

WATER COMMITTEE DUE DILIGENCE

A significant first step in the process of evaluating the offer and the broader question of whether the community should consider selling its water system was to develop a series of questions the committee believed should be answered. Answers were researched and the Q's and A's were incorporated into the presentation that the committee made in an inform meeting (described further below). That meeting also provided additional questions to be answered and comments from attendees. The committee continued to research answers and the final set of Q's and A's is incorporated into this report as Appendix E.

To learn more about Aqua NJ and the implications of a possible sale, committee members interviewed representatives of five water companies that were acquired by Aqua NJ between 2009 and 2012. In general the reasons for these companies to sell to Aqua NJ were that they were losing money and/or were faced with expensive upgrades. Neither of these applies to the community's water operation. Four of the systems were similar to ours; one was a municipal system that draws water from a reservoir. None of the systems was as old as ours. Interviewees reported that maintenance of their systems after the sale was very good or excellent and several commented that response time was very prompt. None reported any restrictions or major changes to the water supply. None was aware of any billing problems. Chlorine levels remained unchanged or were adjusted upward to meet NJDEP standards, but there were no complaints about the chlorine levels. All five said that they would make the same sale decision if faced with a choice today. In general, the transition period was six months to a year. A summary of the interviews and the notes of the five interviews are included as Appendix F.

An inquiry about Aqua NJ was addressed to the NJBPU. The Division of Water which has responsibility for tariff filings indicated

that they have had no major problems with Aqua NJ. Their Division of Customer Assistance reported that the number of complaints received in 2012 was 36 on a base of 37,000 customers. For comparison they reported that New Jersey American Water Company had 611 complaints on a base of 612,000 customers, essentially the same rate. Discussion Notes of the contact with the BPU are included as Appendix G

A similar inquiry was addressed to the New Jersey Better Business Bureau which reported seven complaints between 2010 and 2012. A report of resolution of these is also included in Appendix G.

Research on the web resulted in two reports from Food and Water Watch, a consumer advocacy group based in Washington D.C. The first, from 2008, focuses on Aqua NJ and its business strategy of taking over small water systems. The second report from 2012 focus more broadly on the countrywide move from publicly owned and managed water systems to those owned and managed by private equity firms. Both reports demonstrate a bias for public ownership. They can be accessed on the web at www.foodandwaterwatch.org.

It is estimated that if the community were to sell the water system, the transition to Aqua NJ ownership and operation will take approximately a year. If the community makes any capital improvements to the system during that period and before a contract is signed, Aqua NJ will adjust its price based on expenditures made provided they are consulted before such improvements are made.

A related issue for the community and the Board is how reserve funds currently being established to address water system needs over the next two years will be handled (assuming there is a transfer of ownership). Reserves are currently being established on the estimate that \$38,000 of improvements will be made to the system in 2013 (primarily for a stand-by generator) and \$2,000 in 2014.