

NACWA 2010 Winter Conference

Monetizing Utility Assets to Fund Infrastructure Needs- the Indianapolis Story

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Presentation Agenda

- Background and Infrastructure Needs
- Financial Condition and Challenges
- U.S. EPA Consent Decree
- Alternative Approaches to Monetization
- Selected Path Forward
- Discussion

City of Indianapolis is the 13th largest City in the U.S.

- Incorporated in 1832
- Consolidated with Marion County in 1970
- Population @ 800,000 (MSA @ 1.6 million)
- 400 square miles
- City-County Council with 25 single-member districts and 4 at-large



Deteriorating infrastructure is typical of many older cities



- Mayor Ballard takes office in January 2008
- Campaign promises included
 - No tax increases
 - Road and bridge repairs
- Infrastructure needs are significant
 - Water/Wastewater = \$5B
 - Transportation = \$1.5B

Water and wastewater utilities are City-owned and operated as Enterprise Funds

Wastewater

- Part of Department of Public Works
- 220,000 customers
- \$120 M annual revenue
- Two Advanced WWTPs @ 300 MGD
- 3,300 miles of pipeline
- 253 lift stations
- CSO system for inner City
- Operated by United Water since 1993

Waterworks

- Purchased Indianapolis Water Company in 2002
- Established Department of Waterworks
- Hired Veolia Water as operator
- Nine WTPs @ 260 MGD
- 4,500 miles of pipeline
- 32 storage tanks and 2 surface reservoirs
- 65 wells and 18 pump stations

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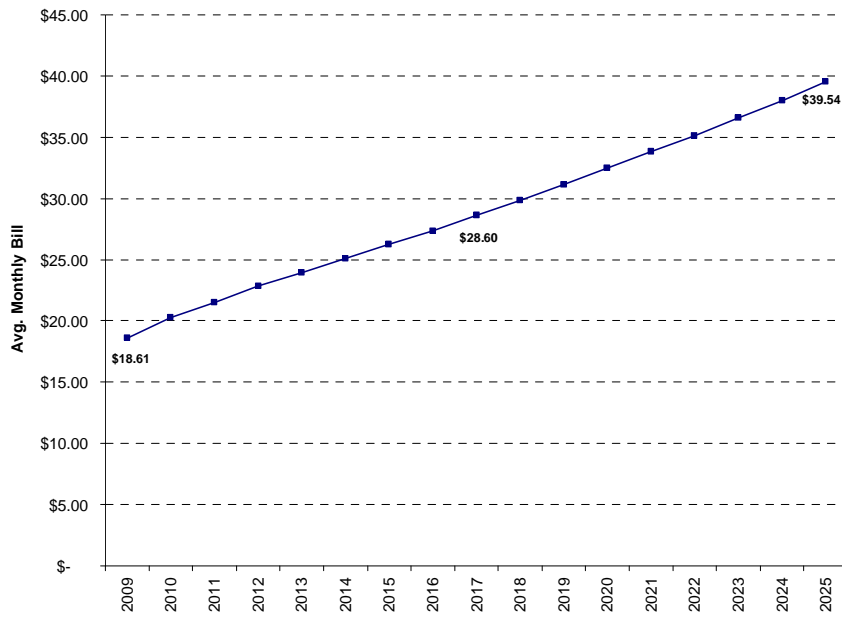
Financial planning is a challenge



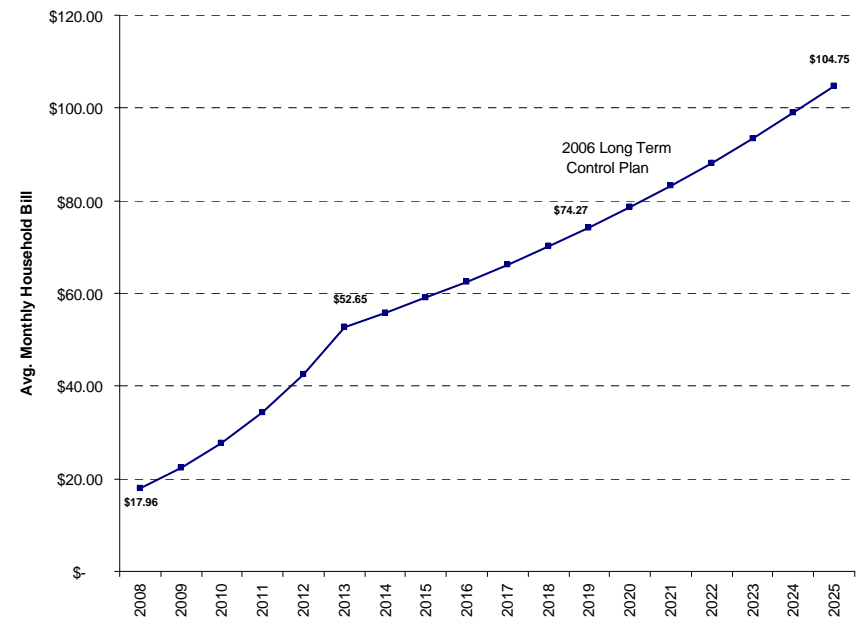
- General Assembly capped property taxes at 1%, 2% or 3% of assessed value in 2008
- City expecting \$20 to \$25 million tax revenue reduction in 2010.
- City expects the 2011 tax base to drop another \$25 million.
- Local income taxes paid to where you live, not work
- Sales tax revenue collected and spent statewide

Capital needs and rising expenses driving water/wastewater rate increases

Current Water Rate Model



Sewer Rate Model



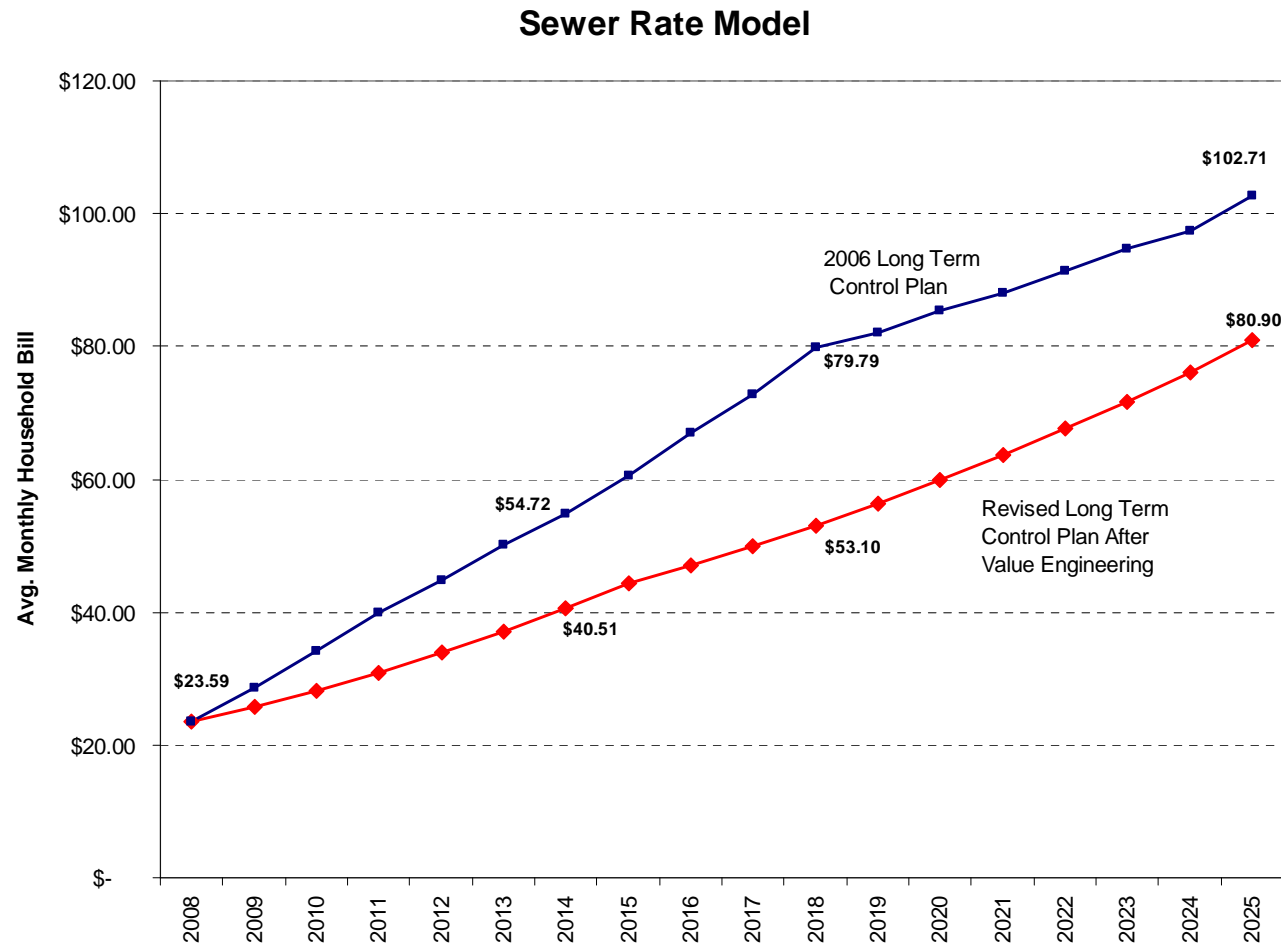
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U.S. EPA Consent Decree has a long history in the City

- CSO studies date back to 1993
- *“Improving our Streams in the City of Indianapolis: A Report on Options for Controlling Combined Sewer Overflows”* published in 2000
- First draft Long-Term Control Plan (LTCP) submitted in April 2001
- CSO control alternatives evaluated through 2004
- Consent Decree executed by the City, IDEM and USEPA in September 2006
- Total cost estimated at \$1.87 billion (2005 \$\$) for CSO and SSO projects

Renegotiation of program combined with Value Engineering has lowered capital costs by \$400M and reduced future rate increases



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How best to monetize utility assets?

Alternatives

- Synergies from combined operations
- Increase PILOT payments
- Long-term concession agreement
- Sale of assets
 - Private (IOU) buyer
 - Public (government) buyer
 - Create a new Municipal Utility Corporation

Request for Expression of Interest (REI) issued in July 2009 to solicit marketplace ideas

- 24 submittals from operators, engineers and contractors
- Received feedback on
 - Organizational structures
 - Operational synergies
 - Capital program delivery methods
 - Risk allocation
 - Financing/partnering
 - Compensation models

Office of Mayor Gregory A. Ballard
City of Indianapolis
July 21, 2009

REQUEST FOR EXPRESSION OF INTEREST

The Office of Mayor Gregory A. Ballard of the City of Indianapolis (the "City") releases this Request for Expression of Interest (REI) with the intent to solicit the broadest array of approaches and ideas that will allow the City to produce finished drinking water, process wastewater and provide related infrastructure services in the most efficient and cost effective manner and to help the City satisfy the U.S. Environmental Protection Agency (USEPA) and Court mandated capital improvements in a manner that mitigates the affect on ratepayers.

I. Background

A. Purpose of Request

Indianapolis, like many large cities today, faces massive funding challenges related to maintaining its basic infrastructure. The estimated cost to bring our City's infrastructure to a fair condition exceeds \$5 billion. It is estimated that over \$4 billion is needed for improvements to the City's waterworks utility system.

Fair Market Value (FMV) appraisal of system exceeds debt by \$560 million

Parameter	Waterworks	Wastewater	Total
FMV	\$930 M	\$1,100 M	\$2,030 M
Debt	<u>\$919 M</u>	<u>\$552 M</u>	<u>\$1,471 M</u>
Net Equity	\$11 M	\$548 M	\$559 M

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Currently evaluating three alternatives

Create Not-for-Profit for
Water/Wastewater
P3 for capital program

Consolidation of
Water/Wastewater/Gas
Into Not-for-Profit

Asset Sale of Water
Not-for-Profit for Wastewater
P3 for wastewater capital program

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Questions?

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