

Municipal Water



The Case for an Ordinance Authorizing the Mayor
to Negotiate a Purchase
or Exercise Eminent Domain
To Acquire The Mountain Water Company

Why?



✧ Fundamentally, access to clean, safe drinking water is critical to the health and welfare of all human beings. Management of that fundamental resource should not be the province of a private corporation beholden to distant investors or stockholders, but rather a public utility. A community's water system is a public asset that is best owned and operated by the public, through municipal government. Without a profit motive, we can invest in the long-term sustainability of the system for generations to come.

Why Now?



- ❧ Mountain Water's current owner is a subsidiary of Carlyle Infrastructure Group, a global investment fund that purchases assets at a fixed price, increases the value of those assets by growing revenue or cutting expenses or both, then resells the asset. Carlyle has owned Mountain Water for two years and is failing to grow revenue or cut expenses based on its financial projections. We believe an asset that's not performing will be on the market in the relatively near future. Further, as the national economy continues its recovery, changes in the bond market suggest that this may be the best time to borrow money to purchase the system. Finally, we have an agreement that allows us to make an offer and we believe that the timing is right.

What Will It Cost?



- ❧ The most recent analysis suggests the system can be valued between \$50 million and \$70 million. We would make an offer based on a variety of market-based factors used to determine value that would be contingent on an understanding of the condition of the system and some other unknown factors, including compensation. There will be transaction costs that could cost as much as \$4 million; they would be included in the purchase.

What Does this Mean to Customers?



- ❧ Our analysis suggests that in the near term, customers would notice very little change. Over the long term, the city would encourage conservation, accelerate system repairs and maintenance and make plans to ensure the sustainability of the system. Our analysis suggests that we can purchase the system through revenue bonds and manage the debt without an immediate rate increase. I want to emphasize that the city will eventually raise rates, but those decisions are made by the City Council, subject to public hearing. Further, those rates don't support profits, rather, they are reinvested in the system.

What Will It Mean to Taxpayers?



- ❧ Citizens of the City of Missoula will own the water system but, like the City of Missoula's wastewater treatment system, operations, maintenance and debt will be supported through rates collected by the water utility.
- ❧ Other taxing jurisdictions, including Missoula County and Missoula County Public Schools, would receive payments in lieu of taxes on a schedule that steps down from current revenues, giving them time to adjust budgets accordingly.

What About Employees?



✧ We believe the employees of Mountain Water are experts in operating the system and our goal will be to preserve their jobs and maintain their wages and benefits. Over time, we may learn that some management and professional positions may not be practical or necessary as part of a municipal operation, but we'll work on agreements that allow for a reasonable, humane transition.

Is the System OK?



- ❧ To date, we've relied on public documents that don't provide a clear picture. We do know that the system leaks, but as part of our due diligence, we'll engage a national engineering firm to evaluate all aspects of the system.

What is Condemnation?



✧ There's a common misperception that condemnation or the exercise of eminent domain is simply the government taking over private property. In this case, if the city were to pursue condemnation, a court would decide on a fair market value for the system and the city would be required to compensate Carlyle accordingly. We view condemnation as a last resort if the city and Carlyle cannot come to reasonable terms through negotiation.

What Does This Ordinance Do?



- ❧ If approved, this ordinance allows me to put our team to work negotiating a price and engaging in due diligence around the purchase of the system. If we arrive at a negotiated price and are confident in the condition of the system, we will bring that offer to council and the public for consideration.
- ❧ If we fail to negotiate a price, we will notify council and bring forward a condemnation plan.

What Else Should We Know?



- ❧ Missoula is the only large city in Montana without municipal water. Our rates are among the highest in the state.
- ❧ We have a proven track record of utility management. Missoula's wastewater rates are among the lowest in the state, and they are set by the Missoula City Council as a product of public hearing.
- ❧ Based on what we know about Carlyle's business plan and projections, the system will be for sale in the relatively near future to some entity, but it will be more expensive than it is today.
- ❧ Interest rates are less stable, so locking into historically low rates makes good fiscal sense.