



Town of Milford

Frequently Asked Questions

Milford Water Company Acquisition

Evaluating the System

1. *Why is the Town considering acquiring the Milford Water Company now?*

The Milford Water Company (MWC) is poised for a sale. As a matter of law, the Town has the right to purchase the company at any time. Under the current private ownership, the Town has encountered troubling water problems that have resulted in lawsuits, state investigations, boil orders and sharp rate increases. If ownership were to shift to the Town, ratepayers would be afforded more input, control, transparency and accountability through a three-member elected oversight board, the Board of Water Commissioners. The proper due diligence is being complete to fully consider this opportunity and an article will bring the question of a purchase to Town Meeting in September.

2. *What would the Town acquire with a purchase of the MWC?*

The Town would acquire all the stock of the MWC and all of its assets, including underground infrastructure, with the exception of a single-family lot and house located on W. Pine Street. The acquisition would include all of the real estate located in Milford, and in Hopkinton, all water rights, easement rights or other rights in real estate of the MWC and all of its rights to sell water in accordance with its enabling legislation. In addition, financial matters such as accounts receivable and accounts payable would be handled at the date of the closing/transfer, in accordance with generally accepted business sale/acquisition practices.

3. *How does the Town know what it's buying if some of the asset is underground?*

The MWC has gone before the Massachusetts Department of Public Utilities (DPU) on a number of occasions in recent years, including but not limited to, rate case proceedings and investigations initiated by the Town. On these occasions, as well as through the Town's acquisition due diligence, Town officials have received significant information about the MWC facilities, including underground assets. For example, the Town now has a detailed list of all underground pipes by diameter size, type of material, length in feet and approximate age.

4. *Has the Town done a thorough review of the condition of the water system and the facilities?*

In addition to information gained at DPU proceedings, the Town has been privy to decisions made by the Massachusetts Department of Environmental Protection (DEP) about the water quality and related systems of the MWC. Through these proceedings, the Town has been assisted by a highly-qualified consulting firm, Russell Consulting LLC, which has considerable expertise in water utilities and rate setting. The Town also has had the system reviewed by a prominent engineering company, Woodard & Curran, which issued a report indicating the status of the facilities as good to fair. Recent financial projections include the costs associated with all of the capital improvements recommended by MWC's consulting engineer, Tata & Howard, which were considered by Woodard & Curran in its report to the Town to be more than adequate.

5. *Would water quality improve?*

One of the most significant goals of the acquisition would be to ensure that the water quality was of the highest standards by virtue of a process that would be handled by Town officials at open meetings with full disclosure of all information to the public. It is not possible, however, to assert that there would be an immediate improvement to quality simply by virtue of the Town taking over the system. It is expected, however, that the Town would make an effort to undertake necessary upgrades to improve the quality of the system and the water produced and delivered.

6. *How many of the Commonwealth's 351 cities and towns have water systems that are owned and operated by private companies?*

In five Massachusetts towns, including Milford, a majority of the residents get their water from a privately owned water company (Aquarion Water Company serves the other four towns). There are nine other private water companies that provide water service to small portions of nine other communities (with more than 100 water customers).

Paying for the System

7. *How much would the Town have to pay to acquire the MWC?*

If the acquisition is approved by Town Meeting in September, the Town would borrow \$63 million on a 30-year bond to acquire the MWC.

8. *How did the parties arrive at a \$63 million price tag?*

The state statute that governs the Town of Milford's right to acquire the MWC and its assets simply states that acquisition must be at a price to be agreed upon. If the price is not agreed upon, under current law, then the price will be set by decision of the DPU in adversarial proceedings. After multiple mediation sessions, the parties were able to agree upon the price of \$63 million, a number considerably lower than that originally sought by MWC officials. The method used to agree on a price was based upon a combination of approaches to value known as Original Cost and Reproduction Cost New Less Depreciation (RCNLD). Using this approach, the Town's consulting engineer estimated the RCNLD value of the MWC to be in the order of \$100 million. Other valuation theories were also considered and advocated for by the parties.

9. *Will the Town be able to repay a \$63 million bond debt without raising rates or taxes?*

The Town's long-standing expert financial consultant and finance team have projected all costs associated with owning the water system, including repayment of the bonds that the Town would issue to pay for the purchase. It is their agreed upon professional opinion (supported by the Town's Bond Counsel, Town Counsel and Special Counsel, who have all critically reviewed the projections) that the Town is in a position to borrow the necessary funds to make the purchase. Furthermore, it is expected that the Town will be able to pay all costs associated with owning and operating the water system without increasing taxes or the rates for water service above levels that private ownership would charge.

10. *Would adding a new administrative department to the Town increase taxes?*

No. The Water Department would be operated as an Enterprise Fund, under General Laws Chapter 44, Section 53F 1/2, the same as the Sewer Department. All of the costs and expenses of the Water Department, including the cost of its acquisition and future capital funding, would be handled within the water rates and would not cause any increase in taxes.

11. Is there a plan for any future capital expenditures that could be required?

Yes. There are detailed plans for making capital improvements in each year of the next 10 years. Those plans call for making capital improvements of about \$1.4 million per year (on average). These improvements include replacing or repairing several hundred feet of UG pipe and related appurtenances (including hydrants, services and meters) each year; cleaning painting and repairing each water tank; repair and upgrades to pump stations; and all wells and the treatment plant. These improvements were recommended by MWC's consulting engineer and were further supported by the Town's consulting engineer in their recent report assessing all of MWC's facilities. In that report, Woodard and Curran opined that those improvements were appropriate, but they also included a few others that would cost about \$400,000, which they believed could be paid for without increasing the total \$14 million that was budgeted. The Town's financial projections that have been accepted by the Town's consulting team include funds to pay for all of these improvements going forward without the need to increase water rates or taxes.

12. How would lost real estate taxes and the payment of fees for the rental of hydrants be handled?

The short answer is they would balance out. The Town has two options, it could either drop both fees so it would no longer receive property taxes from the MWC; counterbalanced by not paying hydrant fees to the MWC with the difference being a minor increase or decrease in General Fund revenues in any one year. Or the Town could continue to pay the hydrant fees for fire protection and require the Town's water utility to pay an offsetting Payment-In-Lieu-Of-Tax (PILOT) amount. Either way, the Town's General Fund would not be significantly impacted. The latter approach allows the water system to be set up as a self-sufficient Enterprise Fund that charges for all of the services it provides, including fire protection, while at the same time the Town's financial position should not be negatively impacted by the purchase of the water system.

13. What impact would Town ownership have on the Town's bond rating?

The Town's current outstanding debt would more than double, but the new debt would be paid for with the revenue of the sale of water. It would significantly increase the debt service budget; however there would be an offset with the user fee revenues generated within the Enterprise Fund. The potential addition of new employees would increase the Unfunded Pension and OPEB liabilities, which is included when calculating debt ratios for the rating.

14. Would the Town take on other debt or liabilities now carried by the MWC?

No. The sale specifically would exclude debt of the MWC, as well as any liabilities associated with litigation by or against the MWC.

15. Who has the final say as to whether or not to acquire the MWC?

Your elected representatives to the Milford Town Meeting must approve the purchase price for the acquisition of the MWC. An approval must be carried by a two-thirds majority vote.

16. If approved at Town Meeting, what are the next steps to close the sale?

The Town and the MWC would sign a purchase and sale agreement, and the Town would be required to finalize its financing. The sale would include a financing contingency under which the financing terms would have to be acceptable to the Town for the sale to close.

Managing and Operating the System

17. What is the plan for governing and managing a Town owned system?

In May, Milford Town Meeting unanimously passed an article proposing legislation for a water system that would be under the direction of a three-member elected Board of Water Commissioners. The Board of Water Commissioners would set the water rates, just as is done now for sewer rates by the Milford Board of Sewer Commissioners. The legislation also would provide for the Board of Selectmen to appoint Water Commissioners pending the first available election.

18. What is the plan for operating a Town owned system?

It is expected that under a Board of Water Commissioners, that the Water Department would have a staff similar in size and quality to the staff now working for the MWC. The hope would be that many, if not all, current MWC employees would become employees of the Town, bringing experience and continuity to the water system. This would allow for consistent and efficient management if problems should occur in the system. The Town also would likely go out to bid for a contract(s) with a major utility construction company(s) as a backup Water Department staff in the instance of a major breakdown or failure.

19. Is the Town able to take on full responsibility for water quality?

The quality of the potable water provided by all water systems in the Commonwealth (both private and public) is regulated solely by the DEP. If the Town were to own the water company, it would be directly responsible for complying with all DEP regulations. While there would be an administrative burden and cost to the Town associated with complying with all of DEP's requirements; those requirements would help to ensure that high quality water is provided to all customers. They are the same costs currently incurred by the MWC.

20. Would Milford ratepayers benefit from rates controlled by the Town?

The Town's professional staff and its expert consultants believe that a purchase would, in the short run, lead to rate stability. In the long run, the rates charged by the Town would likely be less than those that would have been charged by MWC, or another private owner.

21. Why would the rates likely go down in the long term?

Private utility owners are liable for federal or state taxes and obligated to make a "profit" through a return to investors. As a municipal corporation, the Town would not be subject to those financial siphons and furthermore the elected board would be accountable to the taxpayer. In addition, as a municipal corporation issuing tax exempt bonds the Town is able to borrow money at lower interest rates than a private entity.

22. How would employee transitions be handled?

A transition would consist mainly of transferring records and ensuring employees were enrolled in the Town's compensation and benefits plans, including health insurance and participation in the retirement system under Massachusetts General Laws. Open positions would be filled through the Town's regular employment process. Depending on the number of open positions, it could be necessary to go out to bid through a Request for Proposals (RFP) for Contract Operations to fill all necessary positions on an interim basis, giving the Town time to conduct a hiring process that would allow for internal control of all systems, operations and management.