

Frequently Asked Questions – Oak Lawn Water System Agreement

1. What is the purpose of this water supply agreement?

The current water supply agreement between the Village of Oak Lawn and the Villages of Orland Park, Tinley Park, Mokena and New Lenox and the City of Oak Forest expired in 2011. We are in the process of collectively negotiating a new long term water supply agreement that will ensure a supply of water to each of our communities for generations to come.

Over the years since the expired agreements were entered into, most of the communities have grown substantially. According to U.S. Census data, population for the five communities has increased from 84,551 in 1980 to 184,566 in 2010 (Source: U.S. Census). In 2030, our peak demand is projected at 101mgd (millions of gallons per day); currently, we only have capacity to provide 55mgd.

The water system infrastructure currently in place was assembled in a patchwork fashion in the 1970s when demands for water were significantly lower. Future water demands will have to be met with a larger system that provides enhanced redundancy through a fully looped system. The current system has a single water main feeding the highest growth communities in the southwest suburbs. The new system will have dual, redundant feeds, more modern and efficient pump stations, and significantly larger capacity.

2. Who are the “customer communities?”

The five customer communities are Oak Forest, Orland Park, Tinley Park, Mokena, and New Lenox. All five communities recognized that, as nearly 80% of Oak Lawn’s customer base, they had more collective leverage than each would have individually. The establishment of this consortium has allowed Oak Lawn and the customer communities to negotiate and develop a model agreement that will be used for future customer agreements that Oak Lawn may enter into.

3. How long will this agreement last?

The proposed agreement contemplates a 40-year term.

4. How much will this agreement cost our communities? How will that cost be paid for?

The water system infrastructure improvements that Oak Lawn and its engineering firm, CDM, have been designing, in consultation with all customer communities, are

estimated at approximately \$171 million. These improvements are scheduled for completion in 2018.

Under the proposed agreement, the cost of the design and construction of the extensive water system improvements would be funded by a series of borrowings by the Village of Oak Lawn. All water customers (including Oak Lawn) would pay their proportional share of this debt.

5. What impact will this project have on water rates?

For a typical residential usage of 9,000 gallons per month, the impact of the system improvements amount to less than \$5.00 per month. Each community will formulate their own plan to fund their proportional share of the annual debt service required to pay for the project.

Each customer communities' internal rate may also increase on an annual basis to ensure that the rates cover the increasing costs of operations, maintenance and system improvements.

6. What other factors may cause my rate to increase in the coming years?

Rates for customer communities are made up of three components – a rate charged by the City of Chicago for the treatment and delivery of the commodity to Oak Lawn, a rate charged by Oak Lawn for delivering the water to your community and a rate charged by your community to deliver water to its customers.

The City of Chicago has established a series of annual rate increases applicable to Lake Michigan water sales through January 1, 2015. Chicago has indicated that the increases are necessary to provide needed infrastructure improvements to the water system. The improvements will include upgrades to the suburban feeder mains to assure reliable and efficient water delivery. Oak Lawn's portion of the water rate will likely increase incrementally in the coming years to cover increased costs of operations. However, Oak Lawn's wholesale rate to customer communities remains a very small part of the overall water rate.

As an example, for Orland Park customers, based on estimated rates that will go into effect on January 1, 2014, approximately 64% of the rate is paid to the City of Chicago, 5.1% of the rate is paid to Oak Lawn and 30.9% of the rate paid to Orland Park.

7. How can we be sure that Chicago and Oak Lawn will use these funds to improve the systems that serve the customer communities?

An accountability process is expected to be put in place that will require Oak Lawn to provide its suburban water customers with periodic updates on the amount of funds being collected and how they are being spent. The water supply agreement between Oak Lawn and the customer communities addresses this issue and allows for annual reviews of Oak Lawn's budgeted and actual spending on the system.

8. What efforts were made to minimize the impact on ratepayers?

- a. **IEPA low-interest loans** - Oak Lawn has secured a minimum of \$80 million in low-interest loans to help pay for the water system improvements. The rates on these loans are expected to be approximately 2% lower than tax exempt revenue bond rates, saving millions of dollars in interest costs over the life on the loans.
- b. **Peer-reviewed value-engineering** - The communities retained Malcolm Pirnie, an engineering firm, to peer review the capital improvements proposed by Oak Lawn's engineering firm, CDM, to find efficiencies in capital improvements.
- c. **Contractual protections** – the water supply agreement includes a number of protections to ensure operating standards meet or exceed industry standards.
- d. **Asset management plan** – Oak Lawn will implement an asset management plan to help determine future maintenance and improvement costs related to the enhanced system.
- e. **Peer reviewed debt structure** - The customer communities retained Ehlers, Inc. to review the debt structuring and plan of finance proposed by Oak Lawn. The primary objective of this review was to advise the customer communities on the most efficient way to pay for the proposed improvements with the least impact on rates.
- f. **Formation of formalized advisory groups** - Finance, operating, and management committees will be formed with certain oversight rights to ensure that customer communities' interests are represented.

9. Why is this agreement beneficial for your community and the others in the five-member consortium?

Our communities are fortunate to have access to one of the best sources of high quality, plentiful water in the world. However, the infrastructure needed to draw, pump, and treat reliable, high quality water requires consistent capital investment. The current system in place is the same basic system design that was put in place in the 1970s for a much different, smaller customer base. Over the years, incremental improvements were made, but to a system with limited design capability and aging infrastructure. In order to ensure that each of our communities, which still have

significant growth projections over the next 40 years, have the most reliable water available, the proposed agreement best meets those needs.

10. How long have the customer communities been negotiating with Oak Lawn?

The concept of an improved regional water system has been on the drawing board for at least five years. Oak Lawn first began master planning efforts in 2008. Contract negotiations and peer review by customer communities began in 2009.

11. Can you describe the proposed water system and contract?

The new improvements will greatly enhance the delivery system owned by Oak Lawn by updating the pumping and control systems, and providing a fully redundant secondary transmission line which will provide the ability to deliver water in the event of a catastrophic failure of the present transmission line or other elements of the system. In addition to meeting the 2030 water requirements, Oak Lawn must maintain water quality standards to the satisfaction of its customers or implement regional system remedies to meet quality standards if requested by customers or required by regulatory agencies.

There is also a 10% (approximately 10mgd) reserve capacity built into the system to meet needs of additional customers or increased needs of existing customers. Oak Lawn has also agreed not to extend Agreement terms that are more favorable than those contained in the new Agreement when the current Southeast customers sign onto the new Agreement or. Oak Lawn has also pledged to operate the system advantageously and efficiently, meeting contemporary operating practices. Oak Lawn will prepare and maintain an Asset Management Plan with a capital funding mechanism built into the Agreement to ensure that the system is properly maintained over the 40-year period. Such a plan had not existed under the recently expired agreement with Oak Lawn. This is a significant improvement and ensures water customers that the system is operating and being maintained in accordance with best practices in the industry.

12. How are these proposed capital improvements allocated among the water system?

The proposed capital improvements will be allocated to customer communities, including Oak Lawn, based on 2030 IEPA water allocations combined with a “proportionate share” basis. In other words, each community is paying a portion of the improvements commensurate with their demand on the system. Orland Park, for example, will be paying about 26.4% of the overall share of the debt, and 22.8% of the debt after the Southeastern communities sign on. The debt will be paid through water rates, and amortized through the plan of finance that each community has to approve.

13. Who will maintain the water system?

Oak Lawn will own the regional water system and their water utility will be responsible for maintaining and operating the system. As referenced in #12 above, Oak Lawn will be required to maintain the system under a more rigorous set of peer review and industry best practices standards. Operating and maintenance costs are largely based on water usage, or “common usage rates”, based on how much water is being used by customer communities.

14. How do we know that our rates aren’t somehow subsidizing another’s water rates?

The best way to answer this question is by understanding the relationship of our agreement with the other customer communities and Oak Lawn. In short, the proposed agreement ensures that each customer has “skin in the game.” Nearly 12% of the water system capital improvements (10% after the Southeastern customers join) are being paid by Oak Lawn water rate payers, which is their proportionate demand on the system. Moreover, the agreement proposes a variety of oversight mechanisms that we don’t have today. For example, we have a finance working committee, operations group, and executive manager oversight group. Moreover, there are a number of provisions in the proposed agreement that require the consent of the customer communities. In sum, there is significant oversight (far more than today) built into the agreement that ensures our rates do not subsidize another community’s.