



Fact Sheet

Proposed Letter of Intent (LOI) for Public Private Partnership with Aqua Ohio

The Cleveland Heights Water Department is responsible for maintaining the water distribution system serving nearly 16,000 homes and businesses. In addition to maintaining water mains and service lines, the Department also conducts meter reading, billing, customer service and fire hydrant maintenance. Cleveland Heights purchases treated water from the City of Cleveland for distribution to its customers.

Cleveland Heights Water Utility Challenge:

Many are aware that Cleveland Heights has experienced financial challenges concerning the City's water utility for many years. Steps taken to address these challenges have offset short-term needs but have been insufficient in addressing larger systematic and financial needs. The water utility now faces a projected \$3.7 million deficit in 2015 and requires a major capital infusion to upgrade failing infrastructure.

In the summer of 2014 the City hired Energy Systems Group (ESG) an independent consulting firm to evaluate the water utility and to identify primary areas of concern. Their research indicated a need for \$20 million in system upgrades to address increasingly high levels (60%) of non-revenue water (water that enters the City's distribution system but not billed). After further analysis we have concluded that even with a \$20 million dollar investment, the estimated additional revenue and cost reductions these improvements would create would not be sufficient to cover projected budget shortfalls in 2015.

The assessment made clear that the water utility was in need of a significant overhaul. The City has considered several possible solutions to address the challenges including 1) a performance contract that would require the City to invest \$20 million, 2) turning the system over to the City of Cleveland, and 3) engagement of a private partner. Based on initial discussions with Aqua Ohio, establishing a Public Private Partnership with the company would best meet the City's needs.

Letter of Intent Purpose:

The Letter of Intent (LOI) is the first of several steps to allow the formation of a partnership between the City and Aqua Ohio. These steps are expected to take several months to complete and will include opportunities for public engagement. The LOI authorizes City staff to begin negotiations of a partnership agreement and sets specific parameters for the negotiated terms. The parameters include items such as the City retaining an active role in managing the utility, the thoughtful transition of existing Water Department employees, and the need to stabilize the utility's financial challenges.



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Financial Arrangements-If an agreement is reached the City would receive an up-front payment of up to \$3,700,000 to cover the projected deficit and outstanding debt; monthly payments to cover the costs of Water Department employee payroll and a monthly amount equal to the amount billed by the City of Cleveland for supplying treated water. Further, the City of Cleveland Heights will receive an additional annual payment in an amount to be negotiated once the system meets required performance thresholds (i.e. reducing the non-revenue water rate from 60% to 30% and below).

Responsibilities-Aqua would invest in needed upgrades, maintain the system, provide billing, customer service, and all regulatory compliance responsibilities. The company would cover the cost of the Water Department's payroll for an initial period while determining the appropriate level of staffing. Aqua will seek to ease employee transition and provide appropriate training (work practices, safety and instruction on technology upgrades). During this time, employees may have employment opportunities within the City as determined by their collective bargaining agreement, or within Aqua. The City and Aqua will work together on issues such as employee insurance, Worker's Compensation, pension, and workforce transition including, attrition, retirements, transfers, etc.

Rates-Among the main reasons for this partnership is the desire to avoid cuts to City services and protect customers from sudden, steep rate increases that would be required if the City were to make the needed system repairs and prevent further deficits. The proposed agreement would include establishing a rate plan that would generally cover five-year increments and cap rate increases at reasonable levels.

Public Engagement

The City will take steps to keep the public informed throughout this process. To that end, the City will host a public forum to discuss the Letter of Intent. The forum will be held:

Tuesday May 26, 2015
From 7:00 until 9:00p.m.
At the
Cleveland Heights Community Center
1 Monticello Blvd

Cleveland Heights Water Department Overview

- Maintaining the water distribution system serving nearly 16,000 customers.
- Reading all water meters via a mobile-equipped vehicle monthly, billing and customer service.
- Maintaining 140 miles of underground water mains and 1,800 main line valves.
- Regular servicing of 1,800 fire hydrants throughout the City.



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- EPA sampling and reporting to maintain required permits.
- Distribution of water quality data.
- Water Source:
 - The Cleveland Heights Water Department purchases treated water from the City of Cleveland.
 - The City of Cleveland's source of water, before treatment, is Lake Erie.

Aqua Ohio Overview

- Aqua Ohio is the largest private water utility in Ohio and the second largest subsidiary of Aqua America.
- Aqua America is a publically traded company headquartered in Bryn Mawr, Pa. and has a history dating back more than 125 years.
- Aqua America currently serves 3 million customers in eight states including Pennsylvania, New Jersey, Illinois, Indiana, Ohio, Virginia, North Carolina, and Texas.
- Aqua Ohio currently serves about 500,000 people in 19 Ohio counties.
- Aqua Ohio's 180 employees supply 40 million gallons of water daily.
- Aqua manages 35 water treatment plants, three wastewater systems and maintains more than 2,200 miles of main in Ohio.
- Aqua Ohio's history dates back to 1853 when the Massillon Water Supply Company was formed.