



The Village of
Glenview

Village Manager's Office

SUBJECT: Public Hearing concerning the sale of North Maine Utilities

AGENDA ITEM: 8.a. and 9.b.ix.

MEETING DATE: April 17, 2014

VILLAGE BOARD REPORT

TO: Village President and Board of Trustees

FROM: Don Owen, Deputy Village Manager (847) 904-4478
Amy Ahner, Administrative Services Director (847) 904-4331
Maggie Bosley, Finance Director (847) 904-4357
Joe Kenney, Community Development Director (847) 904-4313
Jerry Burke, Public Works Director (847) 904-4525

THROUGH: Todd Hileman, Village Manager

PURPOSE AND ACTION REQUESTED:

The purpose of the public hearing is to for the board to determine whether it is in the public interest to sell North Maine Utilities (“NMU”). If the Board finds the proposed transaction in the public’s interest, an Asset Purchase and Water Supply Agreement with AQUA Illinois, Inc. (AQUA) will be scheduled for consideration at the May 6, 2014 Village of Glenview Board of Trustees meeting.

BACKGROUND/DISCUSSION:

Since the Village of Glenview purchased the NMU system in 1997, it has proactively replaced underground water and sewer pipes, performed system maintenance, and repainted the Central Road tank in 2002. Glenview has been concerned with the aggressive water rate increases that the City of Chicago has been imposing on its customers, which have been primarily passed on to the NMU customers. Following Village Board direction to study the feasibility of selling the NMU assets, a Request for Proposals (RFP) was released on October 31, 2013. Three of the largest investor owned water utility companies in Illinois responded. After a thorough regulatory and reference inquiry and ranking of proposals, AQUA was identified as the #1 bidder and subsequently, Asset Purchase and Water Supply Agreement terms were successfully negotiated.

The public hearing procedure will follow the Illinois Compiled Statutes regarding the requirements of a municipality selling a water or sewer utility to a large public utility. The Village is to hold a public meeting and provide published notice of the sale including setting out the terms of the sale and the options available to assist customers with paying their bills after the

sale. Village staff has published notice of the April 17th public hearing in the April 10, 2014 Pioneer Press in circulation areas serving the NMU customers (*Attachment 1 – Public Hearing Notice*).

Also, part of the public hearing is for the Board to consider the Fairness Opinion Concerning the Sale of NMU (*Attachment 3 – Fairness Opinion*). The Fairness Opinion prepared by Hartman Consultants, LLC (“HC”) is an advisory to the Board addressing the reasonableness of AQUA’s purchase price based on a market comparison of similar sales and a comparative analysis of the original NMU cost plus capital improvements less depreciation. HC will present the results of the analysis which find that the proposed transaction falls within both the utility industry norms and market indicators of value, provides industry standard terms and conditions, and provides for a long-term wholesale water supply for the NMU customers.

Village staff and HC have prepared and will present the Public Disclosures Concerning NMU (*Attachment 4 – Public Disclosures Concerning NMU*). This document provides an overview of the proposed NMU transaction including: a review of the RFP process; the Village goals and binding terms and conditions of the sale; AQUA’s objectives, customer service and payment options; considerations for the NMU customer; proposed approval schedule through the Illinois Commerce Commission (ICC).

From these documents, the Board will make a determination whether the sale to AQUA is in the public interest.

ATTACHMENTS:

1. Public Hearing Notice
2. Resolution
3. Fairness Opinion
4. Public Disclosures Concerning NMU

ATTACHMENT 1 - Public Hearing Notice

(One of the publication examples)



Publication Name:
Northbrook Star

Publication URL:
northbrook.suntimes.com

Publication City and State:
Northbrook, IL

Publication County:
Cook

Notice Popular Keyword Category:

Notice Keywords:

Notice Authentication Number:
201404101510295706414
1093354699

Notice URL:

Notice Publish Date:
Thursday, 10 April 2014

Notice Content

NOTICE OF TRUSTEES MEETING AND PUBLIC HEARING OF THE VILLAGE OF GLENVIEW CONCERNING THE DIVESTITURE OF THE NORTH MAINE UTILITY WATER AND WASTEWATER SYSTEMS. The Trustees of the Village of Glenview ("Village") will hold a public meeting and public hearing on Thursday, April 17, 2014 at 7:30 P.M. at Village Hall, Village of Glenview, 1225 Waukegan Road to receive public comment and determine the public interest of the proposed divestiture by the Village of the water and wastewater assets of North Maine Utility (NMU) Systems. Pursuant to Public Act 098-0213 of the State of Illinois, the Village of Glenview advises the public that: Aqua Illinois, Inc. (AQUA) proposes to purchase the NMU water and wastewater systems which are located in Cook County, Illinois outside of the Village limits. AQUA is one of the three largest utilities in Illinois and is a part of Aqua America, Inc. a national water company. At the meeting, the Village will make their Public Disclosures and their consultant shall render a Fairness Opinion. AQUA will overview their services and present their multiple bill payment options including pay-by-mail, on-line, auto-pay from a checking account, and pay-by-phone that will be available for customers after acquisition. A major term and condition is the commitment of AQUA to hold the existing sewer rates exactly as they are now for a period through June 2020. Similarly, AQUA has contractually committed to hold the existing water rates the same as they are now except for any Niles pass-through wholesale rate increases which may occur through June 2020. This acquisition is subject to Illinois Commerce Commission (ICC) review and approval as well as ICC determinations of NMU water system and NMU wastewater system rate base. Three (3) independent appraisers shall issue their opinions of fair market value which will be considered by the ICC and may adjust the proposed purchase price of \$22 million. The Village will be providing AQUA with long term water supply agreement after June 2020 and AQUA will be constructing the approximate \$10M capital infrastructure required to serve NMU wholesale water from the Village. The Village will continue to own and operate the NMU systems until closing which is projected to be in June 2015. All interested persons may appear at the above public meeting and public hearing at the stated time and place. The public record of this meeting may be examined at 1225 Waukegan Rd., Glenview, Illinois 60025-3071. Village of Glenview, Illinois By: Todd Hileman, Village Manager 4/10/14 #758510

ATTACHMENT 2

Resolution

RESOLUTION NO. ____

A RESOLUTION CONCERNING THE SALE OF NORTH MAINE UTILITIES
FOR THE VILLAGE OF GLENVIEW, COOK COUNTY, ILLINOIS

WHEREAS, the Village of Glenview (the “Village”) is a home rule municipality in accordance with the Constitution of the State of Illinois of 1970;

WHEREAS, the Village purchased North Maine Utilities (“NMU”) water and sanitary sewer systems in 1997;

WHEREAS, the Village released a Request for Proposals (“RFP”) on October 31, 2013 seeking bids for the acquisition of the assets of NMU and staff has evaluated those bids and negotiated terms with AQUA Illinois, Inc. (“AQUA”);

WHEREAS, a notice informing the public was published in circulation areas serving the NMU customers on April 10, 2014 in accordance with the applicable State statutes; and

WHEREAS, the Village has prepared and the Board has reviewed a Fairness Opinion and the Public Disclosures Concerning NMU.

NOW, THEREFORE, BE IT RESOLVED, by the President and the Board of Trustees of the Village of Glenview, Cook County, Illinois, that:

SECTION 1: The facts and statements contained in the preamble to this Resolution are found to be true and correct and are hereby adopted as part of this Resolution.

SECTION 2: The independent Fairness Opinion is found to be a true and correct market comparison and analysis of the NMU assets.

SECTION 3: The independent Public Disclosures Concerning NMU are found to be a true and correct assessment of the physical and financial condition of the NMU assets, the RFP process, the general terms of sale, and AQUA’s customer payment options.

SECTION 4: The corporate authorities have determined it is in the best interests of the Village and its residents to sell the NMU assets to AQUA, upon terms consistent with the RFP, AQUA’s response thereto, and the negotiations between the parties.

SECTION 5: That the Village Clerk is hereby ordered and directed to cause a certified copy of this Resolution to be filed with the County Clerk of Cook County.

SECTION 6: This Resolution shall be in full force and effect from and after its passage and approval and publication in pamphlet form in the manner provided by law.

Adopted this 17th day of April, 2014.

AYES: _____

NAYS: _____

ABSENT: _____

ABSTENTION: _____

APPROVED by me this 17th day of April, 2014.

James R. Patterson Jr., President of
the Village of Glenview, Cook County, Illinois

ATTESTED and FILED in my office
this 17th day of April, 2014.

Todd Hileman, Clerk of the Village
of Glenview, Cook County, Illinois

ATTACHMENT 3

Fairness Opinion – (under separate cover page)

ATTACHMENT 4

Public Disclosures Concerning NMU



Public Disclosures Concerning North Maine Utility

Village of Glenview

Dated April 11, 2014

Table of Contents

SECTION 1 INTRODUCTION	4
1.01 OVERVIEW OF NORTH MAINE UTILITIES AND SALE	4
1.02 TYPE OF TRANSACTION	5
1.03 VILLAGE GOALS AND OBJECTIVES	5
1.04 AQUA OBJECTIVES	6
1.05 NMU CUSTOMER CONSIDERATIONS.....	6
SECTION 2 PROCESS.....	7
2.01 DIRECTION FOR INVESTIGATION.....	7
2.02 RESEARCH ON DIVESTITURES.....	7
2.03 FINANCIAL ANALYSIS	8
2.04 REQUEST FOR PROPOSALS.....	8
A. NON-BINDING RESPONSES	8
B. PROPOSAL REVIEW.....	8
C. REGULATORY INQUIRY	9
D. REFERENCES INQUIRY	9
E. DIVESTITURE CONSULTING SUPPORT	9
F. DETERMINATION OF BINDING TERMS AND CONDITIONS	9
G. BINDING OFFERS	9
H. PROPOSAL RANKING	9
I. NEGOTIATION OF APA AND WSA	9
2.05 RECOMMENDATION.....	10
A. FINDING OF PUBLIC INTEREST.....	10
B. APPROVAL OF APA AND WSA	10
2.06 FUTURE ACTIVITIES	10
A. ICC SUBMITTAL	10
B. APPRAISAL OF THE SYSTEM.....	10
C. VILLAGE AND AQUA TRANSITION	11
D. WILMETTE LONG TERM WATER SUPPLY AGREEMENT AMENDMENT.....	11

E. ASSIGNMENT OF NILES WATER SUPPLY AGREEMENT	11
F. CLOSING DOCUMENTS PREPARATION.....	11
G. ICC APPROVAL.....	11
H. CLOSING	11
I. ANTICIPATED SCHEDULE	11
2.07 POST CLOSING COOPERATION.....	12
SECTION 3 MOST RECENT NMU INCOME AND EXPENSE STATEMENT	12
SECTION 4 MOST RECENT NMU BALANCE SHEET (GAAP).....	14
SECTION 5 VILLAGE NET INVESTMENT (NMU ORIGINAL COST).....	16
5.01 PURPOSE	16
5.02 SOURCE DOCUMENTS	16
5.03 ORIGINAL COST LESS DEPRECIATION FOR NMU	16
5.04 CONTRIBUTION IN AID OF CONSTRUCTION (CIAC).....	19
5.05 GRANTS.....	19
SECTION 6 PHYSICAL CONDITION OF NMU.....	19
SECTION 7 REASONABLENESS OF PURCHASE PRICE AND TERMS	20
SECTION 8 AQUA REQUIRED INVESTMENTS	23
SECTION 9 ALTERNATIVES.....	24
9.01 NO SALE	24
9.02 SALE OF SANITARY SEWER ONLY	25
9.03 SALE OF WATER ONLY	26
9.04 SALE OF BOTH WATER AND SANITARY SEWER SYSTEMS.....	26
SECTION 10 AQUA CUSTOMER SERVICE.....	28
SECTION 11 VILLAGE DEBT ON NMU SYSTEM	29
SECTION 12 EQUITY RECAPTURE BY THE VILLAGE.....	29
SECTION 13 STATEMENT OF PUBLIC INTEREST	30
Figure 1 NMU Service Area (also shown is the Village of Glenview Service Area)	4

SECTION 1 INTRODUCTION

1.01 OVERVIEW OF NORTH MAINE UTILITIES AND SALE

In 1997, the Village purchased the North Maine Utility (NMU) water and sanitary sewer systems. Over the past 17 years the Village of Glenview (Village) has made renewals and replacements, system improvements, and modifications to best serve the NMU customer base. The service area has a mixed customer base with a significant amount of residential customers, with numerous multifamily/condominium/apartment buildings, and a number of commercial customers.

However, there are several challenges with operating this system. First, the NMU service area (Figure 1) is outside of the Village corporate limits and is a satellite system with longer trip times from the Village central utilities complex than the Village's water and wastewater systems. This creates more time and cost to maintain the system. Second, the water supply is from the Village of Niles (Niles) system that purchases water from the City of Chicago (Chicago) system. The Chicago water rates have increased greatly over the past four years causing the pass-through rates of the NMU systems to increase proportionally. In contrast, the Village obtains its water supply from the Village of Wilmette (Wilmette) at a much lower cost and has not had the high degree of rate increases as the NMU customer base. Unfortunately, the Village has a water supply agreement with Niles for the NMU system which is effective through June 7, 2020. Due to the long lead time to design and construct water supply projects the Village recently investigated the options of changing the water supply source for the NMU customer base to contain rates for those customers.

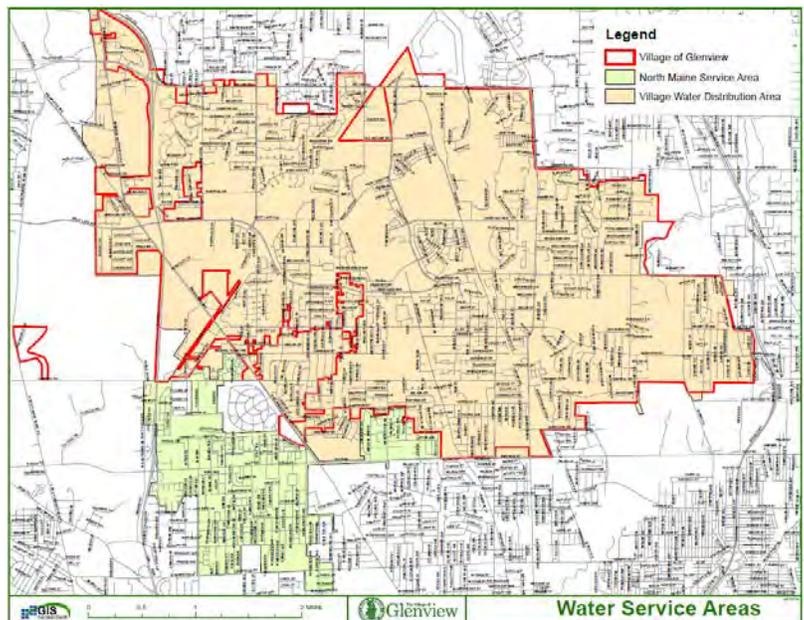


Figure 1 NMU Service Area (also shown is the Village of Glenview Service Area)

Preliminary engineering from this investigation showed that a cost approximating \$10 million would be required to attain an alternate water supply source from Wilmette for the NMU customers. If these costs were spread over 30 years, there would be a positive economic benefit to the NMU customers to switch from Chicago to Wilmette water. Therefore, the Village entered into negotiations with Wilmette to provide water to NMU in 2020 and recently approved an amendment to their water supply agreement to accomplish this.

To address the higher costs of maintaining the system via possible divestiture of the NMU system, the Village issued an RFP dated October 31, 2013 open to municipalities, authorities, non-for-profits and ICC regulated financially sound large investor/private owned-public water companies. On December 9th, the three largest water companies in Illinois responded. No other responses were made from other entities. Binding offers were solicited after interviews with the three companies and were received January 28, 2014.

Terms and conditions have been successfully negotiated with AQUA Illinois, Inc. (AQUA) for an Asset Purchase Agreement (APA) and a Water Supply Agreement (WSA), which will be submitted to the Board of Trustees for their consideration on May 6, 2014.

1.02 TYPE OF TRANSACTION

Both the Village and AQUA agree that the transaction is classified as an “as-is and where-is” type of transaction with no liabilities, warranties or representations implied unless specifically stated within the APA or WSA.

1.03 VILLAGE GOALS AND OBJECTIVES

The Village goals and objectives for a potential sale of the NMU system include but are not limited to the following:

- Performing Village core business activities efficiently for the Village residents within the Village.
- Containing the NMU rates and charges in light of the Chicago/Niles water supply existing and projected costs and the capital costs that an alternate water supply through the Village would require.

- Ensuring that the Village can help the customers of NMU by providing a lower cost long term water supply.
- Assuring the NMU customers that excellent customer service is provided into the future.
- Allows the NMU customers to benefit from the economy of scale of a new owner.
- Protecting the NMU customers with rate stability through the ICC by any new owner.
- Attaining a fair, market price for the NMU system such that those funds can be responsibly used by the Village to serve the Village resident's best interests.

1.04 AQUA OBJECTIVES

AQUA was clear that they saw this transaction as a strategic corporate entry to the Metropolitan Chicago market and the ability to link their northern and southern systems with this acquisition which benefits their operation and furthers their economy of scale. It also allows efficient private enterprise procedures and operations and accomplishes growth for the corporation during a period of low economic growth. AQUA is a stable national company and NMU is a solid investment that aligns with their core business.

1.05 NMU CUSTOMER CONSIDERATIONS

The customer considerations obtained by this transaction are the following:

- Accomplishes a rate “freeze” except for the wholesale water pass-through increases for the water customers from the date of closing through June 7, 2020, approximately five (5) years.
- Accomplishes a rate freeze for the sanitary sewer system, without exception, for the same five year period.
- Assures that the NMU customers will get the lower cost wholesale water from the Village in 2020 versus Niles/Chicago estimated to be approximately 25 - 50% greater than the Village at that time. Assures that the wholesale water improvements will be made effectively by AQUA in time and at the most competitive cost and that the NMU customers will experience this benefit as soon as possible following expiration of existing agreements.

- Assures that the NMU customers get superior customer service.
- Provides customer counselors for the NMU customer base and a third party review of the cost of service and service quality through the ICC.
- Accomplishes the blending of capital within the total capital structure of the regulated AQUA allocable, quite effectively to stem or dampen any future rates increases due to their scale of operations.
- Eliminates the need for an immediate rate increase to start funding the needed wholesale water capital improvements and future rate increases over the next five (5) years by the Village on top of the existing rates and the Niles/Chicago pass-through rate increases.
- It is projected that the AQUA water rate would be comparable to what the village would offer if it were to retain ownership of the system.

SECTION 2 PROCESS

2.01 DIRECTION FOR INVESTIGATION

The Trustees of the Village provided staff direction to investigate the options available for NMU due to the unsustainable cost increases of water and the higher costs of maintaining the system. The Trustees authorized early solicitations of interest, the recent preparation of an RFP, and the subsequent staff activities over the past year thoughtfully considering the needs of the NMU customers and the Village.

2.02 RESEARCH ON DIVESTITURES

The Village staff researched divestitures and conducted a Request for Interest (RFI) in the sale of NMU in 2011. The purpose of the RFI process was to determine the potential interest in the acquisition of NMU. The RFI was issued May 16, 2011 and three sincere expressions of interest were received for the potential purchase of the NMU system. The Village then performed a financial analysis to know the current value of the system.

2.03 FINANCIAL ANALYSIS

The financial analysis reflected that a divestiture was economically practicable. This analysis and financial model was developed by staff and the financial consulting firm of Raftelis and Associates, Inc. (Raftelis). It found that the Village purchase has had appropriate capital investment and that enacting both a short- and long-term financial strategy to manage increasing water costs would be advantageous to any owner and the customer.

2.04 REQUEST FOR PROPOSALS

Village staff and the firm of Raftelis prepared and publicly released a non-binding Request for Proposals (RFP) on October 31, 2013 to both non-for-profit (government/authority/etc.) and Illinois Commerce Commission (ICC) regulated utilities. The RFP provided for each of the proposers to do due diligence and provided a significant amount of information regarding NMU. Only Illinois American, Inc.; AQUA; and Utilities, Inc. physically inspected the system and showed interest with numerous questions and requests for information. No non-for-profit, municipal, or authority utility entity responded.

A. NON-BINDING RESPONSES

The non-binding responses involved financial data, confidential company data, other company acquisitions, motivation for this acquisition, corporate information, the company approach to the transition from Village to private operations, approvals required, customer service programs and information, company resources, anticipated schedule and other information. These responses were provided on December 9, 2013.

B. PROPOSAL REVIEW

Raftelis provided a confidential report to the Village, due to the confidential company information contained therein, concerning the three bidders and found all three to be financially sound, experienced in acquisitions (knowledgeable buyer), having proven track records in Illinois, and represented the three largest investor owned water utility companies in the State. Furthermore, Raftelis recommended that the Village hire an experienced water/wastewater utility acquisition consultant with previous experience in Illinois, experience with the Illinois regulatory agencies, and these three proposers specifically.

C. REGULATORY INQUIRY

Village staff conducted their due diligence and made inquiries concerning the three proposers to the ICC, IEPA and IDNR. All three proposers were found to be in good standing and had good track records with the agencies.

D. REFERENCES INQUIRY

The Village staff conducted further due diligence regarding the proposal and made inquiries to the references of each company and evaluated the results.

E. DIVESTITURE CONSULTING SUPPORT

The Village solicited competitive quotes for a divestiture specialist and hired Hartman Consultants, LLC (HC) on January 13, 2014.

F. DETERMINATION OF BINDING TERMS AND CONDITIONS

Village staff and HC prepared the binding terms and conditions desired by the Village and set up interviews with each proposer for January 21, 2014. On January 21, 2014 all three proposers stated that they would provide binding offers by January 28, 2014 based upon the terms and conditions desired by the Village. Numerous questions were asked and answered and additional information was provided to all three bidders.

G. BINDING OFFERS

On January 28, 2014 all three proposers submitted offers. Both Utilities, Inc. and AQUA provided binding offers, while Illinois American, Inc. provided a non-binding offer.

H. PROPOSAL RANKING

HC and Village Staff ranked the three proposers and forwarded their ranking to the Village Trustees for further direction on February 4, 2014. That direction was provided to proceed with the top ranked bidder.

I. NEGOTIATION OF APA AND WSA

The Village team including staff, legal counsel, and consultant prepared an initial APA and WSA and provided that to AQUA based upon industry standard agreement form and included the Village's requested terms and conditions. The parties discussed the agreements on a number of conference calls and two (2) additional meetings. The terms and conditions as drafted were acceptable to both parties on March 18, 2014 and the draft documents were provided to the Trustees on that date for their review.

2.05 RECOMMENDATION

A. FINDING OF PUBLIC INTEREST

This Public Disclosures document concludes and recommends to the Village Trustees that the divestiture of the North Maine Utility water and sanitary sewer systems by the Village to AQUA under the negotiated terms and conditions with both the APA and WSA are in the public interest.

B. APPROVAL OF APA AND WSA

It is expected that after the finding of Public Interest and at a subsequent meeting, the Village Trustees would consider the matter of the approval and execution of the proposed APA and WSA.

2.06 FUTURE ACTIVITIES

A. ICC SUBMITTAL

AQUA has all of the responsibility and cost for the appropriate submittal to the ICC of an application to approve the transfer of the NMU system to AQUA. The Village agrees to cooperate with and support AQUA as requested regarding the submittal.

B. APPRAISAL OF THE SYSTEM

SYSTEM VIABILITY ACT

Public Act 098-0213, HB1379 Enrolled amends Section 9-210.5 and generally provides for the large utility companies, of which AQUA is, to acquire smaller utilities with a rate base to be determined by the ICC upon the lesser of the negotiated purchase price or the fair market value as established by the average of three appraisers considering the system and reporting to the ICC.

THREE INDEPENDENT APPRAISALS AVERAGED

Three independent appraisers will be hired and paid for by AQUA to each render their opinion of the fair market value of the NMU systems. The three appraisals shall be averaged to determine the fair market value of the water system and the fair market value of the sanitary sewer system. This information will be considered by the ICC in determining rate base for each system.

PREPARATION OF APPRAISER INFORMATION

The Village will provide the existing data regarding the NMU systems for the anticipated three (3) appraisers use to comply with the Act.

C. VILLAGE AND AQUA TRANSITION

Throughout the period post execution of the APA and WSA and before closing, both the Village and AQUA will coordinate concerning the various transitional issues to provide for the appropriate customer service including the billing, customer services, public information, facilities, operations, personnel, etc.

D. WILMETTE LONG TERM WATER SUPPLY AGREEMENT AMENDMENT

The second amendment to the water supply agreement with Wilmette has been considered and approved by the Village and Wilmette.

E. ASSIGNMENT OF NILES WATER SUPPLY AGREEMENT

Village counsel has determined that the existing Niles water supply agreement with the Village can be transferred or assigned to AQUA for the period from closing through the period of the agreement which is June of 2020.

F. CLOSING DOCUMENTS PREPARATION

Both the Village team and AQUA will prepare the documentation for closing over the next several months.

G. ICC APPROVAL

Closing is conditioned upon the ICC approval and is expected to occur when the time period for appeal has run.

H. CLOSING

Closing will occur after all conditions precedent are complete.

I. ANTICIPATED SCHEDULE

- April 17, 2014 Public Hearing at Village of Glenview regular Board meeting.
- May 6, 2014 Anticipated regular Board meeting for Trustees to consider approval of agreements and documents associated with the divestiture.
- June/July 2014 AQUA's Petition for transfer to the ICC submitted without appraisals.

- August 2014 AQUA's submittal of the three appraisals to the ICC.
- December/February 2015 notices and other applications to regulatory agencies.
- April 2015 ICC ruling.
- June 2015 closing.

2.07 POST CLOSING COOPERATION

Both the Village and AQUA have several cooperative items within the agreements which will assure proper communication and cooperation.

SECTION 3 MOST RECENT NMU INCOME AND EXPENSE STATEMENT

The most recent income and expense statement is the unaudited NMU statement ending December 31, 2013. That statement is shown on the following page.

Village of Glenview, Illinois
North Maine Water and Sewer Fund
Schedule of Revenues, Expenses, and Changes in Net Assets
For the Year Ended December 31, 2013
UNAUDITED

	Budget Final	2013 Estimated Actual
Operating revenues		
Charges for sales and services		
Water charges	\$ 8,373,474	\$ 8,069,858
Water meter and remote readers	-	1,513
Sewer charges	460,048	456,148
Total charges for sales and services	<u>8,833,522</u>	<u>8,527,519</u>
Miscellaneous revenue		
Late payment fees	100,000	82,887
Other	1,000	888
Total miscellaneous revenue	<u>101,000</u>	<u>83,775</u>
Total operating revenues	<u>8,934,522</u>	<u>8,611,294</u>
Operating expenses		
Water and sewer distribution		
Personnel	837,178	863,258
Contractual services	6,285,461	5,693,744
Commodities	203,965	167,262
Capital outlay	1,155,034	131,995
Debt service		
Other	<u>1,016,554</u>	<u>186,342</u>
Operating expenses before depreciation and amortization	9,498,192	7,042,601
Depreciation and amortization	<u>-</u>	<u>208,215</u>
Total operating expenses	<u>9,498,192</u>	<u>7,250,816</u>
Operating income	<u>(563,670)</u>	<u>1,360,479</u>
Nonoperating revenues (expenses)		
Investment income	9,000	9,395
Interest and fiscal charges	(88,506)	(148,366)
Legal settlement	-	1,571,012
Total nonoperating revenues (expenses)	<u>(79,506)</u>	<u>1,432,040</u>
Net income before transfers	<u>(643,176)</u>	<u>2,792,519</u>
Transfers (out) to other funds		
General Fund	<u>(139,042)</u>	<u>(139,042)</u>
Total transfers (out) to other funds	<u>(139,042)</u>	<u>(139,042)</u>
Change in net assets	<u>\$ (782,218)</u>	2,653,477
Net assets - beginning of year		<u>4,836,420</u>
Net assets - end of year		<u>\$ 7,489,897</u>

SECTION 4 MOST RECENT NMU BALANCE SHEET (GAAP)

The most recent NMU balance sheet under GAAP accounting and unaudited is for December 31, 2013. That balance sheet is shown on the following page.

Village of Glenview, Illinois
North Maine Water and Sewer Fund
Balance Sheet
December 31, 2013
UNAUDITED

	<u>2013</u>
Current Assets	
Cash and cash equivalents	\$ 1,904,350
Investments	1,461,726
Receivables	-
Accounts, net	<u>1,134,227</u>
Total current assets	<u>4,500,303</u>
Noncurrent Assets	
Capital Assets, not being depreciated	235,000
Capital assets being depreciated - net	<u>6,214,256</u>
Total noncurrent assets	<u>6,449,256</u>
Total Assets	<u>10,949,558</u>
Liabilities	
Accounts payable	949,730
Accrued payroll	20,465
Accrued interest payable	19,657
Advances from other funds	1,136,404
Debt	<u>1,333,405</u>
Total liabilities	<u>3,459,661</u>
Net Position	<u>\$ 7,489,897</u>

SECTION 5 VILLAGE NET INVESTMENT (NMU ORIGINAL COST)

5.01 PURPOSE

The purpose of this section is to document the Village's original cost of the capital assets being sold to AQUA less the average service life depreciation of the property less contributions in aid of construction and less grants to determine the net investment by the Village as of December 31, 2013. This analysis differs from the GAAP Balance Sheet shown previously due to the accounting practices of a municipality, threshold capitalization amounts, and the fund utilization treatment typical for public entities. The Village net investment should be fully recovered in the transaction. In addition, any appreciation or value increase from the date of installation and/or renewal and/or replacement should be captured in the transaction. In other words, the net investment establishes the minimum recovery of equity that the Village should attain.

5.02 SOURCE DOCUMENTS

The source documents and files used include (1) the Village of Glenview Fixed Assets – North Maine Utilities - December 31, 2013 as unaudited with supporting materials, (2) operating fund line item details of historic costs with supporting materials, (3) capital projects conducted but not yet entered into the fixed asset listing, (4) capital outlay projects which were expensed, (5) Consoer Townsend Envirodyne Engineers, Inc. June 12, 2010 report detailed asset take-offs reconciled to the asset listing for the post-closing 1997-2008 time period, (6) other property to be sold to AQUA not reflected on the fixed asset listing for NMU.

5.03 ORIGINAL COST LESS DEPRECIATION FOR NMU

Table 5-1 reflects the original cost less depreciation for the property proposed to be sold to AQUA as stated in the proposed Asset Purchase Agreement negotiated between the parties. The original cost less depreciation for the property proposed to be sold to AQUA by the Village amounts to \$14,394,000 (as rounded).

VILLAGE OF GLENVIEW, ILLINOIS
FIXED ASSETS - NORTH MAINE UTILITIES
DECEMBER 31, 2013

TABLE 5-1

Description	Date Acquired	Original Cost	Est. Life	Accumulated Depreciation 12/31/2013	Net Asset Value 12/31/2013
Land					
Victor Avenue Parcel 2612 Victor Ave 09-12-305-044-0000	9/2/97	95,000.00	N/A		95,000.00
Central Road Parcel 4208 Central Road, 04-32-402-036-0000	9/2/97	10,000.00	N/A		10,000.00
Potter Road (Corner of Potter & Harrison), 10001 Potter Road, 09-10-104-057-0000	9/2/97	130,000.00	N/A		130,000.00
		<u>235,000.00</u>			<u>235,000.00</u>
Water Storage Facilities					
Tank 2; 750,000 gallons, Central Road	9/2/97	191,436.00	75	43,392.16	148,043.84
Tank 2; 750,000 gallons, Central Road-Rehab and Painting	2003	765,400.00	20	420,970.00	344,430.00
Valve vault repairs	8/18/98	12,600.00	35	5,760.00	6,840.00
Valve & Vault [2 Units] - from Golf to Jody	2008	4,400.00	55	480.00	3,920.00
Valve & Vault [1 Unit] - from Jody to Kenneth	2008	2,200.00	55	240.00	1,960.00
Valve & Vault [2 Unit] - from Kenneth to North Shore	2008	5,400.00	55	589.09	4,810.91
Valve & Vault [4 Units] - Kennedy Drive from W. Ballard Rd to Bobbi Lane	2008	24,100.00	55	2,629.09	21,470.91
Valve & Vault [3 Units] - Dee Road from Bobbi Lane to Dempster	2008	9,600.00	55	1,047.27	8,552.73
Potter Road & Golf/Noel/Emerson/Church/Rancho 12" [400 LF]	2011	63,600.00	55	3,469.09	60,130.91
Central Road Tank - Install 2nd riser pipe, new recirculating pump, and additional chemical feed equip	2012	103,219.00	55	3,753.42	99,465.58
		<u>1,181,955.00</u>		<u>482,330.12</u>	<u>699,624.88</u>
Water System (Water Mains and Interconnects)					
Initial system acquisition; 331,500 lin. ft.	9/2/97	5,104,075.00	50	1,735,385.50	3,368,689.50
Water main Replacement 8" [1,200 LF]	1997	115,000.00	80	24,437.50	90,562.50
Ballard Road water repairs	6/16/98	13,684.77	80	2,736.95	10,947.82
Triumvera System Project	1998	15,000.00	80	3,000.00	12,000.00
Water main repairs (various locations)	3/16/99	5,499.65	80	1,031.18	4,468.47
Water main repairs (various locations)	3/16/99	19,089.00	80	3,579.19	15,509.81
Water main repairs (Sumac & Emerson)	8/17/99	8,300.00	80	1,556.25	6,743.75
Water main and valve replacement 8" [1,000 LF] [10 valves]	1999	167,111.35	80	31,333.38	135,777.97
Des Plaines Booster Pump Station Instrumentation	2000	60,000.00	25	33,600.00	26,400.00
Morton Grove Booster Pump Station Instrumentation	2000	60,000.00	25	33,600.00	26,400.00
Glenview Booster Pump Station Instrumentation	2000	60,000.00	25	33,600.00	26,400.00
R&R Water Service SFR (3215)	2001	723,370.00	50	188,076.20	535,293.80
R&R Water Service (2)	2001	550.00	50	143.00	407.00
R&R Water Service (167)	2001	58,450.00	50	15,197.00	43,253.00
Fire Hydrant (1)	2002	3,200.00	70	548.57	2,651.43
6" DIP 285LF	2005	17,100.00	80	1,923.75	15,176.25
8" DIP 482LF	2005	33,740.00	80	3,795.75	29,944.25
12" DIP 4011LF	2005	360,990.00	80	40,611.38	320,378.63
Water main Replacement 8" [1,000 LF]	2001	100,000.00	80	16,250.00	83,750.00
Water main Replacement 8" [1,000 LF]	2002	100,000.00	80	15,000.00	85,000.00
Water main replacement - Backyard 8" [800 LF]	2003	100,000.00	80	13,750.00	86,250.00
Water main replacement Greenwood & Delphia 8" [1,000 LF]	2004	125,000.00	80	15,625.00	109,375.00
Water main replacement Robin Drive 4", 8" & 12" [2,400 LF]	2007	1,497,816.00	80	131,058.90	1,366,757.10
Water Mains 8" [458 LF] - From Golf to Jody	2008	46,589.00	80	3,494.18	43,094.83
Water Mains 8" [486 LF] - From Jody to Kenneth	2008	59,926.00	80	4,494.45	55,431.55
Water Mains 8" [455 LF] - From Kenneth to North Shore	2008	66,950.00	80	5,021.25	61,928.75
Water Mains 8" [155 LF] - Kennedy Drive from W. Ballard Rd to Bobbi Lane	2008	13,866.50	80	1,039.99	12,826.51
Water Mains 8" [1988 LF] - Dee Road from Bobbi Lane to Dempster	2008	248,460.50	80	18,634.54	229,825.96
Water Mains 6" [1400 LF] - Western Road - Golf to North Shore	2008	252,556.00	80	18,941.70	233,614.30
Water Mains 8" [1,500 LF] - Potter Road - Dempster to Golf	2009	173,921.00	80	10,870.06	163,050.94
Triumvera Community Water System Pumping Improvement to Fireflow to 7 Buildings	2010	475,700.00	80	23,785.00	451,915.00
Water Mains 12" [400 LF] - Tollway Crossing B/T Linden Lane and Oaktrail Road	2013	432,894.57	80	5,411.18	427,483.39
Water Mains 16" [540 LF], 12" [100 LF] Washington Rd (south of Fontana)	2013	221,000.00	80	2,762.50	218,237.50
Water Mains - Buckingham Park	2005	49,800.00	80	5,602.50	44,197.50
Fire Hydrant (14)	2005	44,800.00	70	5,760.00	39,040.00
8" Valves (6)	2005	18,000.00	55	2,945.45	15,054.55
12" Valves (11)	2005	49,500.00	55	8,100.00	41,400.00
Fire Hydrants [2 Units] - from Golf to Jody	2008	8,050.00	70	690.00	7,360.00
Fire Hydrants [1 Units] - from Jody to Kenneth	2008	4,025.00	70	345.00	3,680.00
Fire Hydrants [2 Units] - from Kenneth to North Shore	2008	8,050.00	70	690.00	7,360.00
Fire Hydrants [3 Units] - Kennedy Drive from W. Ballard Rd to Bobbi Lane	2008	12,075.00	70	1,035.00	11,040.00
Fire Hydrants [3 Units] - Dee Road from Bobbi Lane to Dempster	2008	12,075.00	70	1,035.00	11,040.00
Assets Used in the System (120 meter replacements)	1997	60,000.00	20	51,000.00	9,000.00
Assets Used in the System (120 meter replacements)	1998	60,000.00	20	48,000.00	12,000.00
Assets Used in the System (120 meter replacements)	1999	60,000.00	20	45,000.00	15,000.00
Assets Used in the System (300 meter replacements)	2001	150,000.00	20	97,500.00	52,500.00
R&R - 3" Water Main (2)	2005	5,500.00	25	1,980.00	3,520.00
R&R - 1" Copper	2002	28,000.00	50	6,720.00	21,280.00
R&R - 1" Copper	2005	22,400.00	50	4,032.00	18,368.00
R&R - 1" Copper	2007	74,200.00	50	10,388.00	63,812.00
R&R - 1" Copper	2008	7,000.00	50	840.00	6,160.00
R&R - 1.5" Copper	2002	1,750.00	50	420.00	1,330.00
R&R - 1.5" Copper	2005	1,750.00	50	315.00	1,435.00
R&R - 2" Copper	2005	5,000.00	50	900.00	4,100.00
R&R - 2" Copper	2007	10,000.00	50	1,400.00	8,600.00
R&R - 2" Copper	2008	35,000.00	50	4,200.00	30,800.00
R&R - 6" DIP	2005	4,000.00	80	450.00	3,550.00
Assets Used in System (Meters, Hydrants, Valves and Equipment)	1997	70,959.69	20	60,315.74	10,643.95
Assets Used in System (Meters, Hydrants, Valves and Equipment)	1998	133,484.45	20	106,787.56	26,696.89

VILLAGE OF GLENVIEW, ILLINOIS
FIXED ASSETS - NORTH MAINE UTILITIES
DECEMBER 31, 2013

TABLE 5-1

Description	Date Acquired	Original Cost	Est. Life	Accumulated Depreciation 12/31/2013	Net Asset Value 12/31/2013
Assets Used in System (Meters, Hydrants, Valves and Equipment)	1999	173,387.42	20	130,040.57	43,346.86
Assets Used in System (Meters, Hydrants, Valves and Equipment)	2000	198,701.93	20	139,091.35	59,610.58
Assets Used in System (Meters, Hydrants, Valves and Equipment)	2001	180,894.53	20	117,581.44	63,313.09
Assets Used in System (Meters, Hydrants, Valves and Equipment)	2002	221,045.28	20	132,627.17	88,418.11
Assets Used in System (Meters, Hydrants, Valves and Equipment)	2003	241,355.60	20	132,745.58	108,610.02
Assets Used in System (Meters, Hydrants, Valves and Equipment)	2004	240,500.97	20	120,250.49	120,250.49
Assets Used in System (Meters, Hydrants, Valves and Equipment)	2005	261,053.20	20	117,473.94	143,579.26
Assets Used in System (Meters, Hydrants, Valves and Equipment)	2006	250,821.39	20	100,328.56	150,492.84
Assets Used in System (Meters, Hydrants, Valves and Equipment)	2007	293,981.97	20	102,893.69	191,088.28
Assets Used in System (Meters, Hydrants, Valves and Equipment)	2008	347,336.42	20	104,200.93	243,135.49
Assets Used in System (Meters, Hydrants, Valves and Equipment)	2009	506,341.65	20	126,585.41	379,756.24
Assets Used in System (Meters, Hydrants, Valves and Equipment)	2010	442,406.45	20	88,481.29	353,925.16
Assets Used in System (Meters, Hydrants, Valves and Equipment)	2011	295,490.18	20	44,323.53	251,166.65
Assets Used in System (Meters, Hydrants, Valves and Equipment)	2012	346,113.24	20	34,611.32	311,501.92
Assets Used in System (Meters, Hydrants, Valves and Equipment)	2013	407,665.33	20	20,383.27	387,282.06
		16,082,354.04		4,418,364.12	11,663,989.92
Sanitary Sewer System (Sewer Mains and Structures)					
Initial system acquisition; 105,945 lin. ft.	9/2/97	1,319,375.00	50	448,587.50	870,787.50
Ballard Road sewer repairs	6/16/98	13,684.77	80	2,736.95	10,947.82
Sanitary Sewer Segment Replacements [1,150 LF]	1997	115,000.00	80	24,437.50	90,562.50
Sanitary Sewer Segment Replacements [950 LF]	1998	95,000.00	80	19,000.00	76,000.00
Sanitary Sewer Segment Replacements [1,250 LF]	1999	125,000.00	80	23,437.50	101,562.50
Sanitary Sewer Repairs - Flora Ave [500 LF]	2000	50,000.00	80	8,750.00	41,250.00
Sanitary Sewer Repairs [500 LF]	2001	50,000.00	80	8,125.00	41,875.00
Sanitary Sewer Manhole Repairs [20]	2002	50,000.00	80	7,500.00	42,500.00
Sanitary Sewer Manhole Repairs [30]	2003	75,000.00	80	10,312.50	64,687.50
Sanitary Sewer Lining [2,030 LF]	2004	65,000.00	80	8,125.00	56,875.00
Sanitary Sewer Lining - Robin Drive [5,000 LF]	2005	150,000.00	80	16,875.00	133,125.00
Sewer Mains [90 LF]	2008	9,395.00	80	704.63	8,690.38
Structures - Kennedy Drive from W. Ballard Rd to Bobbi Lane [1 MH Adj]	2008	1,350.00	50	162.00	1,188.00
Structures - Dee Road from Bobbi Lane to Dempster [10 MH]	2008	26,800.00	50	3,216.00	23,584.00
Sanitary Sewer - Buckingham Park	2005	94,500.00	80	10,631.25	83,868.75
Annual Sewer System Improvements	1997	2,101.16	20	1,785.99	315.17
Annual Sewer System Improvements	1998	5,577.15	20	4,461.72	1,115.43
Annual Sewer System Improvements	1999	5,368.60	20	4,026.45	1,342.15
Annual Sewer System Improvements	2000	6,602.10	20	4,621.47	1,980.63
Annual Sewer System Improvements	2001	4,842.88	20	3,147.87	1,695.01
Annual Sewer System Improvements	2002	5,952.15	20	3,571.29	2,380.86
Annual Sewer System Improvements	2003	31,809.32	20	17,495.13	14,314.20
Annual Sewer System Improvements	2004	18,945.07	20	9,472.53	9,472.53
Annual Sewer System Improvements	2005	9,290.10	20	4,180.55	5,109.56
Annual Sewer System Improvements	2006	7,526.35	20	3,010.54	4,515.81
Annual Sewer System Improvements	2007	7,434.83	20	2,602.19	4,832.64
Annual Sewer System Improvements	2008	10,762.16	20	3,228.65	7,533.51
Annual Sewer System Improvements	2009	12,194.47	20	3,048.62	9,145.85
Annual Sewer System Improvements	2010	19,156.87	20	3,831.37	15,325.50
Annual Sewer System Improvements	2011	31,382.40	20	4,707.36	26,675.04
Annual Sewer System Improvements	2012	23,854.60	20	2,385.46	21,469.14
Annual Sewer System Improvements	2013	8,922.79	20	446.14	8,476.65
		2,451,827.77		668,624.16	1,783,203.62
Automotive Equipment					
2003 Ford F150	09/2003	16,355.00	13	13,838.85	2,516.15
2004 Ford F350 with Dump Body	05/2004	35,242.00	14	25,172.86	10,069.14
		51,597.00		39,011.70	12,585.30
		20,002,733.81		5,608,330.10	14,394,403.71

5.04 CONTRIBUTION IN AID OF CONSTRUCTION (CIAC)

CIAC are those funds provided by developers in utility developer agreements to induce service or paid by customers for either capacity in the system or for improvements to the system such as line extension fees or impact fees or capital recover charges of other types such as assessments or the like. The NMU service area was mostly built-out when the Village acquired the system for \$7.184 million. Fill-in growth has occurred over the past 17 years, yet no major new areas of service are available for the system. The system is not within Village municipal limits and therefore the Village cannot levy assessments to those customers. The Village has not charged impact fees or other customer capital recovery fees in this area. Therefore, there is no CIAC in this system.

5.05 GRANTS

Due to the nature of the systems and the fact that service is generally available in the area, there have been no grants secured by the Village for this system and there have been no infusion of capital from third parties or governmental entities to the Village for the NMU system.

SECTION 6 PHYSICAL CONDITION OF NMU

Over the past 17 years, the Village has been providing renewals and replacements for the NMU systems as the system warranted such improvements. The condition of the systems overall is good. The following condition assessments are summarized for the public from the Village.

1. Water meters - almost all of the water meters within the service area have been recently replaced. The condition ranges between good to very good.
2. Water services to the meters - many of the services have been replaced. Other services are original. Therefore, the services are believed to be in fair to very good condition.
3. Water distribution mains - while many of the smaller mains have been replaced, there are still some original distribution mains in the system. The number of distribution main

breaks has been reduced significantly from the date of purchase to the present. Therefore the condition of the distribution mains is believed to be in fair to very good condition. An active water loss prevention program has been on-going with positive results.

4. Water transmission - the transmission system is in good condition.
5. Water booster stations - the three water booster stations recently were upgraded with SCADA instrumentation and the mechanical elements are continually renewed and replaced as warranted. The booster pump stations are believed to be in good condition.
6. Water storage and re-chlorination - the elevated storage tank on Central Road is on a tank maintenance program and is painted and renewed regularly. The re-chlorination facilities are within the tank base housing. That property is believed to be in good condition based upon the reports from the tank specialists.
7. Emergency interconnections - the water emergency interconnections are functional and are in good condition.
8. Sanitary sewer services - the services are generally in fair to good condition with renewal and replacements conducted as warranted.
9. Sanitary sewer collection system - the manholes and gravity collection system are believed to be in good condition. The Village annually cleans and televises the system making point repairs, lining, or replacements as warranted.
10. Sanitary sewer interceptor system - the gravity interceptor transmission system is believed to be in good condition.

The Village believes under the Village ownership the NMU system has been improved and that customer service is good.

SECTION 7 REASONABLENESS OF PURCHASE PRICE AND TERMS

The reasonableness of the NMU purchase price and terms is a check versus industry standards for “as-is and where-is” divestiture transactions. The first component is the purchase price. The purchase price is addressed in the Fairness Opinion report under

separate cover. In this case, following the public meeting, the Illinois Commerce Commission will approve three (3) independent appraisers with supporting engineers to render their opinions of the fair market value of the NMU water and wastewater systems. These three opinions of fair market value will be averaged for the approved fair market value for the systems. Each opinion will be broken down to the sanitary sewer system value and the water system value. The Asset Purchase Agreement (APA) with the supporting schedules and Water Supply Agreement (WSA) provide for the offered purchase price of \$22 million and adjustments per a schedule down to \$19.5 million given the outcome of the average of the three appraisals.

The offered purchase price was a result of a competitive solicitation open to all qualified bidders. Three bidders responded and all three were qualified. After the Village delineated the desired terms and conditions the three bidders were asked to submit binding offers for the Village to evaluate. A selection team and the Village consultant evaluated the offers and recommended to negotiate the terms of an agreement with AQUA.

The terms and conditions comparison with industry standard items is shown below:

Industry Standard	Description	Standard	NMU term
1	Purchase Price	cash at closing	cash at closing
2	Bill of Sale	provided by seller	similar
3	Title	free and clear	free and clear
4	Encumbrances/type	as-is and where-is	as-is and where-is
5	Escrow	0 to 5% of purchase price	earnest money
6	Transactional Costs	each party pays	buyer pays up to \$250,000
7	Prepaid/discounted residential connections	adjustment	not applicable
8	Regulatory Compliance	required	required
9	Transfer Agreements	required	required
10	Customer Deposits	transferred	not applicable
11	All records	transferred	transferred
12	All permits	transferred	transferred
13	Accounts receivable	95 to 100% paid	100% paid
14	Invoices	Responsibility for billing/collections shifts to buyer at closing	Responsibility for billing/collections shifts to buyer at closing
15	Inventory	transferred	specific NMU transferred
16	Taxes/Franchise fees	pro-rata	not applicable
17	Inspection/due dilligence	provided	provided
18	Performance Penalty	varies	varies

Industry Standard Description	Standard	NMU term	
19	Binding Authority	required	required
20	Agency Approvals	required	required
21	Indemnification	varies	varies
22	Agreement/Closing Conduct	no damage to value	no damage to value
23	Cash in funds	seller's	seller's
24	Debt retirement	offset or seller	seller
25	Operations Staff	offer employment	offer employment
26	Rolling Stock /tools	included/transferred	partially transferred
27	Closing Procedures	provided	provided
28	Litigation	disclosed/retained by seller	disclosed/retained
29	Assistance	fully provided	fully provided
30	Closing costs	each party pays typical	buyer pays 100%
31	Title Insurance	negotiated	buyer pays costs
32	Construction Work In Progress	negotiated	seller provides any planning, engineering or design documents available
33	Assets Description	delineated	delineated
34	Original Cost	delineated	included in Fairness Opinion
35	Contribution In Aid of Construction	delineated	none
36	Grants	delineated	none
37	Exclusive Service Area	transferred	exhibit in agreement
38	Further Assurances	granted	granted
39	Easements /access	transferred/granted	transferred/granted
40	Environmental matters	disclosed	disclosed
41	Environmental audit	negotiated	Phase 1 environmental audit by buyer
42	Representations	both parties	both parties
43	Lake Michigan Allocation	not standard	no change
44	Central Road Tank	not standard	seller reserves right for attach.
45	Utility Planning/Coop.	not standard	both parties continue post close
46	Water Supply Agreement	not standard	future benefit to NMU customers
47	Wholesale Water CIP	not standard	future benefit to NMU customers

Industry Standard Description		Standard	NMU term
48	Sewer System Rate Freeze	not standard	next 5 year benefit to NMU customers
49	Water System Rate - Pass through only	not standard	next 5 year benefit to NMU customers
50	Assignment	silent	conditions to ensure future benefits for NMU
51	Abandonment	silent	ICC determines at that time; fair market value conditions
52	Interested party	silent	provided to Village
53	Audit request	silent	provided to Village
54	Termination	negotiated	negotiated
55	Disputes	varies	Cook County Court
56	Binding Effect	standard	standard
57	Waivers	standard	standard
58	Miscellaneous Terms	standard	standard
59	Schedules	full set	full set
60	Wholesale for Resale	as conditions warrant	provided for with service areas/process
61	Wheeling Charge	typical 5 to 15%	10% future when wholesale water provided

Staff concludes that a full set of terms and conditions are provided with proper consideration to the issues encountered with the NMU proposed transaction.

SECTION 8 AQUA REQUIRED INVESTMENTS

AQUA has contractually committed to make the necessary system upgrades and to serve all of the existing and future customers of the NMU water and wastewater service area in both the APA and the WSA. In addition Section 7 of the proposed Water Supply Agreement, which is an Exhibit of the APA, requires AQUA to make the necessary investment required and they have committed to doing the same. Therefore, AQUA is willing to make the needed investments. Previously, during the RFP process, the Village confirmed that AQUA had the necessary capital investment capability for this transaction and the investments needed.

SECTION 9 ALTERNATIVES

There are four alternatives identified for NMU: No Sale; Sale of only the sanitary sewer system; Sale of only the water system; and Sale of both systems.

9.01 NO SALE

No Sale Advantages

- Status quo – no changes.
- Annual rate increase to the water and sanitary sewer systems due to the satellite nature/configuration and the comparative inefficiency in operations to the Village system. Village gains some economy of scale, yet limited. Village keeps ability to allocate overhead and costs to all customers. Village is set up to run the system and no one-time transitional costs.
- Village continues delivering quality operations and management of the water and sanitary sewer systems.

No Sale Disadvantages

- No “rate freeze” for 5 years for the sanitary sewer system customers.
- No limitation to water rate increases to be only the amount of Niles pass-through wholesale costs from Chicago.
- No independent “watch-dog” regulator and customer rate advocate available through the ICC for the NMU customers.
- No equity recapture by the Village for an investment made 17 years ago and continuing to be made.
- Comparatively less economy of scale than from a National and Statewide utility company.
- No dampening of future rate increases due to the large rate base and investment existing and the much higher number of customers. Sale allows for gradual and dampened rate increases if needed.

- Village will have to invest not only the needed reoccurring amounts in the system for capital improvements, but also an additional approximate \$10,000,000 for the wholesale water system improvements to allow service from Wilmette.
- Retaining a decaying asset.
- Retaining the operational liability.
- Retaining the risk of performance for non-village residents.
- Loss of the ability to focus on Village core needs with the existing Village resources.
- Risk of market turning away from low yield yet stable and low risk investments to higher yields when and if they become available.

9.02 SALE OF SANITARY SEWER ONLY

Sale of Sanitary Sewer Only Advantages

It is unknown what kind of transaction would be possible for just the sanitary sewer system of NMU.

Due to the lack of the economy of scale and the dual use of operational staff, hypothetically the cost of operations would be greater and therefore the rates higher than the other alternatives. The sanitary sewer system represents a small percentage of the assets approximately 12% and even a lower percentage of the total revenue of the NMU system (approximately 6%). Market interest would be available; yet low, if any, and premiums would probably be offered. Due to the nature of the service, it is likely that stand-alone rates would occur.

The existing total average monthly revenue of only \$8.94/month leaves little room for economies and a great potential of high percentage individual rate increases. The offer of 5 years of no rate increase would not be probable with a sanitary sewer only sale.

Sale of Sanitary Sewer Only Disadvantages

Theoretically, without the water system sale, the risk would be greater than the other alternatives.

9.03 SALE OF WATER ONLY

It is unknown whether there are any comparative advantages versus a complete water and sanitary sewer sale. The remaining utility would be sanitary sewer only as a satellite system and the cost would be greater for the sanitary sewer service by the Village if configured in that fashion. Losing the ability to shut off service for non-payment of bills could create problems. The combined use of water and wastewater personnel cross-trained is superior for a complete system sale.

9.04 SALE OF BOTH WATER AND SANITARY SEWER SYSTEMS

The sale of both water and sanitary sewer systems has been the direction which the Village staff and consultants have proceeded. A competitive and open process was used. Consideration of the interests of the customers, Village, equity recapture, and the future cost containment with an open and third party regulatory process was attained. The sale of both systems is comparatively more advantageous than partial sales. The advantages and disadvantages of the sale of both the water and sanitary sewer systems include the following items:

Sale of Both the Water and Sanitary Sewer Systems Advantages

- A “rate freeze” for 5 years for the sanitary sewer system customers. ICC approved rates thereafter.
- A limitation to water rate increases for the next 5 years to be only the amount of the Niles pass-through wholesale costs from Chicago. After 2020, the rates will be the consolidated AQUA water rates which are projected to be very close to the then existing water rates. In the future, water rates will be dampened by the consolidation of the AQUA systems and the wholesale rate reduction which would occur after the supply is changed to the Village versus Niles. In five (5) years the Village would obtain a similar annual return due to the sale of wholesale water replacing that which is lost in the sale.
- An independent “watch-dog” regulator and customer rate advocate available through the ICC for the NMU customers.
- Equity recapture by the Village for the investment made 17 years ago and annually thereafter up and until closing with AQUA projected to occur mid-year 2015.

- A greater economy of scale due to the larger size and extensive expertise of the AQUA national and Illinois organizations/operations/capital financing.
- Dampening of future rate increases due to the larger rate base and existing investment and much greater number of customers.
- AQUA will invest the needed reoccurring annual capital needs and the capital needed for the wholesale water system improvements to allow a lower cost of wholesale service from the Village.
- Village will not be responsible for the aging infrastructure.
- Village will not be responsible for the operations outside of the Village limits in a satellite system.
- AQUA will assume the risk for performance for the customers of the NMU system.
- Village will have the ability to focus on Village core needs with the existing Village resources.
- Market concerns for the NMU investment will be quenched and future risk averted.

Sale of both the Water and Sanitary Sewer Systems Disadvantages

- There will be a transitional and transactional cost of change as well as a loss of annual allocated costs to the NMU system of the common costs of the Villages utility operations.
- There is a loss of Village control, management and rate regulation. AQUA will assume the NMU control and management. The ICC will control the rate regulation.
- There will be an initial period of the full loss of the economy of scale effectiveness and allocation benefit (from 2015 through 2020), then a lesser loss of the economy of scale to a wholesale cost of service function thereafter.

SECTION 10 AQUA CUSTOMER SERVICE

AQUA will be presenting their customer service programs at the public meeting.

The research by the Village staff concerning other communities where AQUA is providing utility services resulted in responses very complementary of their community involvement and programs servicing the customers. Generally, AQUA customer service was found to be superior from such providers. Thereafter, the Village staff and consultants investigated the programs by AQUA and found that their commitment to customer service was very good.

Generally, there are three significant programs among other AQUA activities provided.

As with all ICC regulated utilities, there is the Illinois Commerce Commission Bill of Rights for water and sanitary sewer customers. This program covers the rates, advance notice of any rate change, the customer right to request not only information, but also a public forum to discuss the proposed rate change and the cooperation of the ICC staff serving the customer. It provides the right to request deferred payments under the company program approved by the ICC. It requires the company to credit any overpayment on the next bill. It provides for the customer to have “make-up” bills. It requires a procedure to protect the customer in the event that a disconnection of service may be warranted. It provides for the resolution of disputes in service and meter reading and metering and any complaints with the ICC as the customer advocate. Finally, a great amount of assistance and information is provided by the ICC.

Next each customer receives a customer information sheet with the initiation of service. This sheet provides all of the relevant contact information for the customer and explains generally the utility service provided.

Finally, the company provides experienced customer service personnel to assist customers and their service personnel to physically respond to the needs of the customer base. AQUA has a welcome package provided to each customer explaining their customer service as well as the bill itself. AQUA provides a number of options for payment including: online for paperless billing; online banking; a “ZipCheck” program for automatic payment deductions from a checking account; pay by phone with a credit card; and they are exploring local pay-in-person options. The welcome package is individualized with the customer name, address and account. Assurance of the utility service quality is provided as well as where the customer responsibility begins and the utility company responsibility ends for various

facilities. It includes answers to a variety of typical customer questions. Finally, the welcome package discusses the issue of water conservation and insights in controlling the customer costs through proper conservation.

Our research concerning AQUA Illinois with the regulatory entities including the ICC, the IEPA, and the IDNR resulted in excellent compliance and responsive practices.

SECTION 11 VILLAGE DEBT ON NMU SYSTEM

The Village borrowed moneys to provide capital infusion into the NMU water and sanitary sewer systems. These debt instruments were not secured by the assets of the NMU systems. The Village will pay all remaining debit in financially responsible manner as most cost effective to the Village. It is expected that the funds available following the closing of the transaction will be the source of funds to pay off the debt.

As of December 31, 2013 the village has the following three obligations:

1. A 1997 Note Payable with principal and interest totaling \$1,292,249;
2. A 2003A Bond with principal and interest totaling \$1,166,244;
3. The remaining Advance from the Permanent Fund with principal and interest totaling \$428,804.

SECTION 12 EQUITY RECAPTURE BY THE VILLAGE

The Village should recover the value of the investment from a transaction. No private entity value windfall should be entertained unless the NMU system is under duress or some other compelling reason for the transaction is present (ie. a large cost of regulatory compliance, sufficient losses incurred by the system, lending institution calling the debt instruments due to a variety of reasons, etc.). Such reasons are not present in this transaction. This subject transaction is a full fair market value transaction.

This section addresses the investment, the depreciation accrued thereon, the value of the dollar at the time of the investment, and the anticipated value of the dollar at the time of the anticipated closing as it relates to the investment. Finally, a comparison of the range in the anticipated purchase price is compared to the depreciated original cost of the asset listing adjusted to the value of those dollars at closing.

From Section 5 of this Public Disclosures document the depreciated original cost of the listing of assets attributed to the NMU systems is \$14,394,000 (rounded). The original purchase price of \$7,184,000 in late 1997 is depreciated to \$4,752,000 in the net asset listing. Likewise the investments made in the 1997-2013 period are depreciated to \$9,642,000.

In order to place the original investment of \$7,184,000 into a 2015 value, a factor of 1.494 was applied to the depreciated value of \$4,752,000 resulting in a 2015 value of \$7,099,000. Additionally, a factor of 1.207 is applied to the depreciated value of the investments made from 1997-2013 of \$9,642,000 resulting in a 2015 value of these added investments of \$11,638,000. Adding these two 2015 values together produces a total sum of \$18,737,000.

The purchase price can range from \$19,500,000 to \$22,000,000. At the lower end, a net value of \$763,000 is realized or a return of 4.1% over the 18 years of investments or a little less than 1/4th of 1% per year compounded. At the upper end, a net value of \$3,263,000 is realized or a return of 17.4% over the 18 years of investments or approximately 0.9% per year compounded. The Village's equity will be recaptured with either result and a modest net return may occur in this transaction.

Considering the above and the nature of the parties involved, the context of the transaction, the motivation of the parties, and the open bidding of the NMU systems; HC concludes that a fair market amount has been offered by AQUA.

SECTION 13 STATEMENT OF PUBLIC INTEREST

Based upon the investigations, the analyses conducted, the open bidding of the NMU systems, the non-binding information provided, the interviews, the binding offers, and the negotiations held; the Village Staff, Village Attorney, and Village divestiture specialist believe that the proposed transaction for consideration by the Trustees of the Village and Public at large is in the Public Interest.