**Contract Operations: Concessions**

Concessions. A private partner operates the system, finances and implements any required capital improvements for a designated time period, and then transfers the system back to the public partner at the end of the specified time.

**CONCESSIONS**
A Concessions Contract leases the water and/or wastewater system to a private partner in exchange for investing in and delivering capital improvements, and providing operations and maintenance.

The scope of the partnership could include: treatment plants, collection and distribution systems, pump stations, meter reading, customer service and billing.

A typical Concessions partnership has the following attributes:

- 20 to 40 year contract term
- Fee is fixed for the term of the contract, which creates budget certainty
- All existing employees can be offered employment

**TRANSFER OF RESPONSIBILITY**

Public Partner
- Staffing and labor costs
- Utilities
- Chemicals
- Maintenance and repair
- Vehicles and rolling stock
- Compliance risk
- Capital improvements
- Rate setting
- Asset ownership

Private Partner
- Staffing and labor costs
- Utilities
- Chemicals
- Maintenance and repair
- Vehicles and rolling stock
- Compliance risk
- Capital improvements

**SIMPLIFIED CONCESSION CASH FLOWS**

- **EQUITY HOLDERS**
  - Return on Equity
  - Equity

- **PRIVATE PARTNER**
  - Bond Proceeds
  - Debt Service
  - O&M + Capital Investment

- **LENDERS**
  - Capital Investment
  - Funding + MEX

- **CITY**
  - Annual Lease Fee
  - Upfront Concession Fee

- **CUSTOMERS**
  - Rates

- **WATER + WASTEWATER SYSTEMS**
  - O&M + repair program
Veolia: City of Rialto, California

Seeking superior service, lower costs, and greater infrastructure management, the city of Rialto, California contracted with Veolia in 2003 to provide operations and maintenance services to the city’s wastewater treatment plant and collection system.

Pursuant to a 30-year concessions agreement, Veolia partnered with Ullico and Table Rock Capital (together, they form a single-purpose company, Rialto Water Services) to help the city address financial challenges in operating its wastewater treatment plant. This partnership resulted in a $35 million up-front payment to the city, as well as $41 million in needed capital improvements to the water and wastewater treatment systems. In addition, as part of the concessions agreement, Rialto Water Services hired Veolia to operate, maintain, and manage the city’s water and wastewater systems along with the utility’s customer service and billing functions.

In this case, the city of Rialto used the concessions model of a public-private partnership to strengthen the city’s financial position and improve infrastructure services. This innovative contract model has resulted in numerous benefits for the city of Rialto including: funding for more than $41 million in capital repairs, operational savings from initial system improvements, and local economic development funded through the concessions payment, while the city retained full ownership of its assets.

PRIVATE PARTNER RESPONSIBILITIES
- Operating, maintaining, and managing the plant for the contract period
- Designing, constructing, and financing major capital projects
- Permitting for any new or upgraded facilities
- Regulatory compliance and reporting
- Developing and executing an asset management plan
- Recruiting and staffing

BENEFITS
- Strengthened the city’s financial condition
- Improved customer service
- Protected infrastructure
- Created jobs
- Instituted industry-leading safety and compliance best practices
- Supported local economic growth development plans
- Created a secure and sustainable water supply well into the future.

DETAILS
- Population Served: 100,000 residents
- Type of Facility: Wastewater treatment facility
- Flow: 11.7 million gallons per day
- Other: 263 mile collection system; 187 mile distribution system

Testimonial

“The RWS partnership ensures that the city’s water and wastewater infrastructure is upgraded and run in the most cost-efficient manner, while also laying the groundwork for new economic development. We’ve worked with Veolia for years in the community and this arrangement allows for both continuity and improvement in the water resource and wastewater service, and it assures us that the total commitment to the residents of the city of Rialto is met.”

– Mike Story, City Administrator
SUEZ: City of Bayonne, New Jersey

The city of Bayonne, New Jersey is like many other communities across the country. Its water system, which was run by the Bayonne Municipal Utilities Authority (MUA), faced aging infrastructure issues and increasingly stringent environmental regulations, both of which would be expensive to address.

In 2012, SUEZ and a financial partner (together, Bayonne Water Joint Venture LLC) entered into a concession agreement with the Bayonne MUA to operate the city’s water and wastewater systems. This partnership helped Bayonne by creating an efficient, reliable, and modernized water and wastewater system for the city’s residents.

According to former MUA Executive Director, Steve Gallo, “The partnership that SUEZ has established with Bayonne is a responsible and innovative transaction that will pay off over $130 million in Bayonne’s debt, thereby cutting our municipal debt burden in half. The partnership will invest in our aging infrastructure and provide resources that the MUA could not otherwise deliver. Simply put, this transaction will result in a more efficient and reliable water and sewer system for today and future generations.”

As a partner in this joint venture, SUEZ is executing a capital investment plan designed to improve and maintain Bayonne’s water and wastewater systems. Under the plan, the partners invested more than $14 million during the first three years of the contract, including $7.5 million in meter replacements and $6.5 million in other capital investments. Each year thereafter, the partners will invest $2.5 million in capital investments, including upgrades to sewer and water lines, safety and equipment upgrades, and leak detection. This investment breathed life into Bayonne and has helped shore up the community for generations to come.

Three months after the contact began, Moody’s Investment Service improved the city of Bayonne’s General Obligation Bond rating from “negative outlook” to “stable” as a direct result of the concession partnership, which reduced the city’s debt burden by over one third. In 2016, Moody’s further improved the city’s rating from “Ba1” to “A3.”

Since 2018, Bayonne has been home to an Advanced Metering Infrastructure (AMI) system that covers 100% of the territory. By monitoring the AMI system, SUEZ was able to reduce leaks and institute a theft program that has prosecuted nearly 40 cases. Since the partnership began, the AMI system has led to a 7% increase in revenue, and a significant decrease in water loss across the city.

SUEZ’s partnership with the city was recognized as Partnership Performance of the Year at the 2012 American Water Summit. Moreover, SUEZ’s public-private partnership (P3) model SOLUTION™ was recognized as a featured innovation at the 2012 Clinton Global Initiative Annual Meeting. As demonstrated by the Bayonne example, the concession’s partnership model has provided a lifeline for municipalities struggling to fund critical infrastructure demands while juggling fiscal priorities.

PRIVATE PARTNER RESPONSIBILITIES

- Operating, maintaining and managing the city’s water and wastewater systems
- Designing, constructing, and financing major capital projects
- Permitting for any new or upgraded facilities
- Regulatory compliance and reporting
- Developing and executing asset management plan
- Recruiting and staffing
- Managing a $2.5-million capital improvement program, customer service, billing, collection, payment processing and emergency services

BENEFITS

- $14 million investment in capital improvements and $1.5 million in maintenance during the first 3 years of the contract
- $2.5 million investment each year thereafter
- Improvements to system reliability due to capital improvements
- Conservation through leak reductions as a result of a new system-wide AMI system

DETAILS

- Population Served: 66,000 residents
- Facility: Water distribution and wastewater collection
- Flow: 8.5 million gallons per day
- Other: 110 miles of water main, 93 miles of sewer main

Testimonial

“SUEZ’s utility investment planning has been a tremendous resource for our city,” according to Tim Boyle, Supervisor of the city of Bayonne’s Water and Wastewater. “They have made engineers and experts available to us as resources to help us prioritize and address critical investment needs.”

“This partnership has helped Bayonne on many levels - investing in our employees, restoring confidence to our residents, providing a debt solution for the city to relieve our financial pressures and shoring up the city infrastructure to pave way for our growth... Two aspects have been critical to beginning to solve our long-term infrastructure challenges - capital investment and a trusted partner to implement; our partnership with SUEZ and KKR has provided us with both.”

- Tim Boyle, Supervisor of the city of Bayonne’s Water and Wastewater.

About NAWC: The National Association of Water Companies (NAWC) represents regulated water and wastewater companies, as well as ones engaging in partnerships with municipal utilities. Partnerships with NAWC member companies can come in many forms. The benefit of a contract operations approach is that these agreements can be scaled and customized to meet a community’s unique water and wastewater needs – there is no one size fits all approach. NAWC members provide 73 million Americans with safe and reliable water service every day. Learn more about NAWC and the benefits of working with our members by visiting, www.nawc.org.