

## Utility Sale Questions

The Board of Directors has signed a non-binding letter of intent with Central States Water Resources. (CSWR—filing in Missouri as Confluence Rivers). CSWR is well funded by Sciens Water Investor Group. CSWR is a Missouri based company with offices in Des Peres. They are the single largest owner of individually owned domestic wastewater treatment plants in the US. They own and operate the largest number of small wastewater systems of any company in the United States, operating in 11 and soon to be 12 states. At the end of 2022, CSWR owned 809 systems serving approximately 135,000 homes nationwide. CSWR has grown rapidly in Missouri since starting operations in 2014. They entered 2023 with more than 80 different systems serving an estimated 10,000 Missouri households. CSWR is ranked by Bluefield Research at number 11 in the top investor-owned utilities.

### 1. What are we selling?

We are not selling our water but rather the equipment that produces and moves the water/wastewater, the **components** of our wastewater and drinking water systems listed below plus any additional relevant property necessary for the functioning/operating of our systems, and approximately 500 existing customer connections for water and wastewater services plus future connections as additional homes are built in Lake Sherwood.

#### The Wastewater system comprises:

- 13.5 miles of gravity sewer lines
- 9.5 miles of pressure sewer lines
- 5 miles of pipe under our lakes
- Wastewater treatment plant with the capacity to serve over 1100 homes.
- 4 sewer lift stations
- Approximately 400 manholes and manhole vaults
- All movable property and intangible property used in connection with the ownership and/or operation of the utilities
- Approximately existing 500 wastewater connections and all future connections

#### The Drinking Water system comprises:

- Approximately 25 miles of water pipe under roads
- 3 wells with water storage capacity of approx. 208,000 gallons
- Approximately 130 fire hydrants
- 3 well pumps providing over 95,000 gallons per day with capacity for over 200,000 gallons.
- Column piping and wiring for each well.
- 2 standpipes/water towers at (Wells #2 & #3)
- 1 hydro-pneumatic tank (Well #1)
- 6 booster pumps (3 at Well #2; 3 at Well #3)
- Water disinfection systems at each well
- Variable Frequency Drive (VFD) control panels at each well
- Denby/Well #1 Service area booster station

- All movable property and intangible property used in connection with the ownership and/or operation.
- Approximately existing 500 drinking water connections and all future connections

## **2. What happens to our current inventory?**

CSWR's purchase price includes all movable property used in connection with the ownership and/or operation of the utilities.

## **3. What land will be sold? Does land need to be sold?**

CSWR will accommodate LSEA preference regarding land ownership, however, they will need the existing/future easements for access as well as the area around the sewer plant. CSWR will need access to property from the main line to the meter in order to maintain and repair the lines. After signing the purchase agreement and prior to financial closing, CSWR will complete surveys and conduct title searches to confirm and verify ownership of any property that is to be transferred to them.

## **4. What will happen with Well 1?**

CSWR gave LSEA the choice to keep Well #1. Since LSEA has no viable uses for Well #1, and if kept, would require LSEA to maintain and service it per DNR regulations, we intend to include it in the sale.

## **5. Why are we considering selling the utility systems now?**

The objective is to secure the future of LSEA for all our members. Our utilities infrastructure is currently in fair condition but is more than 50 years old. Typically, the useful life for much of the water assets we use is 40 years, while most of the sewer assets are obsolete after 20 years. Thus, as our water and sewer systems continue to age, LSEA's utilities will require more maintenance, expertise, and incur higher costs, as well as an increasing risk of an age-related major component failure. In addition, environmental regulations have changed significantly over the last 20 years and future changes are anticipated. These regulations make it increasingly more expensive for smaller systems to maintain compliance and require expertise that challenges smaller utilities (like LSEA) to find and keep qualified personnel to manage and operate their systems. With our most recent MODNR Wastewater system recertification, our system is at its most valuable now.

## **6. How will a sale impact my assessment?**

The sale has three immediate favorable impacts on assessments - assessment-funded utility reserves will stop; all existing utility reserves move to LSEA's infrastructure reserves (e.g., roads, dredging/siltation) thus further reducing current demand on assessments. Sales proceeds are expected to shore-up the balance of LSEA reserves.

Long-term, the utilities sale eliminates future assessment demand for increasing repair and replacement cost of a 50-year-old, aging utility infrastructure; and removes all risk of major utility component failure cost (e.g., treatment plant, under-lake pipes, water storage tanks) that would have been paid by assessment-funded reserves and/or a special assessment.

**7. What happens to money in reserves from user fee's & assessments?**

Reserves accrued from fees and assessments for the utilities, if any, will be applied in the same fashion as utilities sales proceeds. That is, to strengthen infrastructure reserves, improve amenities, and in other ways that provide benefits for all members.

**8. What can we do with any proceeds? Will it affect assessments?**

The board has been advised by legal counsel that proceeds should first be used to strengthen any underfunded reserves. The impact of a sale on assessments will be considered as part of the reserve study. Fully funded reserves will cost less over time with respect to assessments. This will lower the upward pressure on assessments and could result in a reduction of future assessments.

**9. What is the biggest risk in keeping the system?**

There are both operational and financial risks. Operational risks include the challenge and cost to keep LSEA's aging utilities system in compliance with current and future EPA, Federal Clean Water Act and DNR standards given LSEA's limited staff and financial resources. Financial risks include the increasing potential for a major component failure. These expenses could far exceed LSEA's reserves and drive a large special assessment to all members.

Per LSEA Restrictions, assessments and user fees fund utilities.

**10. What is our biggest gain in keeping the system?**

LSEA has retained a number of consultants to evaluate the potential sale of our utilities and they have all concurred in their assessment that there is no advantage to be gained by keeping the utilities systems and in fact have told us there are substantial downsides and risks to continue with in-house operations. LSEA's current Board of Directors concur with these experts.

**11. How much is LSEA being offered?**

LSEA solicited bids from all of the major water and sewer Investor-Owned Utilities in Missouri and the offer from CSWR was substantially higher than any of the other alternatives. While our agreement with CSWR does not allow us to release the exact purchase price, we CAN say the purchase price is in excess of \$3 million plus reimbursement of pre-approved capital expenses from the date the agreement is signed until the date of closing. The closing date is expected to be approximately twelve months from signing due to the regulatory review and approval process by the Missouri Public Service Commission. In addition, one of our consultants (Chuck Profilet) who has over thirty years of experience, has reviewed the offers and agrees that the offer from CSWR is superior to LSEA's alternatives.

**12. What is our Federal Income Tax rate on sale proceeds?**

We anticipate 30% on our net taxable gain. HOAs do not qualify for favorable capital gain tax rates, however, our CPA firm is investigating various IRS Tax Code provisions that might lower the taxable gain.

**13. What impact would the sale have on insurance?**

LSEA's insurance broker anticipates an annual savings of approximately \$16,000.

**14. How much have we currently spent on this process?**

Through October 2022 LSEA spent approximately \$15,000 on consultant's fees which provided professional advice, and which will be recouped by the proceeds from the sale. CSWR has agreed to provide \$15,000 in non-refundable funds at the signing of the agreement.

**15. How was the successful purchaser determined?**

The highest offered price was not the only consideration. Numerous other considerations including service levels, investment in the system, response times, and cost to connect to the system, were considered. CSWR is willing to purchase all components of our utilities systems, unlike other suitors. The goal was to sell to the suitor who provided the best overall value to LSEA's members considering the multiple pros and cons.

**16. Why can't we borrow or obtain a grant or somehow leverage from the value of the Utilities Operation?**

We are a non-profit HOA, we are not a political subdivision or governmental entity, such as a municipality, city, village, or township. As a result, and based on our restrictions and by-laws, we are totally responsible for all expenses in LSEA. No government support or program is available to help us manage the financial and legal exposures of our operation, other than laws in place in Warren County and Missouri. The only time and circumstance in which we can obtain a loan is if we have an emergency situation, which could also result in special assessments.

**17. Is CSWR large enough and knowledgeable enough to be able to handle our sewer and water connections?**

Yes, CSWR owns and operates the largest number of small wastewater systems of any company in the United States, operating in 11 and soon to be 12 states. At the end of 2022, CSWR owned 809 systems. They have a particular focus on wastewater systems in addition to water systems.

**18. Has CSWR sold any systems it has acquired?**

No.

**19. How many communities do they serve?**

CSWR currently serves over 400 communities in 11 (soon to be 12) states. They are expanding operations in Missouri where they currently serve more than 50 different communities with approximately 10,000 water and wastewater customers.

**20. What would happen if CSWR elects to sell our water elsewhere? Could we end up with no water coming from our wells or no water in the aquifer?**

We understand that water is a precious commodity to which we have access, but we do not “own” the water beneath the ground. If in fact there were to be an issue with water, we would be much better served by a company that is in the business of providing water, not just to LSEA but other communities, and which is regulated under the Public Service Commission, ensuring LSEA access to water.

**21. Is it possible that a buyer can walk away from LSEA after the purchase, leaving us without a water/sewer company? What would happen?**

If an owner of a water/sewer company abdicates their responsibility, by either refusing to take care of the system they own or through bankruptcy type proceedings, the Missouri Public Service Commission (MOPSC) would step in and facilitate a resolution. An example of this occurred in Incline Village in 2004 when the then owner of their system stopped maintaining the system. The MOPSC stepped in and took action. Incline Village’s water and sewer systems were taken over by another public utility at that time.

**22. What is LSEA’s status with regulatory agencies?**

Over the last 10 years, LSEA has been issued notices of non-compliance, and letters of warning. Staff has worked to correct any issues cited. Currently LSEA utilities systems are in compliance.

**23. How does a sale make sure our systems are kept in compliance?**

As federal and state compliance standards are becoming more stringent and increasingly difficult to meet, the cost to LSEA and pressure on LSEA staff will also increase. Our ability to stay in compliance depends on our financial ability to make system repairs and required updates. Additionally, LSEA shoulders the cost to hire, educate, and retain certified staff. Staff ability to maintain utilities compliance is affected by other demands on their time. CSWR is a technology-driven professional utilities company with substantial financial resources to upgrade LSEA's equipment and has highly trained fulltime professional utility operators whose sole focus is to maintain utility systems like LSEA's in full compliance with federal and state regulations.

**24. Who decides what projects currently get done & what qualifies them to make that choice?**

Currently, the Utilities committee works in conjunction with our Public Works and administrative staff on projects needed based on DNR requirements and known situations/leaks/well failures. Like every committee, they make recommendations to the board.

CSWR is more qualified to make these choices than anyone in LSEA and upon the sale will be making those determinations per state and federal regulations as the system owner.

**25. How much can we anticipate saving from salaries if a sale goes through and what happen with our current staff?**

The combined 5-year (2018-2022) average salary for all Public Works employees who charged time to utilities is less than one full-time equivalent. After the sale, freed-up PW staff hours will be

utilized to reduce the standing backlog of maintenance tasks as well as reduce overtime costs, while also being able to complete some tasks we will no longer have to contract out.

**26. How will homeowner's utility rates be impacted?**

CSWR expects LSEA's current rate will stay unchanged for 2-to-3 years until CSWR files and Missouri Public Service Commission (PSC) approves new rates for LSEA based on CSWR's completion and proof of needed capital improvements to our system. CSWR will be available at the first Town Hall meeting to answer questions regarding their rates.

**27. How will LSEA be charged for commonly used amenities?**

LSEA can have these amenities metered and pay actual costs or, if LSEA chooses to keep them unmetered, a flat rate for usage at these amenities could be offered by CSWR.

**28. Will LSEA be charged for flushing or exercising the system?**

LSEA won't be charged for annual flushing as operations would no longer be LSEA's responsibility.

**29. What is the user's responsibility at the points of connection after the sale vs. now with LSEA?**

Under LSEA rules: For water and sewer: The customer is responsible for all aspects of both the water and sewer line repairs from the home to the main connections.

Under CSWR rules: For water, the customer is only responsible for repairs from the house to the water meter. CSWR takes on the added responsibility of the water lines from the meter to the main. For sewer the homeowner is responsible from the home to the main connection (same as LSEA's rule).

**30. Can our system be shared or be used as a backup?**

No. The Missouri Public Service Commission would require any new development to incur the cost of any expansion of the existing approved service area. The PSC would ensure LSEA customers are not negatively impacted by the potential addition of expanding the current footprint. CSWR does not anticipate any expansion of the system at this time.

**31. What fees can a new user expect when they hook up a new connection?**

CSWR does not charge a set connection fee other than the actual cost to perform the work based upon the time, labor, and materials required. These fees, like all expenses charged by CSWR, will be regulated by the Missouri Public Service Commission.

**32. What can LSEA customers expect as regards service?**

CSWR stated they provide a 24/7 customer service call center and seeks to respond to all emergencies within a 2-hour window. Non-emergency calls are generally responded to the next business day. When a customer calls the customer service center, a log of the call and the service issue is documented, generating a work order, and provides a record by which the customer, along with CSWR can track the response and response time.

CSWR has a customer escalation process where customers can speak with the internal Manager of Customer Experience.

If a customer response is not satisfactory, the customer may file a complaint with the MO Public Service Commission.

CSWR has a vast array of methods to pay bills including pay-by-cash at places like Walmart, Walgreens, CVS, Dollar General and others.

**33. Who will be providing service to LSEA?**

St. Louis Missouri is the headquarters for CSWR which serves communities throughout this and other states.

CSWR has a separate state-wide utility operating company (UOC) for each of the 11 states with CSWR-owned utilities. Missouri's is Confluence Rivers UOC, Inc., also headquartered in St. Louis. Confluence Rivers works with regional contract Operations & Maintenance partners who utilize the computerized maintenance management system-the platform which ensures all preventative maintenance, corrective maintenance, and customer service issues are performed on a timely basis.

The regional Operations & Maintenance partner who will service LSEA is ClearWater Solutions, LLC (formerly Midwest Water Operations, LLC), headquartered in Washington, MO.

**34. How & how often will LSEA get community updates from CSWR?**

CSWR will meet with the LSEA board yearly and their website/customer page provides continual updates to the community. CSWR website for customer service is Confluence Rivers - CSWR ([www.centralstateswaterresources.com](http://www.centralstateswaterresources.com))

**35. Will we still have a Utility Committee?**

The need for a Utilities committee after a sale seems unlikely.