



Proposed Public Private Partnership

Community Forum

May 26, 2015



Tonight's plan:

- **CH Water Utility Overview**
 - History
 - Current Challenges
- **Review of Options**
- **Proposed Partnership w/Aqua Ohio**
 - About Aqua
 - Letter of Intent Review
- **Next Steps**
- **Questions & Answers**



CH Water Utility Overview



LAKE ERIE



City of Cleveland

**Master Meter
Communities**

**Direct Service
Communities**



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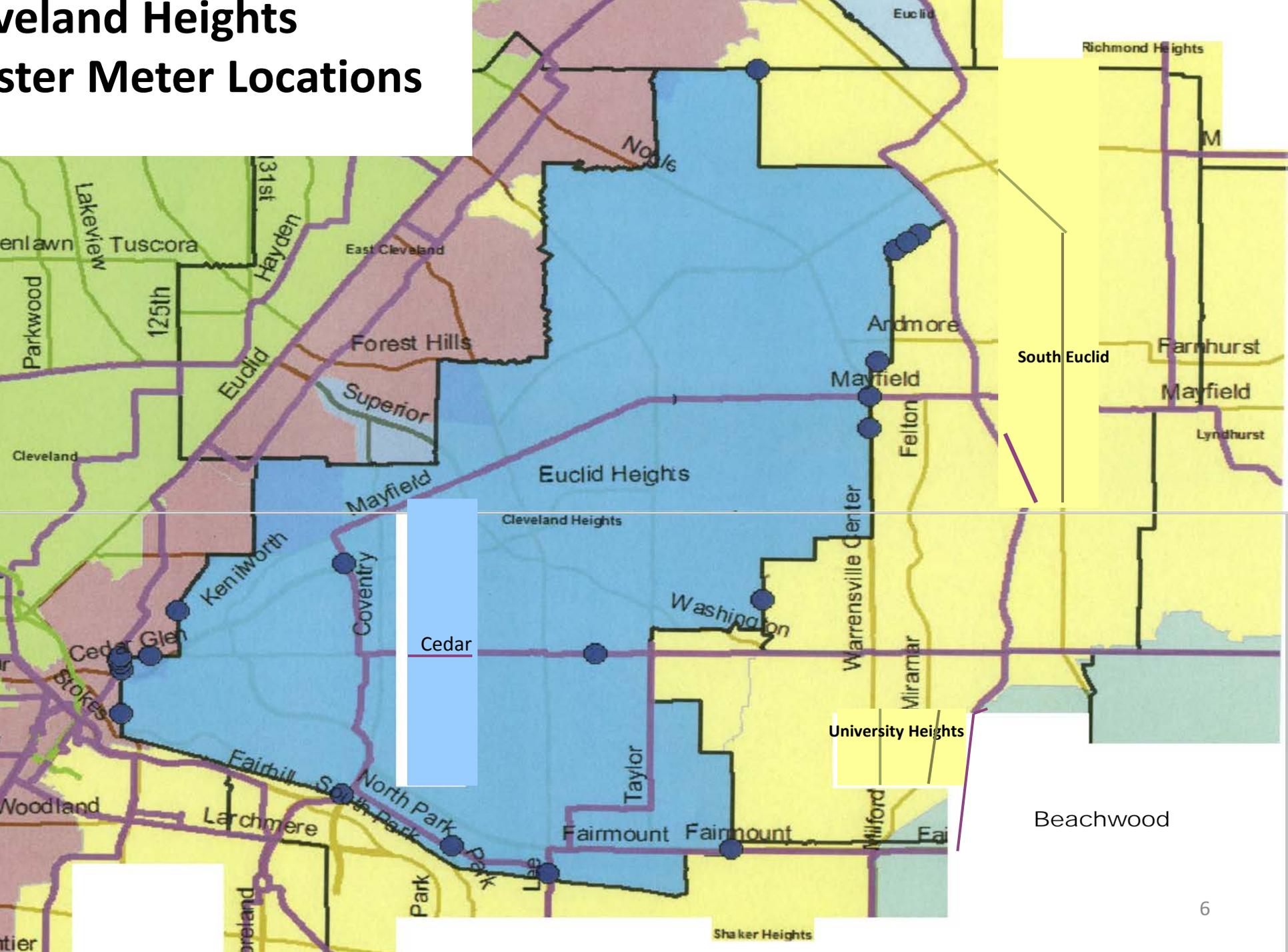
65+

CH Water Department

- **15,800 accounts**
- **Maintain approximately 140 miles of water main**
- **Meter reading**
- **Billing and collections**
- **EPA reporting**
- **Service about 1,800 fire hydrants**

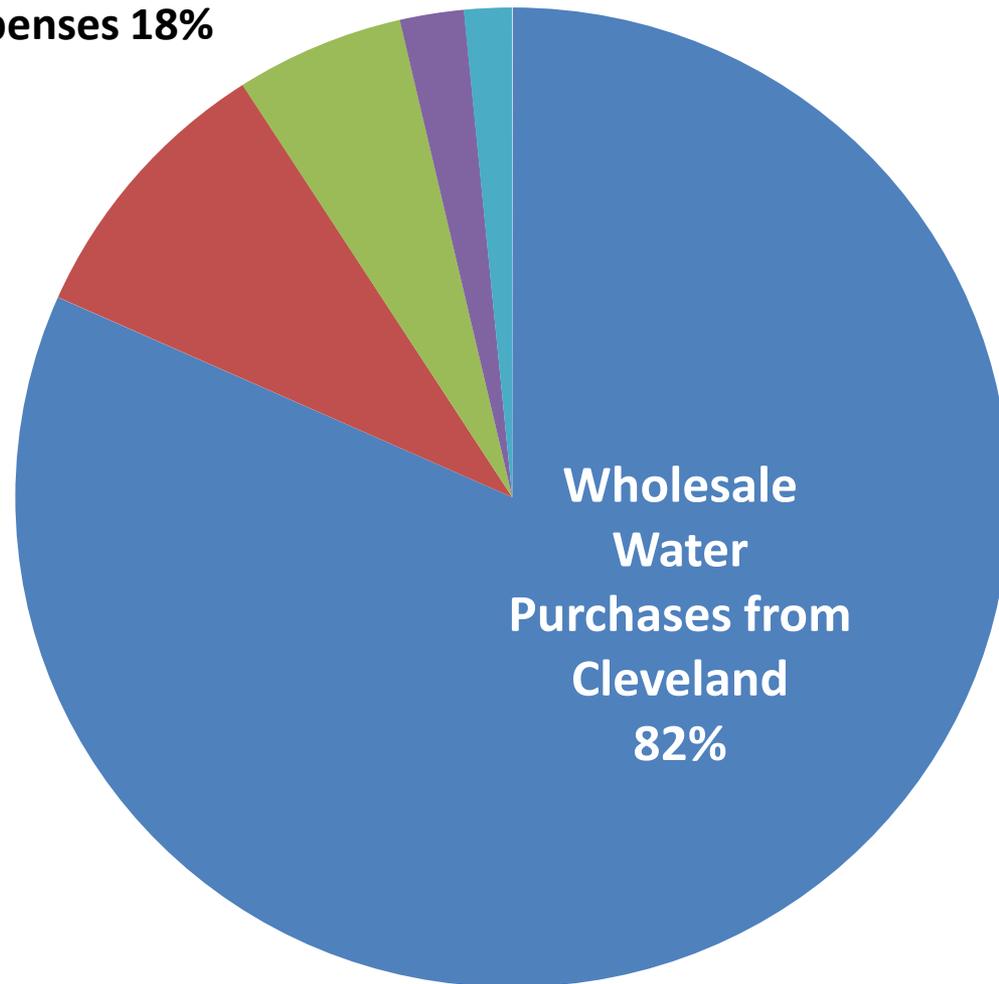


Cleveland Heights Water Meter Locations



CH Water Department Expenses

All other
expenses 18%

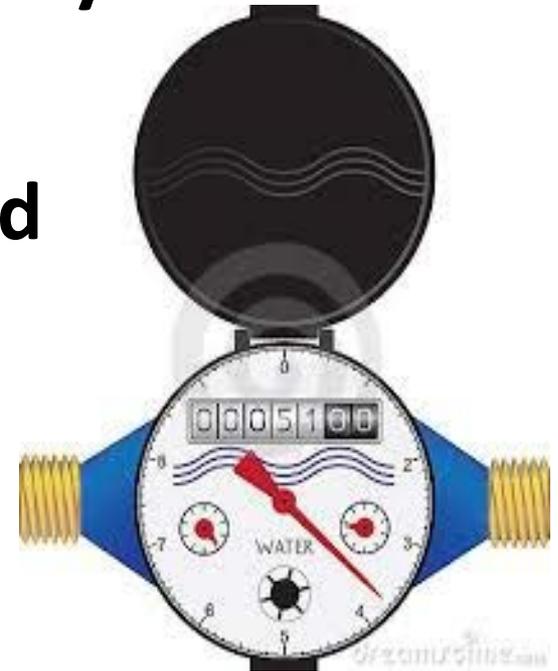


- Wholesale Water Purchases from Cleveland
- Personnel
- Operating Costs -Other Than Personal Services and Refunds
- Debt Service and Loan Repayments
- Capital Projects & Purchases

Major Challenge: Improving the Infrastructure



- **Distribution system 80-90 years old**
 - Averaged 40 main breaks per year
 - 2013 = 62 / 2014 = 63
- **Meters approaching end of life cycle**
- **Meter reading system outdated**
- **Billing system outdated**



2012 & 2013 Actions

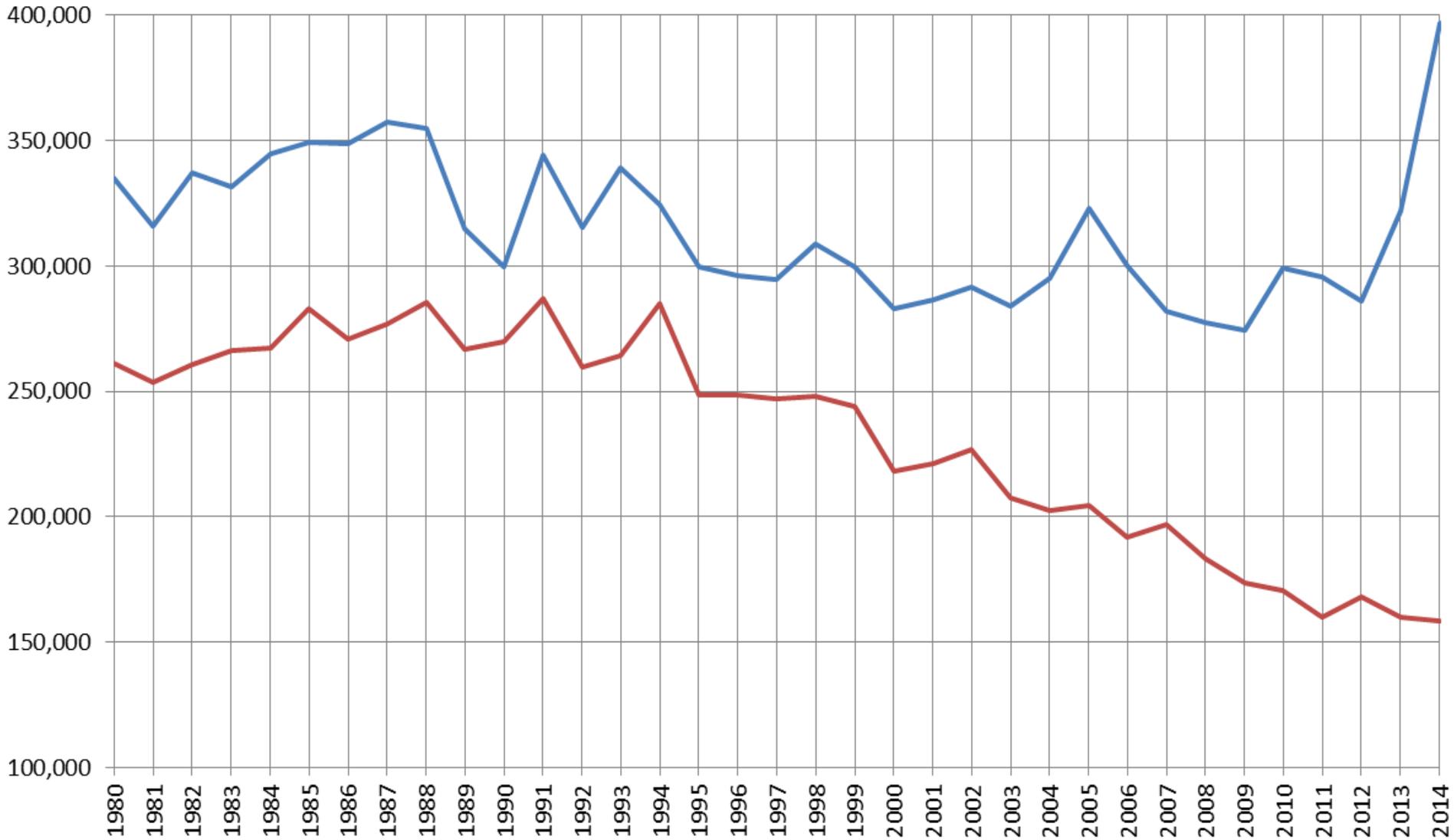
- **Increased Service Fee**
- **Continued water line replacement projects**
- **Implemented aggressive collections policy**
- **Rates increased to cover CWD increases and generate surplus for capital investment**



Increasingly high rates of non-revenue water
(Water purchased from CWD but not billed)

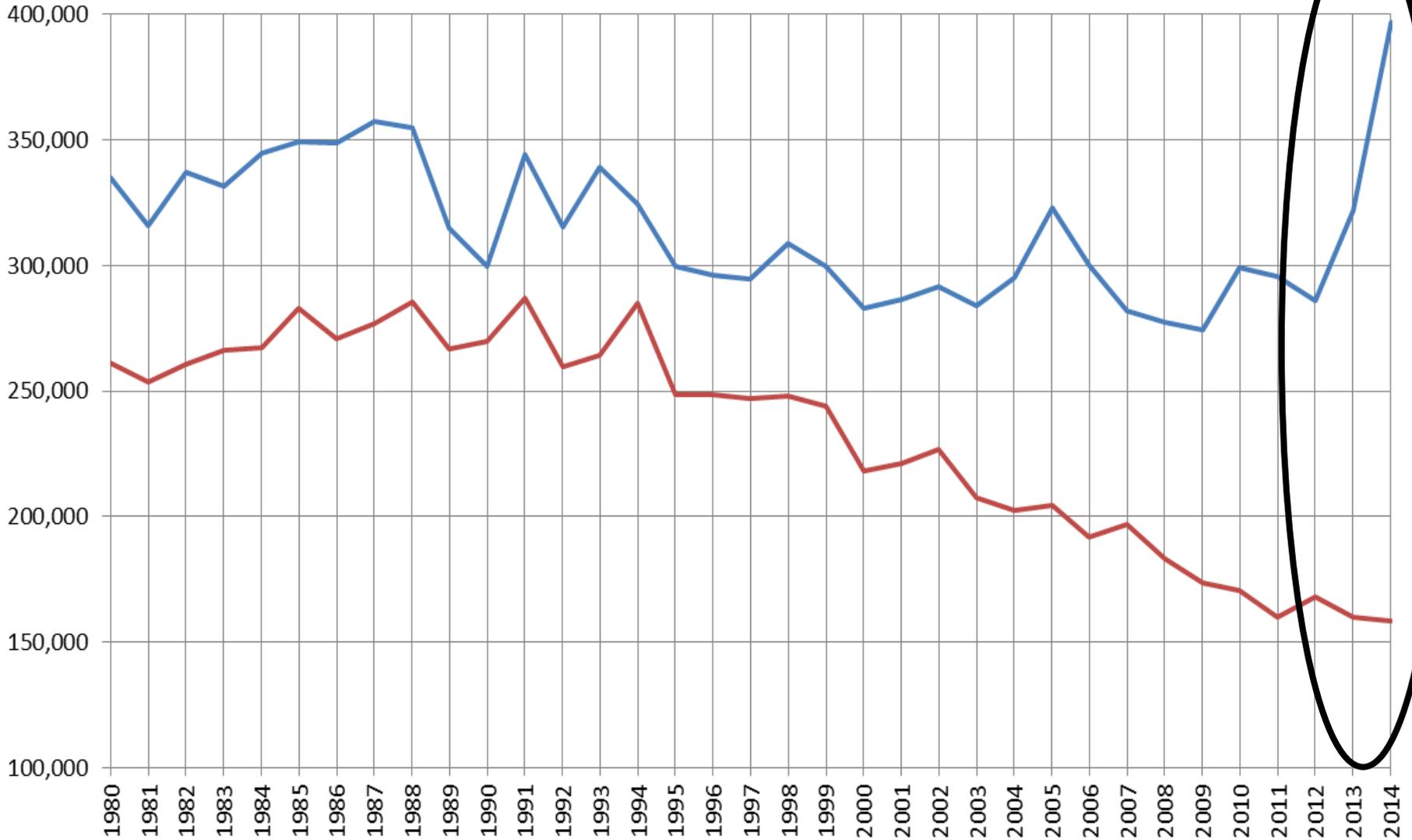
Cleveland Heights: Purchases v Sales (MCF)

Purchases Sales



Cleveland Heights: Purchases v Sales (MCF)

Purchases Sales



What happened in 2014?

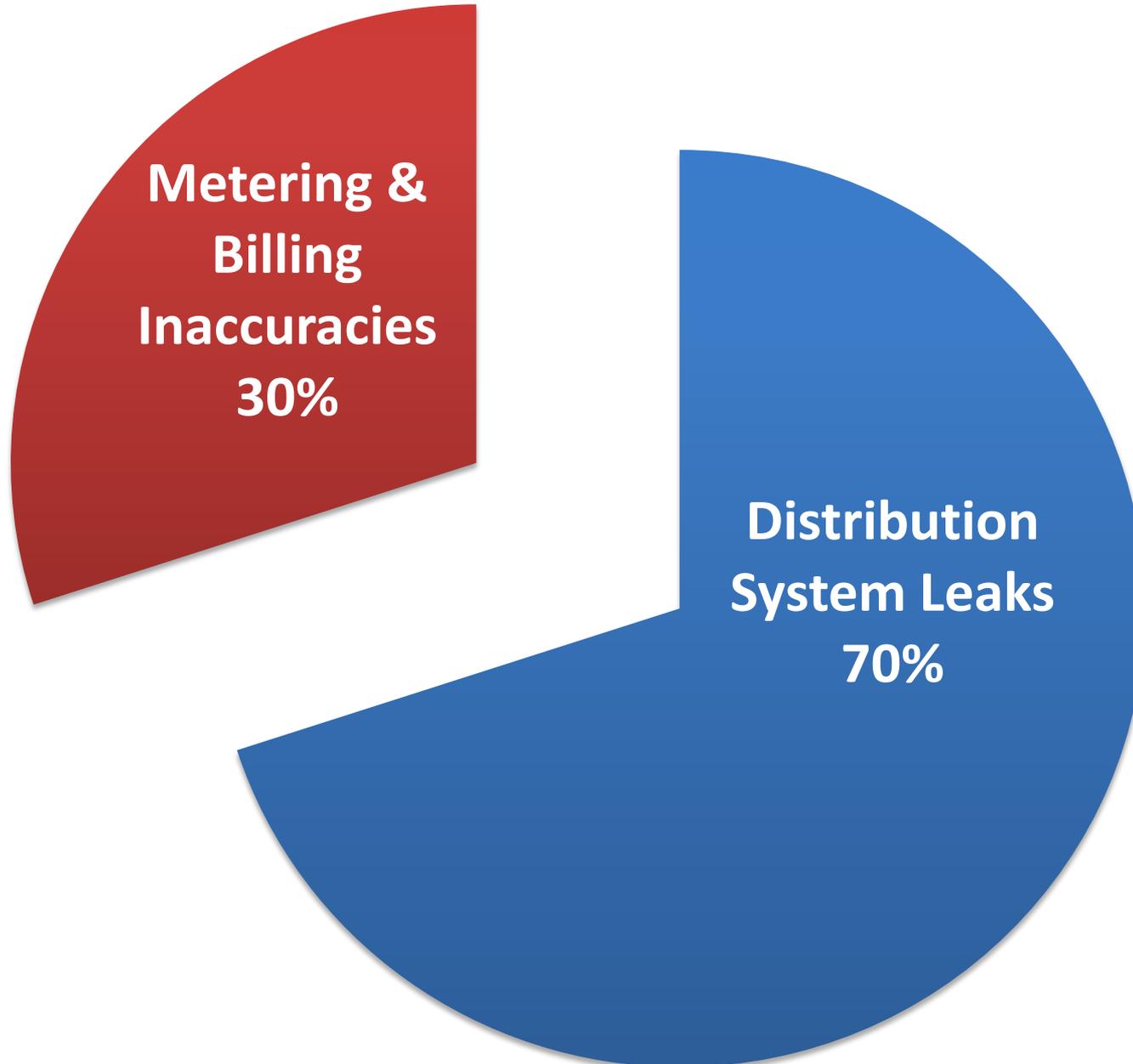
- **Average CWD bill increased 25%**
- **Revenue no adequate to cover purchased water**
- **Extensive leak detection and remediation done**
- **Outside engineer hired for additional analysis**

Detailed Engineering Evaluation

- Identify and quantify areas of non-revenue water
- Make recommendations to remediate losses and produce positive cash flow to sustain future investment
- Provide financing alternatives to fund improvements



60% Non-Revenue Water



ESG Study Recommendations

- **Replace all commercial meters**
- **Replace portion of residential meters**
- **Install new meter reading system**
- **Audit billing system and correct errors**

- **Repair major leaks**

- **Invest in new operational tools to improve performance**

ESG Study Recommendations

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- \$6.3M**
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- \$4.2M**
-
- | Recommendation | Cost |
|--|--------|
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- \$19.9 MILLION IN IMPROVEMENTS**
- \$6.3M
- \$9.4M
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-
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Options Explored

- **Performance Contract**
 - Pay for improvements using guaranteed savings and new revenue
- **Become a Direct Service Community of the City of Cleveland**
- **Public Private Partnership**

Primary Considerations

- **Resolve the projected \$3.7 million deficit**
- **Secure the necessary capital investments to improve the system now and in to the future**
- **Retain an active role in managing the system**
- **Manage financial risks associated with improvements**

Primary Considerations

- **Maintain high levels of service**
- **Stabilize rate increases**
- **Respect the Water Department's existing workforce and uphold the labor agreement**
- **Protect options for the City's future leadership**

Performance Contract

How it works:

- City borrows \$20M for improvements
- Improvements completed over 2 year period
- Debt service paid for 20 years using savings and new revenue generated by improvements
- Savings and new revenue guaranteed by ESG

Limitations of this option:

- Deficit not resolved
- Financial risk is minimized but not eliminated
- City's ability to continue investment beyond initial projects is not guaranteed

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City of Cleveland – Direct Service

How it works:

- City enters into direct service agreement
- City enters into Joint Economic Development Zone Agreement (“non-poaching”)
- Ownership of CH distribution system transferred to Cleveland
- Cleveland Water assumes all water utility operations
- CH applies annually for suburban infrastructure grants (pool of \$12M for 70+ communities)

Unknowns:

- Deficit
- Outstanding debt
- Rates
- Capital investment
- Existing employees
- Customer service

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Public Private Partnership

- **More than a “contractual relationship”**
 - **City retains control**
 - **Skills and assets of each partner is invested**
 - **Collaborative arrangement of service delivery**
 - **Flexible agreements to allow customization that meets community’s needs**

About Aqua Ohio





Aqua Background & Operational Philosophy

Cleveland Heights Public Forum

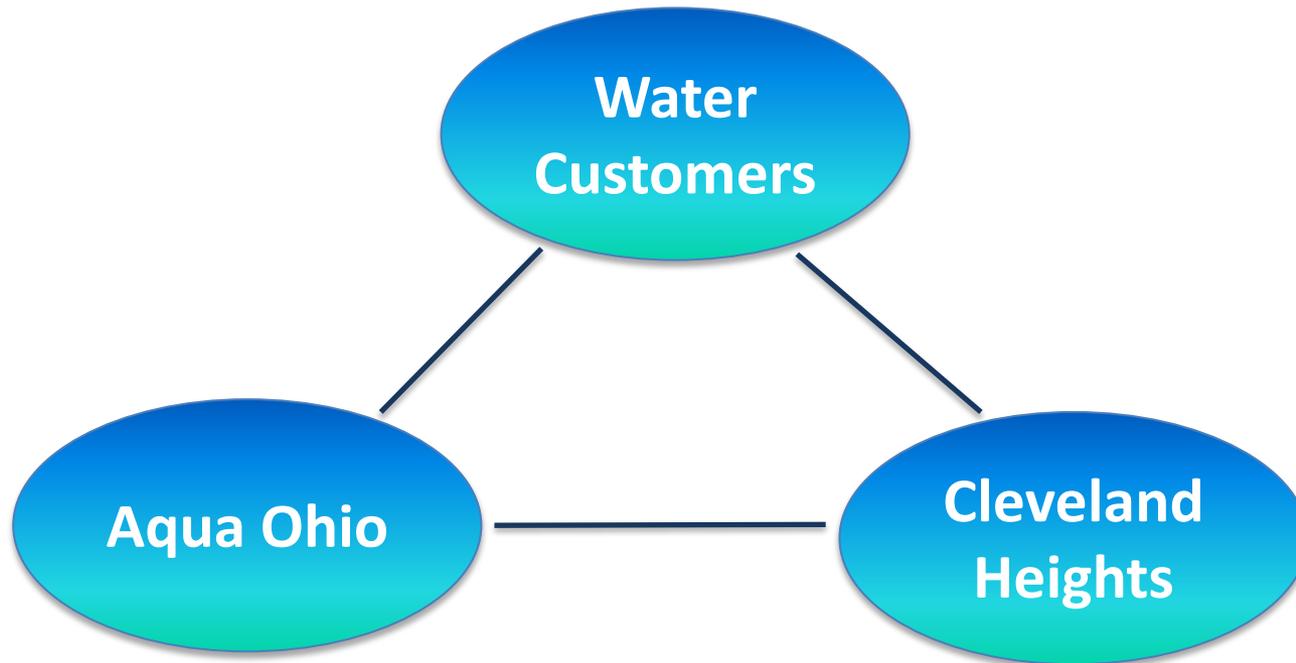
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Discussion Topics

- Aqua America
- Aqua Ohio
- Working with Aqua
- Our Approach

Cleveland Heights & Aqua Partnership



Making our partnership work for everyone



Aqua America's Background

- Founded 125 years ago;
- Headquartered in Bryn Mawr, (Philadelphia) PA;
- Currently maintains local operations in 8 states.



AQUASM

Aqua America's Scope

- Employs 1,700 people;
- Provides drinking water to 3 million people;
- Owns and operates 1,447 public water systems;
- Provide wastewater service to 250,000 people;
- Operates 187 Wastewater treatment systems.



Aqua Ohio's Background

- Headquartered in Boardman (Youngstown) OH;
- Aqua America's 2nd largest subsidiary;
- Ohio's largest non-municipal water utility;
- History in the state dates back to 1853 when the Massillon Water Supply Company was formed.



Aqua Ohio's Scope

- Operating in 17 counties;
- Serving 500,000 Ohioans;
- Employs 180 people;
- Operates 35 water treatment plants;
- Delivers 40 million gallons/day;
- More than 2,200 miles of water main.



Aqua's Business Philosophy

Mission

- Environmental Stewardship;
- Customer Focused Reliable Service;
- Quality Water & Wastewater Treatment;
- Reasonable Prices / Operational Efficiencies.



Aqua's Approach

Uncover Opportunities for Improvement

- Understand the City's operations and customer expectations;
- Achieve optimum cost efficiencies;
- Improve system reliability;
- Aggressively reduce water losses.



Aqua's Approach

Water Loss Issues

- Leak detection;
- Hydraulic modeling;
- Valve evaluation, exercising & repair.

Billing Issues

- Meter change out & resizing where appropriate;
- Large meters & interconnections.

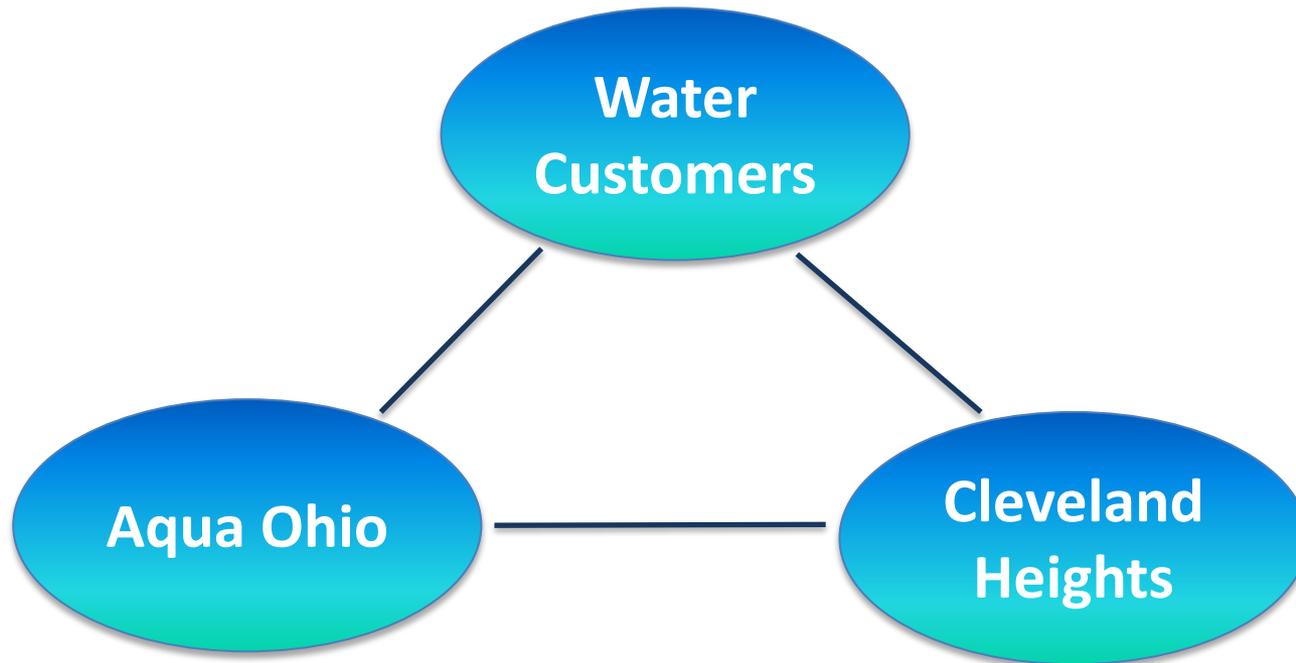


Managing the Financial Risks-A Shared Effort

- **City Deficit** – Aqua payment with recovery in rates over first 10 yrs.
- **Customer Rates** – No rate increase in 2015. Thereafter determine a cap on increases based on findings during first yr. in operation.
- **Setting Rates** – Aqua and the City negotiate rate plan in 4-5yr blocks.
- **Purchased Water** – City continues to hold the contract with Cleveland Water.



Cleveland Heights & Aqua Partnership



Making our partnership work for everyone



Aqua as a Community Partner

“As a lifetime resident and ten years as an elected official in the City of Massillon, I’ve come to appreciate Aqua Ohio on many levels. I’m thankful that Aqua’s continual investment in the system helps assure quality and reliability. When challenges do arise, their straightforward communication style and quick response gives me confidence.

...they’re a valued community partner.”

-Kathy Catazaro-Perry
Mayor, City of Massillon Ohio



CH / Aqua Partnership

- **City retains ownership of existing infrastructure**
- **Partner assumes water utility operations**
- **City and partner collaborate to establish performance standards for operations**
- **City and partner adopt rate plan in five-year intervals**

CH / Aqua Partnership

- **Capital investment guaranteed for immediate and future needs**
- **Deficit resolved; debt eliminated**
- **Existing employee options preserved**
- **Agreement can be cancelled at any time**

Next Steps



Q & A

