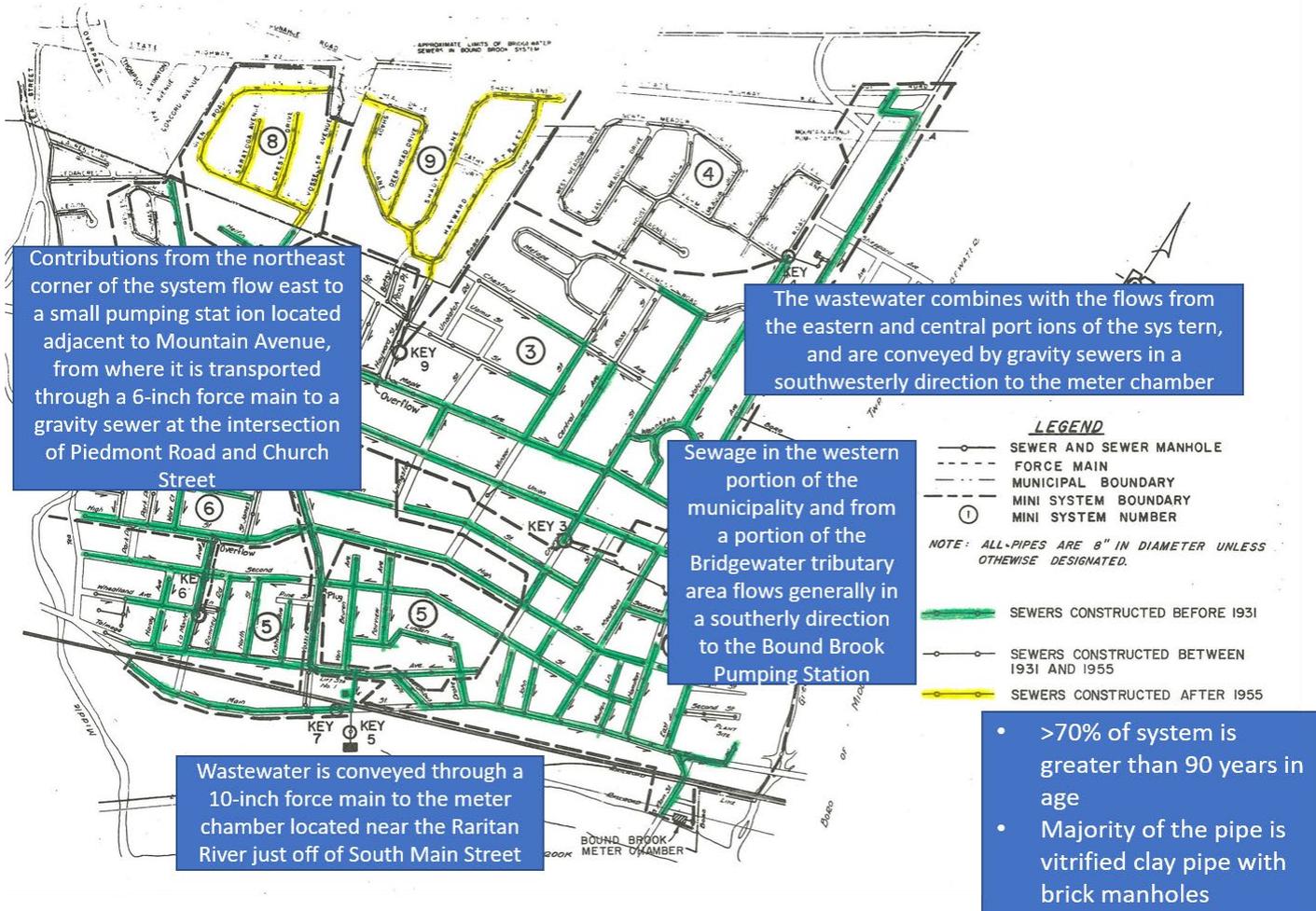
Informational presentation to provide both the background, the anticipated benefits, and recommendation for the proposal from NJAW

Beginning in June 2020 a Borough Council appointed Subcommittee conducted a detailed analysis of sewer cost drivers and evaluation of potential best practices focused on five criteria

- Reduced Cost per residence (Sewer + Local Tax)
- Reduced I&I (Environmental Compliance)
- Infrastructure Reliability
- Service Responsiveness
- Greater transparency to real costs of operation and maintenance

The detailed slide presentation is available on the Borough website

The cost drivers of the Sanitary Sewer “System” originate within the defined boundaries and scope of the “System.” Bound Brook operates only a sewer collection facility. This facility connects to a trunk system operated by MCUA, ending at the sewage treatment facility (also MCUA). Aged (largely) clay pipes of varying size, transport sewage via gravity and assisted by one pump station define the sewer collection facility.



The Subcommittee generated, defined, and analyzed seven alternatives with the potential to positively impact the established criteria. The results were presented in an open meeting of the Borough Council in October 2020

1. Create Sewer Utility
2. Reduce Inflow and Infiltration
3. Address MCUA Costs
4. Reassign Costs amongst residents/businesses
5. Connect to different utility
6. Sell/Lease Sewer infrastructure
7. No change to exiting processes and structure

The alternatives were compared against each criterion. The potential to sell the sewer for an acceptable price was recommended, then agreed, as it also had the potential to offset \$2MM in required spending needed within 5 years

	Reduced Cost per Residence (Sewer + Local Tax)	Reduced I&I (Increased Environmental Compliance)	Infrastructure Reliability	Service Responsiveness	Greater transparency to real costs of operation and maintenance	Comment
Create Sewer Utility			Implemented +		+	
Reduce Inflow and Infiltration	>\$1MM in Cost Postponed Until Sewer Sale Alternative Explored					Costs offset with expected reduction in flow
Address MCUA Costs	-	Not pursued: Infeasible based on 1954 Contract				Significant cost with little benefit
Reassign Costs amongst residents/businesses	+		Implemented +			
Connect to different utility	-	Not pursued: Infeasible based on 1954 Contract				Significant cost with little benefit
Sell/Lease Sewer infrastructure	+	+	In+process	+	+	
Operate per Current Structure	\$900K in Cost Postponed Until Sewer Sale Alternative Explored					

“+” – indicates advantage in specific criteria verses current practice

“-” – indicates a disadvantage in specific criteria verses current practice

blank – indicates no expected measurable change in performance verses current practice

The Subcommittee was rechartered to pursue the alternative of the Sale or Lease of the Sewer Collection Facility (“The Sewer System”).

The Sale or Lease of the system requires a **voter referendum**. The request for bid had to meet criteria built within the RFB that demonstrate:

- Bound Brook residents would benefit ratewise from a qualified purchaser.
- A fair and acceptable price would be achieved based on an independent financial analysis.
- A significant benefit of Borough debt retirement (sewer plus other) and debt service reduction would be realized.
- Future rates would be effectively regulated through the NJ Board of Public Utilities (BPU).
- The bidder would provide equal or greater customer service to the residents, preferably with a history of strong community involvement and engagement.

Only one acceptable bid was received in May 2021
from NJAW

New Jersey American Water's bid to acquire the Borough wastewater system offers an acceptable financial benefit through the purchase price, planned future investments, and 5-year rate stability

- Financial Benefits of Purchase Price
 - Pay off \$5.0M Borough Debt
- Post Acquisition Capital Investment
 - \$11M in First 10 Years (\$6M in First 5)
- Short & Long Term Rate Stability
 - Two (2) Year Rate Freeze
 - < 3% Annually Over Next 3-Years
 - \$7,000 Savings For Typical Residential Customer over 20-year projection
 - Low-income customer financial assistance



Bound Brook (1887) - Image from American Water's archives

Request for Bids
May 4, 2021



NJAW has demonstrated history of investing in the Borough water system while keeping rates reasonable

- More than \$11 million into the water distribution system in Bound Brook since 2012. The investment included replacement of:
 - More than six (6) miles of water main,
 - 628 company side service lines, and
 - 36 public fire hydrants.
- NJAW investment is approximately \$470 per customer per year, or \$3,900 in total per customer over the course of the last nine (9) years

NJAW will invest significant capital for the benefit of Bound Brook and its residents, increasing system reliability and mitigating future “unknown unknowns” associated with our aged infrastructure.

New Jersey American Water commits to spending a minimum of \$11 million on the Borough’s wastewater system in the first ten (10) years of ownership. We estimate that approximately \$6 million of that will be spent in the first five (5) years before settling into a capital plan that invests approximately \$1 million per year in improving the system in Bound Brook.

<p style="text-align: center;">TEN YEAR CAPITAL IMPROVEMENT PLAN ITEMS</p> <p style="text-align: center;"><i>\$11 Million Dollars in 10 Years \$6 Million Dollars in First 5 Years</i></p>		
<ul style="list-style-type: none"> - GIS/GPS Mapping Database - Miscellaneous Safety/Security Upgrades - Inflow & Infiltration Study of W/W System 	<ul style="list-style-type: none"> - Sewer Main Replacement Program - Manhole Elevations Survey - New Vector Truck Purchase 	<ul style="list-style-type: none"> - W/W Pump Station Improvements & Replacement - Service lateral maintenance & replacements - Miscellaneous tools / vehicles

Note: slide content was provided by NJAW at the request of Borough Sewer Referendum Subcommittee

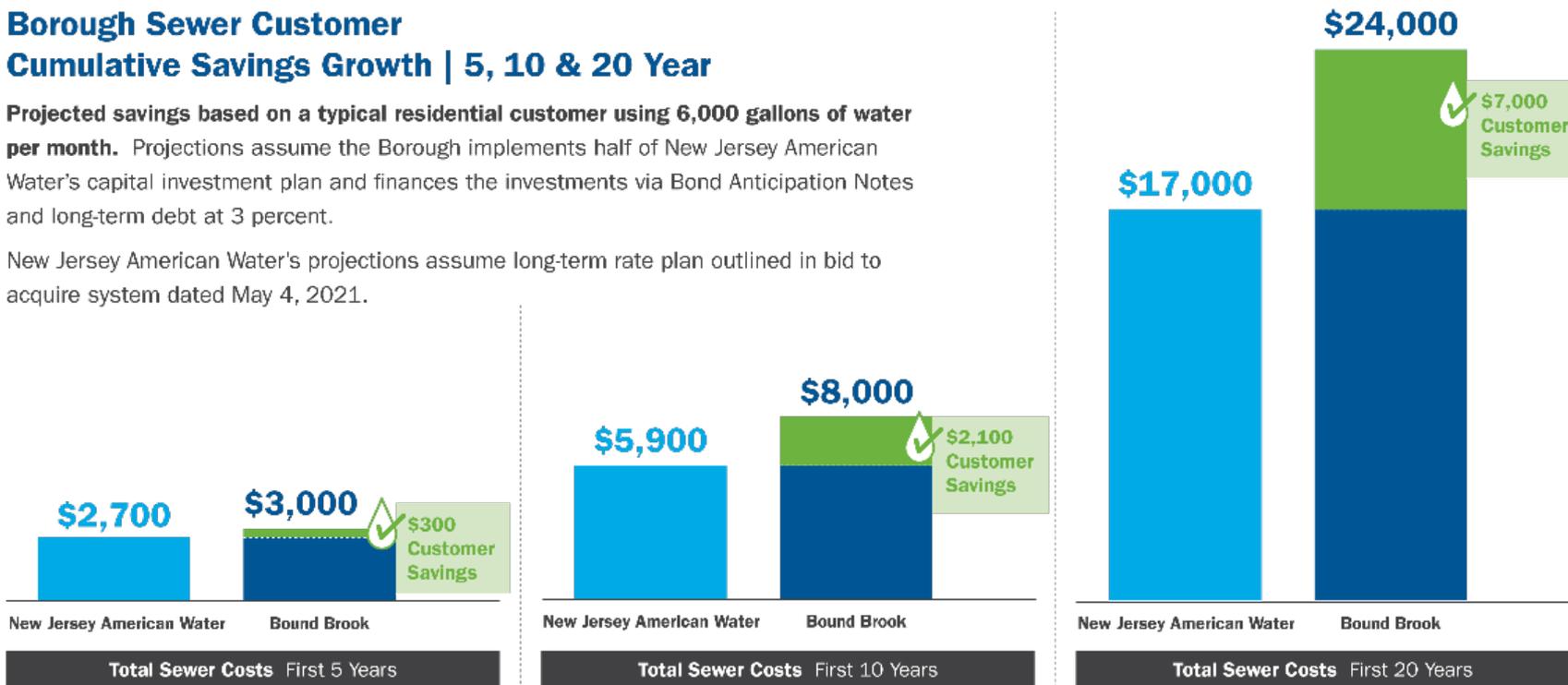


The cumulative effect of NJAW being the owner/operator of the Sewer system is beneficial over the long term for residents when compared against a scenario where the Borough would need to finance needed capital improvements without the benefit of operating leverage and scale of NJAW.

Borough Sewer Customer Cumulative Savings Growth | 5, 10 & 20 Year

Projected savings based on a typical residential customer using 6,000 gallons of water per month. Projections assume the Borough implements half of New Jersey American Water's capital investment plan and finances the investments via Bond Anticipation Notes and long-term debt at 3 percent.

New Jersey American Water's projections assume long-term rate plan outlined in bid to acquire system dated May 4, 2021.



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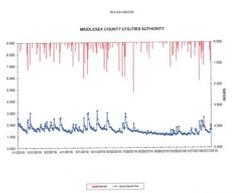
Other aspects of the NJAW bid are beneficial to our residents and businesses in terms of customer service and enabling future growth. These include:

- Risk Mitigation for Borough
- Economic / Community Development Advantages
 - No Connection Fees & Opportunity for Revenue Refunds
- Replace / Rehabilitate w/ Borough Road Program & Curb-to-Curb Paving
- Transaction Costs – Up to \$150K reimbursed by New Jersey American Water @ Close
- Service Laterals – Currently owned by homeowners from the home to the main; New Jersey American Water offering to take responsibility for the *“portion of the Service Line within any public street right of way or sewer easement, or if there is no public street right of way or sewer easement, that portion of the Service Line that is five feet from the point of connection to the wastewater collection system, or to the clean-out, whichever is closer.”*
- 50% I&I (T&M Reports from ‘09 – ‘13); aggressive CapEx plan needed to attack
- Conversion to monthly billing (from current tri-annual billing). Billing detail available via NJAW website.
- H2O Program for low-income customers
- American Water History in Bound Brook

In addition, there are other quantitative and qualitative benefits for Borough residents. These benefits would result in incremental improvements on common services considered important to most Bound Brook residents and businesses

- Municipal buildings, fire departments, and schools will not be charged for sewer use for 10 years
- There is potential for greater synergies benefiting residents by having NJAW managing water and sewer in our town.
- Customer service capacity increases within the Borough finance department, as sewer billing issues would not be processed through Borough.
- Borough DPW capacity is increased to meet other Borough priorities without incremental costs. These include capacity for:
 - Road improvements
 - Grounds improvement and maintenance
 - Municipal trash monitoring and pickup
 - Building improvement, maintenance and repairs

If the Council votes to not proceed, or residents vote “no sale” on the referendum then, beginning with the 2022 Municipal budget, the Borough must begin the \$2MM initial investment to ensure system functionality, customer service, and regulatory required I&I reductions.

Item	Cost	Exhibit	Comments
Sewer Truck	\$300K		Truck purchased in 1997
Pumping Station	\$500K		Will require complete refurb by 2025
I&I remediation	\$1MM		Basin 3 and 7 investigation and remediation required to mitigate I&I
Road Repairs*	\$50K (annual)		Based on sewer maintenance/repair

Recommendation

- It is recommended that the Borough Council vote to accept the negotiated contract with NJAW and place the referendum on the November ballot
- It is also recommended that the residents vote “Yes” to pass the referendum in November 2021
- The Referendum Subcommittee will conduct two public meetings prior to November to further share the bid details, our analysis, and answer questions and address concerns from our residents.