

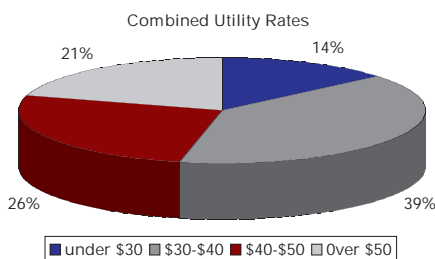
The Source

UTILITY ENTERPRISE MANAGEMENT

A publication of Advanced Engineering and Environmental Services, Inc.  October 2003

North Central 2003 Utility Rates Surveyed

A recent survey of water, wastewater, and storm water utility rates in the North Central Region indicates that the greatest percentage of communities surveyed charge between \$30 and \$40 per month, based on 7,500 gallons of water usage (see chart below). Of those communities charging \$30 to \$40 per month, only 17% include a storm water charge and it ranged from \$1.67 to \$1.81 per month. The water charges in this group ranged from \$13.72 to \$27.13 per month. Wastewater charges ranged from \$7.36 to \$23.70 per month.



AE2S conducts a yearly survey of regional water, wastewater, and storm water utility rates. Communities surveyed include primarily those serving greater than 5,000 people throughout North Dakota, Minnesota (excluding the Metro area), south-central and eastern South Dakota, and eastern Montana.

If you would like a copy of the survey in its totality or if you are interested in having your community participate in our 2004 rate survey, please contact sheryl.smith@ae2s.com.

Utilities face a continual challenge when it comes to finding enough money to keep up with needed capital improvements, providing for maintenance, and keeping operations running smoothly. To help meet the challenge, some utilities in the North Central Region are considering the use of lease/leaseback agreements.

Lease/Leaseback: Attractive Alternative or Is There a Catch?

The concept is not new and has been used for many years by communities across the country to fund subway and rail assets. It is just starting to catch on as a method for use in utility asset management. The United States Environmental Protection Agency endorses these transactions, and they reportedly do not count against debt cap compliance or affect the ability of a utility to secure additional federal funding for projects.

Lease/leaseback transactions allow municipalities to enter into a transaction whereby they lease assets, such as a water or wastewater treatment plant, to a private entity such as a very large bank or insurance company, and then lease the asset back. The transaction allows the private entity to take income tax deductions through the depreciation of the asset and for the transaction costs. The utility retains title to the asset and operating control of the system.

Upon execution of the transaction, the utility receives an up-front cash payment from the investor as a "long-term lease payment" on the assets. The municipality or its pooling agency immediately puts 96 percent to 97 percent of this cash into an investment account. These investments are "locked-in" at close with a fixed rate of return. It is anticipated that these funds will draw a rate of return that will cover the "leaseback payments" to the investor, so no "out-of-pocket" payments would have to be made by the municipality. The remaining 3 percent to 4 percent up-front cash received by the municipality is the cash benefit realized and can be used by the utility to meet needs such as paying for capital improvements.

Lease/leaseback transactions can be arranged through a variety of agencies. One such agency currently working in the Midwest to match municipalities with investors is ALLCO Finance Corporation, New York City. According to Jeff Buelow with ALLCO, they require \$250 million in assets to make the concept work, and many states are "pooling" municipality assets to facilitate the process. ALLCO has assisted some states with establishing a process to "pool" their assets and has helped to get enabling legislation passed.

In South Dakota, a Municipal Facilities Authority has been established to serve as the pooling agency. In North Dakota, the North Dakota Municipal Bond Bank is serving as the pooling agency. The League of Minnesota Cities is considering serving as the pooling agency for Minnesota. *(continued on back side)*

The Source

UTILITY ENTERPRISE MANAGEMENT

A publication of Advanced Engineering and Environmental Services, Inc.

If you have any questions concerning the contents of this newsletter, please contact Sheryl Smith at 701.746.8087 or Sheryl.Smith@ae2s.com

The Source Unveiled

As the name implies, *The Source* is a technical newsletter dedicated to providing utility managers with up to date information for effective management and planning.

This is our first issue of The Source, which will be sent primarily to finance and utility managers. If there are additional people in your utility who you feel would benefit from this newsletter, or if you would like to suggest topics for future issues, please contact Sheryl Smith at 701.746.8087 or sheryl.smith@ae2s.com. ■

The AE2S technical newsletters including the The Source and The Update (Regulatory Compliance) can also be accessed through our website at www.ae2s.com.

Lease/Leaseback: Attractive Alternative or is There a Catch?

(continued from first page)

South Dakota is the closest of the three to executing a transaction, with fourteen communities considering using their wastewater treatment plants for assets; however, they are proceeding cautiously and weighing all the options. In North Dakota, the lease/leaseback concept was discussed recently by the Rural Water Districts at their summer retreat in Medora and the North Dakota Finance Officers at the League of Cities Conference held in Grand Forks in mid-September. As with South Dakota, they are proceeding cautiously before moving forward and are planning additional informational/discussion meetings.

Lease/leaseback may sound too good to be true, but it appears to be a good strategy for some utilities. The test is whether the advantages of the cash received outweigh the potential disadvantages associated with the transaction. Each community will have to evaluate whether it is a good candidate for participation, whether they have sufficient assets to make it attractive for the private investor or to be included as part of the pooling, and whether it meets overall City objectives. In addition, the question of the availability of the asset for major renovation or disposition must be answered, and the impact of tax-free debt on the ability to participate will need to be addressed. All things considered, however, lease/leaseback for some communities may be an alternative too attractive to pass up.

Lease/leaseback is a topic of interest to many utilities throughout the region and the AE2S Source Editorial Board will be following the story in future issues. If you would like to share information about your community's involvement in lease/leaseback programs please contact Sheryl Smith at (701) 746-8087 or sheryl.smith@ae2s.com. ■

www.ae2s.com

Offices in:
Grand Forks, ND
Bismarck, ND
Williston, ND
Moorhead, MN
Brainerd, MN

Advanced Engineering and
Environmental Services, Inc. (AE2S)
2016 Washington Street South
Grand Forks, ND 58201

Copyright AE2S October 2003

The Source