



Water Utility Management Structure Options and Case Studies

City of New Orleans
September 12, 2018

Range of Options

- I. No action--maintain current structure, including separate drainage systems per 1992 agreement
- II. Combine all drainage under S&WB--as recommended by Transition Team Report
- III. Consolidation—move all or part of S&WB under management of city Public Works Department
- IV. Privatization—sell S&WB assets to a private company
- V. Public-Private Partnership—expand contract operations beyond wastewater treatment to include other facilities/systems
- VI. Separate stormwater utility—consolidate all drainage management under a new utility and move from millage to drainage fee; could be under SWBNO, under the city, or on its own
- VII. Public-Public Partnership—partner with SLFPA or another public agency to manage the drainage system
- VIII. City-Owned Corporation—publicly chartered company with one shareholder, the city
- IX. Regional Water Utility—leveraging excess capacity by serving neighboring parishes as well as Orleans

Management Structures

- I. Independent City Agency (current model)
- II. Municipal Utility
- III. Public Corporation
- IV. Private Utility
- V. Public-Private Partnership
- VI. Public-Public Partnership
- VII. Regional Water Utility

Independent City Agency

- Government controlled, either local or state derived
- Independent from municipal government
- Board or Commission that oversees operations/management
- Often relies on an elected body (city council) for rate setting

Independent City Agency

San Antonio Water System (SAWS)



- Established in 1992 as a merger of:
 - City Water Board
 - City Wastewater Department
 - Alamo Water Conservation and Reuse District
- Independent Agency providing water and sewerage to the region
- Governed by a Board of Trustees
 - Mayor and six members appointed by City Council
- City Council has full control of rates

Municipal Utility

- Generally structured as a City department
- Treated as any other administrative function
- Mayor typically serves as the Executive
- City Council may serve as governing board or check on an independent board

Municipal Utility

Seattle Public Utilities (SPU)



- Department within the City called Seattle Public Utilities includes:
 - Drinking water
 - Wastewater
 - Stormwater management
 - Garbage and recycling
- City Mayor manages all departments
- SPU CEO “Department Head”
- City Council serves as board of directors and regulator
- Utility service set up as an enterprise fund and requires that water rates can only be spent on the water system, not on other government missions.
- Direct relationship between customers and elected officials (management)

Municipal Utility

Lafayette Utilities System (LUS)



- Officially Lafayette Utilities Department
- Since 1996, governed by Lafayette Public Utilities Authority
 - consists of five City-Parish Council members whose districts include 60 percent or more of persons/citizens residing within the boundaries of the city of Lafayette.
- Responsible for electricity, drinking water, sewerage, and public telecommunications services (fiber optic internet)
- Annual budget submitted to the LPUA and the City-Parish Council for approval as part of the annual budget of Lafayette Consolidated Government.
- LUS presents proposed ordinances to the LPUA and to the Council for passage.
- Contracts for professional services for LUS are handled the same as any contracts the City-Parish would issue.

Public Corporation

- Chartered and operated as a typical for profit corporation
- Has a single or multiple *public* shareholders
- Profits or dividends are returned to the public

Public Corporation

Louisville Water Company



- Chartered as a private company in 1854, Louisville Metro government is its sole shareholder.
- Louisville Metro receives a quarterly dividend from the company, and the Louisville mayor appoints the members of the Board of Water Works.
- Louisville Water Company provides drinking water service in the region, the Louisville/Jefferson County Metropolitan Sewer District (MSD) operates the wastewater and stormwater components of Louisville Metro's infrastructure.
- Recognizing the potential benefits of stronger collaboration, the Louisville mayor created an advisory group that recommended the two entities, Louisville Water Company and Louisville MSD, look at a comprehensive interlocal agreement to improve efficiency and service quality. While the agreement is in its early phases, the two utilities have joined their information technology and fleet service groups to establish more robust management systems and are continuing to work toward reducing costs and increasing efficiency.

Private Utility

- Privately held corporation
- Similar to Entergy New Orleans
- Various models for regulation/oversight

Private Utility

Baton Rouge Water Company



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- Established in 1888
 - Privately held subsidiary of Utility Holdings, Inc.
 - Governed by a President/Director and Board of Directors (no public appointments)
 - Little public control or oversight of operations and management
 - Drainage and Sewer handled by City/Parish

Public-Private Partnership

- Under this general structure, the private entity leases and operates the utility for some period of time
 - Until recent years, this often was applied to the construction of new facilities and may have been commonly known as design-build-finance-operate
 - In recent years, this has taken the form of a cash payment to the local government in exchange for the private company having the right to lease and operate the utility and make profit from the optimization of improved operations (concession agreement)
- Many models exist, highly dependent on underlying structure



Public-Private Partnership

*Concession Agreement- Bayonne Water and Wastewater
(New Jersey)*

- Private Partner: Bayonne Joint Venture (Suez/United Water and Kohlberg Kravitz & Roberts)
- 40 Year agreement, started in 2012
- Upfront \$150M and recurring annual \$500,000 concession fees
 - Upfront fee designed to restructure existing debt (\$125M)
- Concessionaire collects revenue from users, rates are set by public entity to meet contractual annual revenue requirements



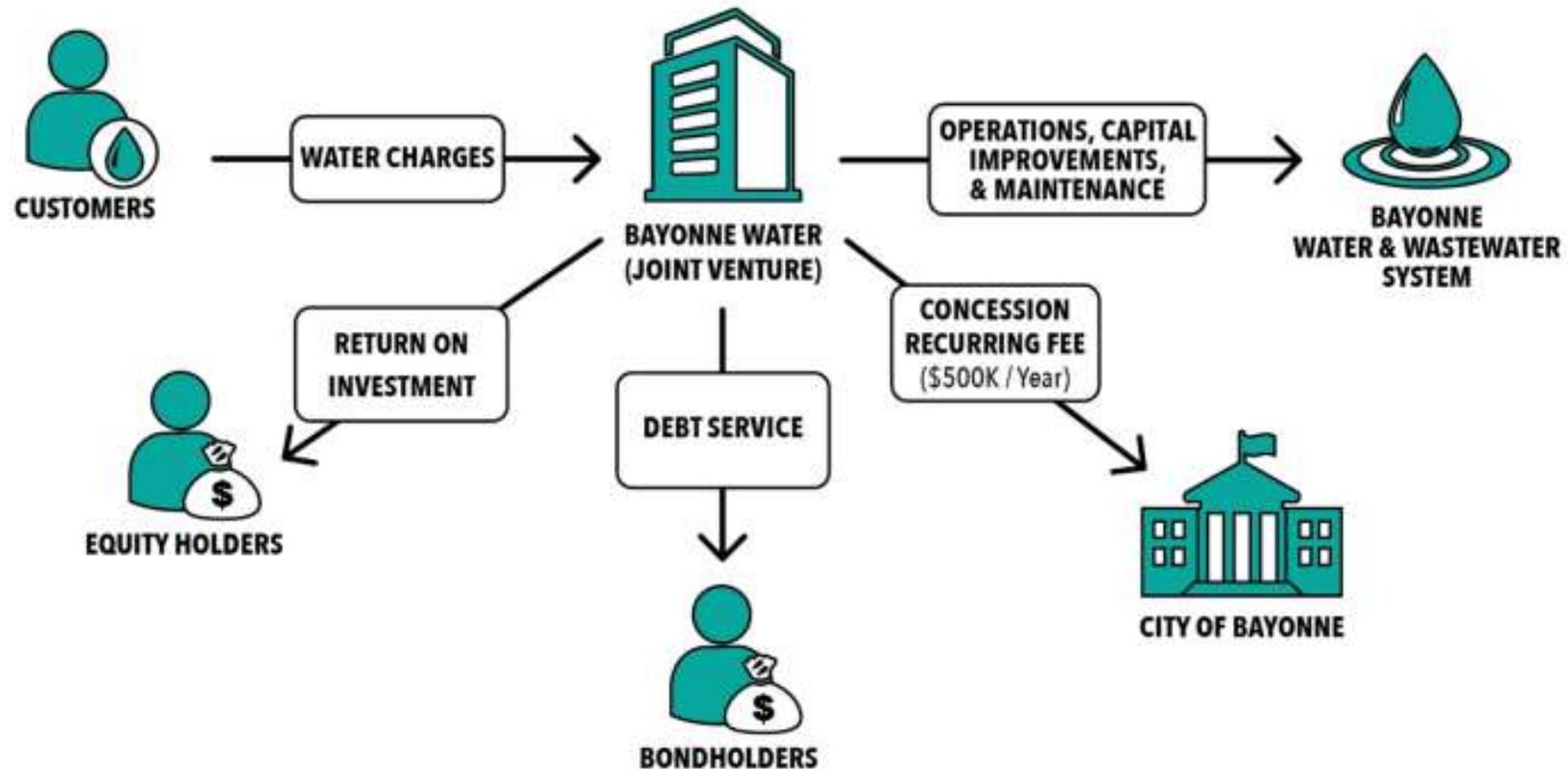
Public-Private Partnership

Concession Agreement- Bayonne Water and Wastewater

- Joint Venture responsible for:
 - Meeting specific operating standards
 - Maintenance up to \$500K per year
 - \$2.5M in capital improvements per year
 - Upfront requirement for \$7.5M in new meter equipment and billing improvements
- Existing employees retained for 1 year, partial retention after

Public-Private Partnership

Concession Agreement- Bayonne Water and Wastewater



Public-Public Partnership

- Typically in the form of two public utilities forming a partnership to build a raw water supply or a treatment facility.
- Requires some form of special legislation whereby public parties bring financial contributions in exchange for a portion of the shared entity
- One entity agrees to operate or a third party operates, all parties agree to reimburse each other proportional to ownership for the operations & maintenance (O&M) expenses.

Public-Public Partnership

Lehigh County Authority (LCA) and City of Allentown



- In Pennsylvania, the City of Allentown entered into a public-public partnership (PUP) with the LCA—a concession agreement for LCA to operate Allentown’s water and wastewater system.
- The agreement allowed Allentown to tap into water system equity and future customer revenues to help cover other essential, nonutility costs, such as pension liabilities.
- Created a larger, consolidated utility system that is able to achieve operating savings through increased efficiency and economies of scale. LCA relied on the tax-exempt bond market to raise funds for the initial concession payment and seed reserve funds. For the citizens of Allentown, this arrangement resulted in converting a very sizable general government pension liability to long-term LCA debt that will be repaid by water revenue collected from utility customers. For LCA, a predictable future revenue stream provided the ability to pay the initial concession payment, assure high quality service, and make planned capital investments.

Public-Public Partnership

Lehigh County Authority (LCA) and City of Allentown



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- Public Partner: LCA
 - 50 Year agreement, started in 2013
 - Upfront \$211M and recurring annual \$500,000 concession fees
 - Upfront fee designed to restructure existing debt and pay down pension obligations (\$158M)

Public-Public Partnership

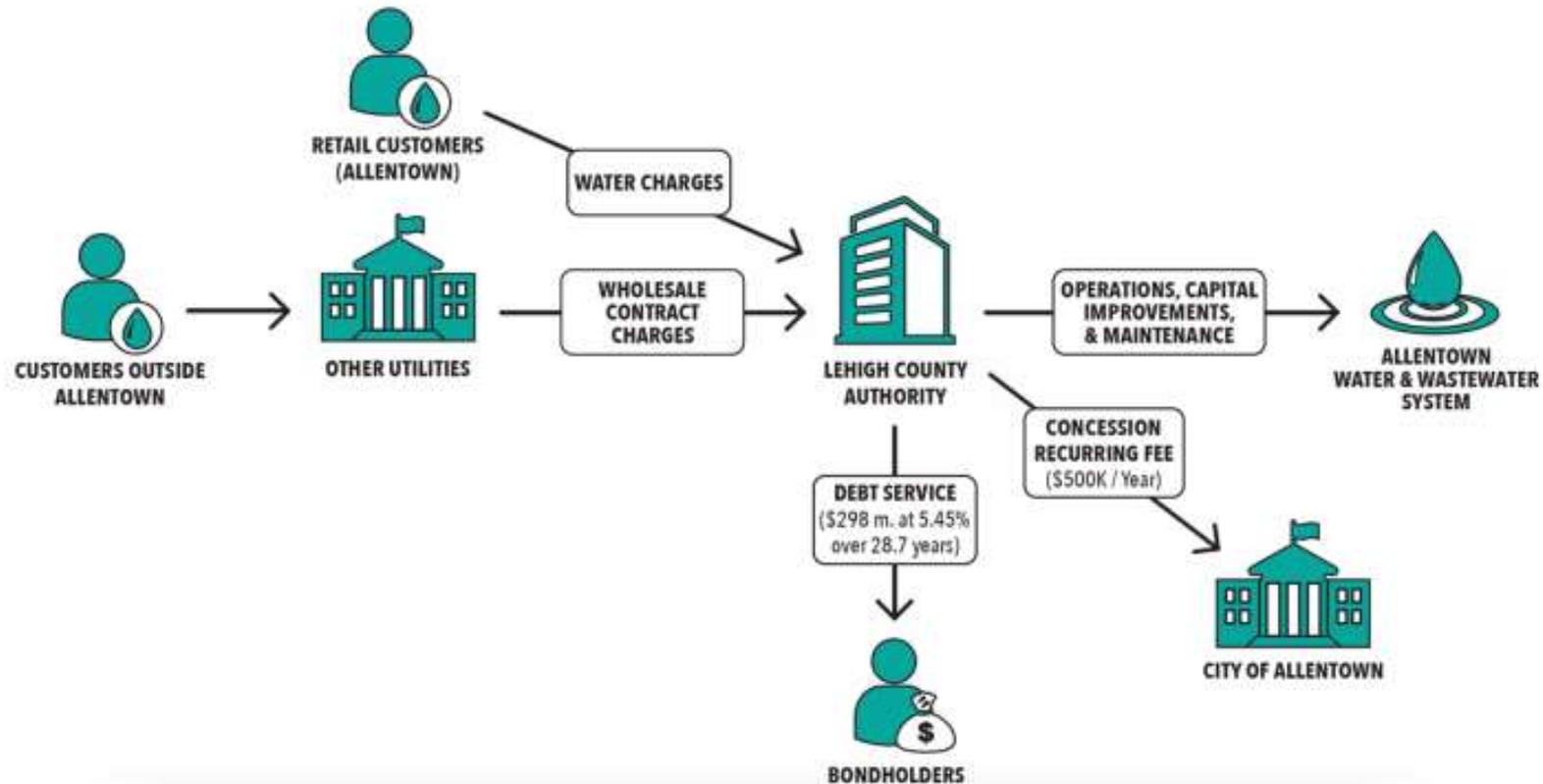
Lehigh County Authority (LCA) and City of Allentown



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- LCA responsible for:
 - Full operation of system
 - Billing and customer service
 - Capital improvements (limited)
 - Concession included initial 2.5% rate increase + annual increases with CPI over the first 20 years, flowing to LCA
 - Additional rate increases allowed under specific scenarios

Public-Public Partnership

Lehigh County Authority (LCA) and City of Allentown



Regional Water Utility

- Typically structured as a single entity that leases the water systems of various regional entities
- Can be structured like a PUP

Regional Water Utility

Great Lakes Water Authority (GLWA)



- Formed in 2015 as a regional authority serving nearly 40 percent of the water customers in Michigan.
- Converted the former service area of the Detroit Water and Sewerage Department into a regional authority.
- GLWA's board of directors comprises:
 - 2 representatives from the City of Detroit
 - 1 each from Wayne, Oakland, and Macomb counties and the State of Michigan.
- This structure ensures that the city and member counties all have a voice in the direction of one of nation's largest water and wastewater utilities.
- GLWA operates and manages the regional water and sewage treatment plants, major water transmission mains and sewage interceptors, and related facilities, which are leased from the City of Detroit.

Regional Water Utility

Great Lakes Water Authority (GLWA)



- Serves 126 municipalities, 4 million customers
- Annual lease payments to Detroit total \$50M.
- The lease payment provides needed funds for the Detroit Water and Sewerage Department to maintain the city's water and sewer lines. The new authority was given a stronger credit rating than Detroit, enabling debt refinancing that will save the region more than \$300 million over the bond term.
- Projected 4% annual increase in rates
- Creation of an assistance program to offset increases