

Mount Kemble Lake Association

3 Trails End
Morristown, NJ

Important News Regarding Our Water System

Two NJ Water Companies have expressed interest in buying our Water System and providing us with water service. **We are not at all sure yet whether or not the Community should accept or reject either of these proposals and would like to hear from you.** To that end, we want to begin bringing you all up to speed on the evolving possibilities and get your input. The following material provides a very general and high level overview. There is much we don't yet know and much that is too detailed to communicate in a brief letter. We will run an

Inform Session on Wednesday, DECEMBER 12TH, 7PM

at the MKL Clubhouse to provide additional details and hear your questions, concerns and suggestions.

HOW did this come about?

- Three years ago when the Lake was studying its ability to fund large future projects, the Subcommittee on Long Term Financial Planning researched options regarding funding of major capital investments needed to maintain our Water System. Discussions ensued with several NJ Water Companies.
- This summer, one of those Water Companies reached out to our Board regarding the possibility of buying our system.
- A new subcommittee (Water System Subcommittee) was formed to study the possibilities. Additional Water Companies were approached to solicit their interest.
- Two companies have expressed interest and are working on formulating specific proposals.

Who is working on this?

- Rick Barrett, our Water Company Vice President, is heading a sub-committee that also includes Austin Godfrey (president), Bobbi Coulter (treasurer), Terry Dwyer, John Krizko, Don Kuhn

What is being considered?

At this point, two companies have shown interest in the purchase of our Water System. There is much that needs to be researched and nailed down, but the general shape of the offer is:

- The selected firm would buy the system and right-of-way (but not any land) from Lakeshore, paying us a modest upfront purchase price.
- They would immediately make a set of pre-agreed upgrades to the existing water system infrastructure, including installing a permanent natural gas powered generator, automatic remote monitoring of system parameters, and improving chlorination technique.
- They would own and operate the entire system, becoming responsible for all operations and all capital improvements. They would be required by State Law to maintain water quality and service that meets or exceeds our current standards.
- They would bill our members either directly as individual accounts or through the Association as a "joint" account.
- The rates that either of the companies would charge have been set by the State Public Utility Commission, any changes to those rates have to be approved by that PUC, and all their rates are based on the costs for all their NJ customers, not just Lakeshore's costs. While that may seem to some like a disadvantage, it can serve as a very important price stabilizer for a system like ours

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with an aging infrastructure. At this time, those rates are in the same ballpark as what it's currently costing us to run the water system.

Why is it even being considered?

- We all require that our water system provide each homeowner safe and reliable water. Our system continues to be managed by community volunteers and all testing indicates that quality is unerringly good. Still, given the technical nature of running a water system, there might be advantage to having professional management of daily operations and long term planning.
- One of the biggest elements of our long term financial needs is the Water System. We know of several large projects that will need to be undertaken in the next few years and have developed a viable financial plan for funding these. But more importantly, there is what we don't know. Our system is almost 90 years old. We have a history of getting surprised by costly repairs in the aging system infrastructure. Both bidding companies are knowledgeable about managing such systems and are committed to making both the known improvements and whatever additional repairs and improvements are necessary.

When will next steps unfold?

A transfer of assets like this cannot proceed without the approval of the Community. We will spend the next months doing due diligence on these offers, getting you informed about your options and getting you the answers to your questions.

NOW

- Inform sessions – we would like to provide you with more details than can easily be incorporated in a brief letter AND we would like to hear your questions, concerns, ideas and suggestions.
- Continue due diligence – we have set up a Sub-Committee to continue our discussions with both companies, get the answers to our questions about their operations, details about their offer and impact on our community.

BY SPRING 2013

- Firm proposals – we expect to get firm proposals within the next 2 months
- Community communication – we expect to go through a process of communicating the details of the options and impacts with the full community.
- Community vote – As this proposal would require a sale of assets, a community wide vote will be required to accept or reject.
- Contract – if approved, we would proceed to develop a final contract with the selected firm.

OVER THE FOLLOWING 12-18 MONTHS

If the community decides to proceed, and if we are able to reach a final agreement and acceptable contract with one of these firms, there will still be months of additional work.

- Regulatory reviews – required reviews with various State entities.
- Final implementation – may also take months to finalize the operational transfer.