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Mr. Timothy O. Nugent
Village President
Village of Manteno
269 N. Main Street
Manteno, IL 60950

Dear President Nugent;

The Village of Manteno (Village) retained the services of Simms Engineering Ltd. to assist in the ongoing evaluation of providing for the existing and future public water supply needs of the Village. Some of the issues presented at our initial engagement, faced by the Village, were the regulatory concerns being imposed by the Illinois Environmental Protection Agency (IEPA), the adequacy of the existing ground water supply for future Village expansion, the options for bulk purchase of water from other public water suppliers and the potential for sale of the Village water system in total to a private public water provider. The following is a summary of the activities which I undertook on the Village's behalf as well as a recommendation developed during the prior three month period.

BACKGROUND

The Village has been evaluating the options available to meet the existing and long term needs of a public water supply for a period of time. In addition, the Village has been addressing concerns expressed by IEPA regarding water quality issues and the ability to remain in full compliance with the primary and

secondary water quality standards established by the USEPA and the Safe Drinking Water Act. I was provided reports which were prepared for the Village by consulting engineers which have evaluated options over the last two year period. I believe these engineering reports are very thorough and complete in identifying the realistic options that are available to the Village and were worthy of further investigation. Village officials then met with me and identified the options they wished to pursue to attempt to come to a satisfactory conclusion and resolution of the public water supply questions. I was asked to work with Village officials as they continued to pursue the options of purchase of bulk water from a private public water supplier, sale of the water supply and distribution system to a private public water supplier and implementation of the construction of a water treatment plant which would resolve all regulatory concerns and provide a satisfactory water supply in the foreseeable future.

OPTIONS EVALUATED

1. The Village has spent considerable time evaluating engineering studies and reports which were provided by others which identified the magnitude of a project to design and construct a water plant with the utilization of the existing ground water supply. While there is no question that the ground water supply could be adequately treated, to provide a public water supply quality that would meet the USEPA and IEPA requirements, some question remained as to the adequacy of the aquifer which provides the existing supply through the existing wells and the ability to expand utilization of that aquifer and/or the need to pursue additional ground water supplies possibly utilizing deeper wells. The Village informed me that this option had been considered at length for some period of time and they have decided, due primarily to the large capital requirements and uncertainty of adequate supply, that it is

not a course of action they wish to pursue and therefore, they would like to concentrate on the other options available to them.

2. The purchase of wholesale water from Aqua Illinois Water Company (Aqua) was proposed to the Village in the past and has been considered and discussed in a preliminary form with officials from Aqua. Meetings were established with the Village and Aqua to further investigate the details associated with the purchase of bulk water and the costs associated with this option. Following more than one meeting, it was determined that Aqua had the available water supply at a reasonable distance from the Village, which could be connected, but that the capital requirement associated with entering into a wholesale bulk water purchase was prohibitive. The Village would be facing a major outlay of capital to Aqua and Aqua would require that a significant portion of that capital outlay would be required at the approval of the bulk sale agreement, with the remainder required for payment by the time the water was delivered to the Village system. The specific request was a payment of \$3.2 million. While this option appears, on the surface, to have the advantage of the Village maintaining ownership of their distribution system, the capital requirement associated with a bulk water sale proposal was considered a major deterrent to ranking it as the top choice. The reason for the capital requirement was outlined by Aqua that substantial infrastructure improvements would be necessary to serve the Village under a bulk water sale proposal and that these infrastructure improvements could not be passed on to other customers of Aqua and would have to be assessed to the Village in accordance with the regulations under which they operate as established by the Illinois Commerce Commission (ICC). In addition, the need for additional elevated storage on the existing and future Village distribution system would remain with the Village, adding to the capital requirements.

3. An additional option would be the purchase of the Village water system by Aqua. After a detailed audit of the system and evaluation of the distribution system age, condition and general operational and maintenance requirements, Aqua indicated that a firm price of \$4,130,000 would be offered for the purchase of the Village water system. An arrangement such as this would be contingent upon the approval of the Village Board and also Aqua's Board of Directors. At that point, a formal agreement would be executed and submitted to the ICC for approval. A major concern, which the Village officials addressed to me, regarding this option, was the ability to fairly place a value on the distribution system that currently serves the Village. Placing a value on the system is not as simple as it may seem, as the system can not be valued at its replacement cost. Instead, you would have to go back into time, establish the cost of the system as it was implemented and then factor in the depreciation in terms of remaining useful life, as well as add to the value any assets that were added over time. This process is fairly detailed and likely would result in different evaluations by different entities undertaking the task, due to the limited amount of records documenting original cost and improvements. The more important aspect, that I pointed out to the Village officials, was that the Village is ultimately concerned about the cost of the water to be supplied to the Village users and that these costs be reasonable and accepted by the users. Therefore, the Village directed Aqua to use some guidelines, in terms of a maximum monthly charge that possibly would be acceptable to the typical residential Village user, and working back from that number, determine the value that could be assessed to the system, which could be supported by these user charges. Aqua very clearly pointed out to the Village officials during these discussions that they were not permitted to assess the costs associated with purchasing the system from the Village to other users on their system (i.e. cities and villages which are also supplied water by Aqua from their water

treatment plant on the Kankakee River). With this limitation, it was necessary to balance an affordable price for the system against a theoretical value of the system. This resulted in the proposal which Aqua feels can be supported and submitted to the ICC and receive approval for the purchase of the system at \$4,130,000.

4. The fourth option which the Village officials pursued was discussions with a second, private water provider to determine if, in fact, they could: (A) provide water to the Village from an alternate source and (B) were interested in purchasing the system and/or providing bulk water. Two meetings were set up and implemented with American Water, which has facilities throughout Illinois and other areas in the Midwest. These discussions were beneficial, but clearly revealed that they could not deliver an available water supply at this time to the Village for bulk purchase and if they were to enter into an agreement to purchase the Village system, they would be faced with the same issues the Village was facing (i.e. purchase of a water treatment plant to guarantee the water quality desired by the Village and/or entering into a bulk purchase with Aqua for river water supply). These limitations led the Village officials to eliminate this option as a serious consideration.

RECOMMENDED OPTION

After evaluating the information obtained through the process outlined above, it was determined that the best solution in terms of providing: first - an adequate volume and future supply of water for the Village; second - water which would be in compliance with the primary and secondary drinking water standards, as required by USEPA and IEPA; and third - can be implemented in an affordable manner to the Village users, that option #3 would be the best solution.

With that in mind, further meetings were established with Aqua to discuss some particulars, which the Village felt were necessary and which I encouraged

them to consider. While it is understood that the purchase agreement would have to receive ICC approval, it is my recommendation that the action taken to enter into a sale/purchase agreement be conditioned upon Aqua entering into a franchise agreement with the Village to identify and address several management and jurisdictional issues that are of concern at this time and will be of concern in the future to the Village. Aqua has verbally, and in writing, agreed that a franchise agreement is an acceptable condition of a purchase agreement and has responded in particular to several items which were identified as items of concern to the Village, which will have to be resolved, in detail, in the franchise agreement prior to fully implementing the purchase agreement.

Some of the more important issues to be developed in the franchise agreement include:

- A. The rights and privileges of the Village would extend to Aqua for easements and right-of-way, and that the details associated with work which is undertaken in the easements and public right-of ways of the Village would be outlined and would bind Aqua to the satisfaction of the Village.
- B. That Aqua is willing to formulate a franchise agreement that allows that property associated with the water system could remain in the ownership of the Village with perpetual easements for ingress and egress to access these facilities on Village property.
- C. That an agreeable list of assets will be developed between Aqua and the Village, so that there is no confusion as to the comprehensive nature of the distribution system and the responsibilities outlined in terms of re-investment and maintenance, to be undertaken by Aqua to assure that the Village system remains in good working order and is depreciated and

replaced on a schedule, and in a manner, which is acceptable to the Village.

- D. Aqua is willing to formulate with the Village a permitting process which will allow the Village to establish ordinances as needed for the purpose of providing water service to future development in the Village. The concept here is that should the Village decide that service fees and/or development fees are appropriate for new developments within the Village, Aqua will agree not to provide service to any newly constructed unit until the Village has released and signed off that all fees due the Village have been paid and are in hand. I believe this a very important element for the Village to consider, as future growth will be a vehicle for you to recover the costs associated with the system to date and use those funds for other priority investments needed in the Village.
- E. Aqua does understand that there are outstanding annexation agreements for some developments which are underway and that these preexisting annexation agreements between the Village and developers can be made a part of the purchase agreement and the ICC approval. This will assure that any existing, agreed-to tap-on fees associated with existing agreements can continue to be honored, even if connection and tap-on fees in the future should vary.
- F. Following extensive discussion, Aqua acknowledges that the Village has an interest in controlling its growth and providing a water and associated sewer service for future development adjacent to and within its area of jurisdiction. With that in mind, Aqua agrees that the franchise agreement can provide a mechanism for provision of water service for new development only as authorized by the Village. In essence, Aqua would not provide water service beyond the service area of the Village with the water distribution system that would exist at the time of

purchase, unless the Village agrees to and authorizes these service extensions.

SUMMARY AND RECOMMENDATION

With the extensive evaluation process which was undertaken and outlined above, it is my recommendation that the Village can, in fact, maintain control of the growth and development of the Village, provide an adequate supply of water for existing and future customers, and accomplish these tasks at a cost reasonable and compatible with water service within the areas also served by Aqua, and thereby not place the Village in a non-competitive situation for growth, by entering into a purchase agreement.

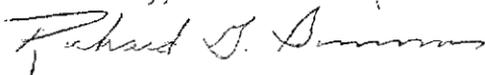
Some additional benefits which were identified and agreed to, which I believe make the purchase agreement even more advantageous are:

- A. Agreement that the existing wells would be a part of the distribution system as purchased and future costs associated with the abandonment and permitted sealing of these wells would be the responsibility of Aqua.
- B. Aqua has agreed that they believe a market exists for the existing UV equipment which was implemented in the past by the Village and will attempt to re-utilize this equipment at other locations within their company and also agrees that should the Village find a more attractive market for this equipment, that they can pursue a recovery of costs. In either case, capital costs recovered by the sale of the equipment which will be abandoned will return in full to the Village.
- C. Aqua acknowledges that there are satellite distribution systems, where ownership of these systems are with parties other than the Village, and they will continue providing service and develop a workable resolution to the status of these systems and not place any further burden upon the Village to resolve existing relationships which may exist.

D. Aqua recognizes that a time period of four to ten months could be required to get the certificate of purchase through the ICC and is willing to enter into a separate operation and maintenance contract with the Village, at their cost, to take over the operation and maintenance of the existing water supply and distribution system and relieve the Village of this responsibility during this interim period. This O & M agreement would include testing, laboratory work, compliance with all regulatory issues and providing the necessary equipment and personnel for repairs, replacement and maintenance, as needed during this interim period.

The Village has adequately evaluated the options available to it, and the decision to implement a purchase agreement is a sound decision and will provide for the needs of the Village in the present and foreseeable future. I appreciate the opportunity to provide these services to the Village and would be happy to answer any questions.

Yours truly,



Richard G. Simms, P.E.