

Report on the water company sale proposal

In late 2012 the Mt Kemble Lake (MKL) Association received two proposals to purchase our water company. One company subsequently dropped out, leaving only Aqua America, Inc. The Association Board appointed a subcommittee to evaluate the proposals and their implications to the Mount Kemble Lake Community. The subcommittee members then presented their preliminary findings to the community in December at an Inform meeting. The presentation supported the possibility of a sale of the water company and attendees were solicited for questions and comments for consideration in drafting the final recommendation to the MKL Association Board.

A major element of the presentation was concern over the substantial financial and health risks associated with the water company. Based on those conclusions the MKL Association Board sought to clarify the true extent of those concerns as part of its responsibilities to residents. Meetings were held with Max Huber of MKL's water system consulting company, Agra; Chris Allyn, former Harding Environmental Commission chair; and Gary Annabel, Harding's Health Official, and other legal and insurance experts. **The Association Board determined that from all aspects there are no health risks to MKL water.** In fact, MKL's water quality is excellent by any standard.

The MKL Association Board also reviewed the fiscal risks associated with the water company and determined that the long-range financial reserving procedures established in 2011 were adequately protecting the community now and will only grow more robust in the near future.

After reviewing the subcommittee's report and the additional information subsequently obtained, the Board voted to NOT recommend the sale of the company at this time.

Board reasons for this vote included the following:

1. The water quality and financial risks to MKL residents are minimal, thus eliminating risks as a consideration for the sale.
2. Aqua America is a highly profitable, publicly traded company (WTR) whose commercial objective is to maximize stockholder return. As a result, Aqua is inclined to raise water rates as high as possible. Over the last 10 years Aqua rate increases have exceeded the rate increases experienced by MKL. Aqua's rates are based on costs across all of the systems they own in NJ. While this would protect MKL residents from major cost hits it also means that MKL residents would share in costs associated with any system Aqua owns.

3. A professional water company incurs many expenses that MKL's self-run community does not: employee salaries and benefits, stockholder dividends, and of course upkeep of all the systems under their management.
4. Aqua America's offer would net about \$87,000 to the community. Distribution of this money to Stockholders could reduce our dues from \$450 to \$575 per year. Upon completion of a sale, an average household's water bill would be about \$605 for 2014. In 10 years it would be \$894 based on Aqua's history of raising rates 5% annually.
5. If we sell to Aqua, each home will have a meter installed and pay Aqua for usage. The monthly rental cost for a meter would be \$12.95, or \$155 per year at current rates. (The \$155 is included in the \$605, mentioned above.)
6. Professionals state that MKL's water system is currently well run and maintained in very good condition. Further, **reserve monies are in place to deal with future costs**. For example, money has already been set aside for a new generator and anticipated replacement of a small section of pipe that is inferior to the main system.
7. The MKL water company has **professional onsite** monitoring weekly and contingent staff and equipment on-call. In addition to regular testing, the professionals prepare detailed reports which are submitted to the state and distributed to MKL residents. Water companies use the **same type of professionals** we do. The difference is we make the final decisions based on what is **best for our community** not their company. In addition, trained MKL residents visit the well houses daily and are in a position to make visual inspections.
8. MKL is subject to the same rules and regulations whether we sell or do not sell. **Our professionals meet the same standards as those of Aqua.**
9. If sold to Aqua, this valuable asset can not be reacquired. All direct control would cede to Aqua and our community would be subject to a big company's policies and financial objective to maximize profit.

In summary, the Boards do NOT recommend selling the system to Aqua America.