

SOLUTIONSM

Investing in America's Water

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Orlando, FL

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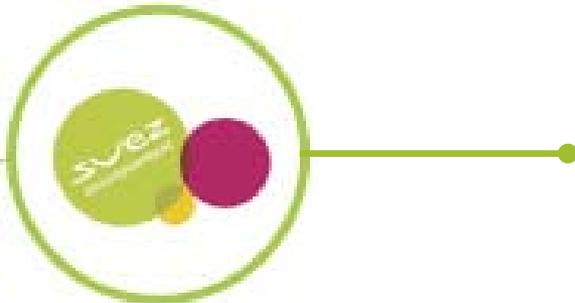
United Water has been in business for 140+ years



1869
Founded as
Hackensack Water company



1889
Listed on
New York Stock Exchange



2000
Acquired by
Suez Environnement

We are a company of water quality firsts



1908
First use
of chlorine in NJ



1930
First use
of charcoal filtration



1989
Nation's largest
Ozone filtration plant

United Water today

- 2,350 dedicated employees
- Serve 5.5 million people in 21 states
- Operate 90 municipal water systems
- Own 16 regulated water and wastewater utilities
- Manage \$3.2 billion in total assets



95% contract renewals*

* Source: Public Works Financing, March 2012

We bring global strength and expertise through Suez Environnement



- One of the world's two largest environmental services companies
- Provide 97 million people worldwide with drinking water
- Provide 66 million people with wastewater services
- An R&D budget of \$95 million for water research



Tailoring contractual services to meet needs

Adding private capital



O & M related

All these elements together create our SOLUTIONSM

Adding private capital



O & M related

What's different about SOLUTIONSM



A Contracted to **manage** system
Water competes for limited city funds



B **Operates** privatized system
City sells valued asset



Benefits

- Improves water quality
- Increases efficiency
- Guarantees long-term capital investment
- Predictable rates
- City retains ownership, oversight
- Municipal debt relief

After decades of neglect investment can no longer be deferred



WATER INFRASTRUCTURE RATED **D**



\$1.3 trillion to upgrade our water and waste water systems over the next 25 years

A Ton of Water Factoids

Is the Glass Half Empty or Half Full?



Our private equity partner, KKR

Established in 1976, Kohlberg Kravis Roberts
is a leading global investment firm

KKR

has more than

\$63 billion

assets under management



Case study:

Bringing operational excellence and private capital to City of Bayonne, NJ

The City of Bayonne



- The City of Bayonne lies in the heart of the Port of New York and New Jersey



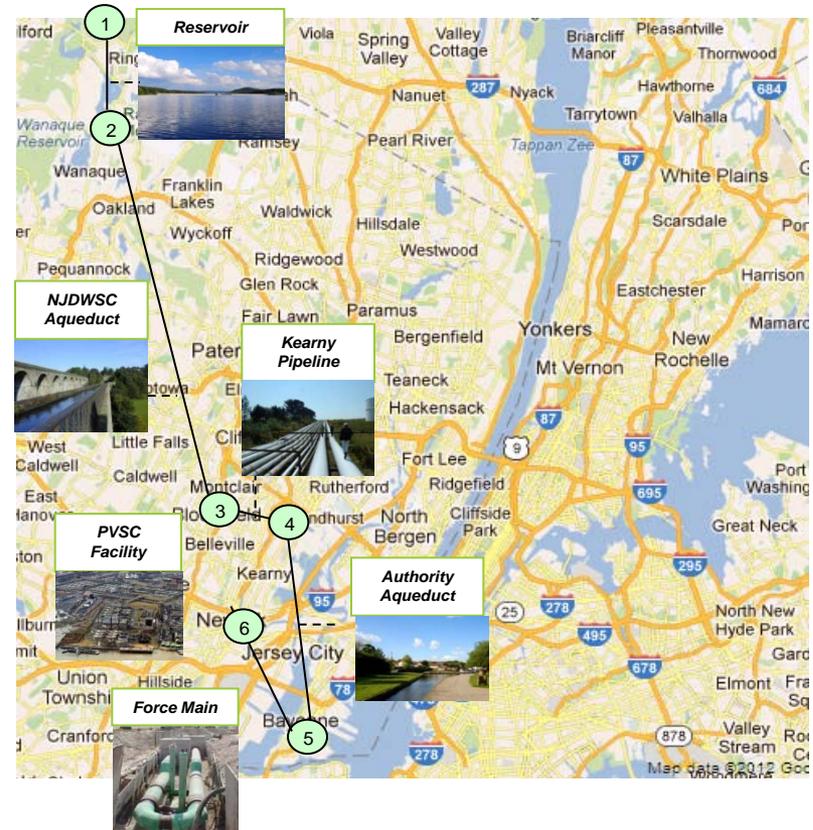
- Traditional manufacturing, distribution, healthcare and port activities remain important to the city's economy



Bayonne's water system



- More than 96 miles of mains including valves, fire hydrants etc
- Water supplied from the North Jersey District Water Supply Commission's Wanaque and Monksville reservoirs
- Total system capacity is 17.6 MGD and on average uses 8.5 MGD



- | | |
|------------------------|--|
| 1 Monksville Reservoir | 4 Kearny Water Distribution System |
| 2 Wanaque Reservoir | 5 City of Bayonne |
| 3 Belleville | 6 PVSC Water Pollution Control Facility (Newark) |

Bayonne's sewer system



- Oak Street Pumping Station pumps flows to the Passaic Valley Sewerage Commission by a force main
- Total system capacity is 17.6 MGD; average daily dry weather flow 8.3 MGD
- Capacity to pump 40MGD during wet weather events caused by combined sewers



- ① City of Bayonne
- ② PVSC Water Pollution Control Facility (Newark)

Bayonne's challenges and objectives



Challenges

- Deeply leveraged – beyond underlying value of assets
- History of deferred investment in system assets
- Credit quality problems: city needs funds for other services

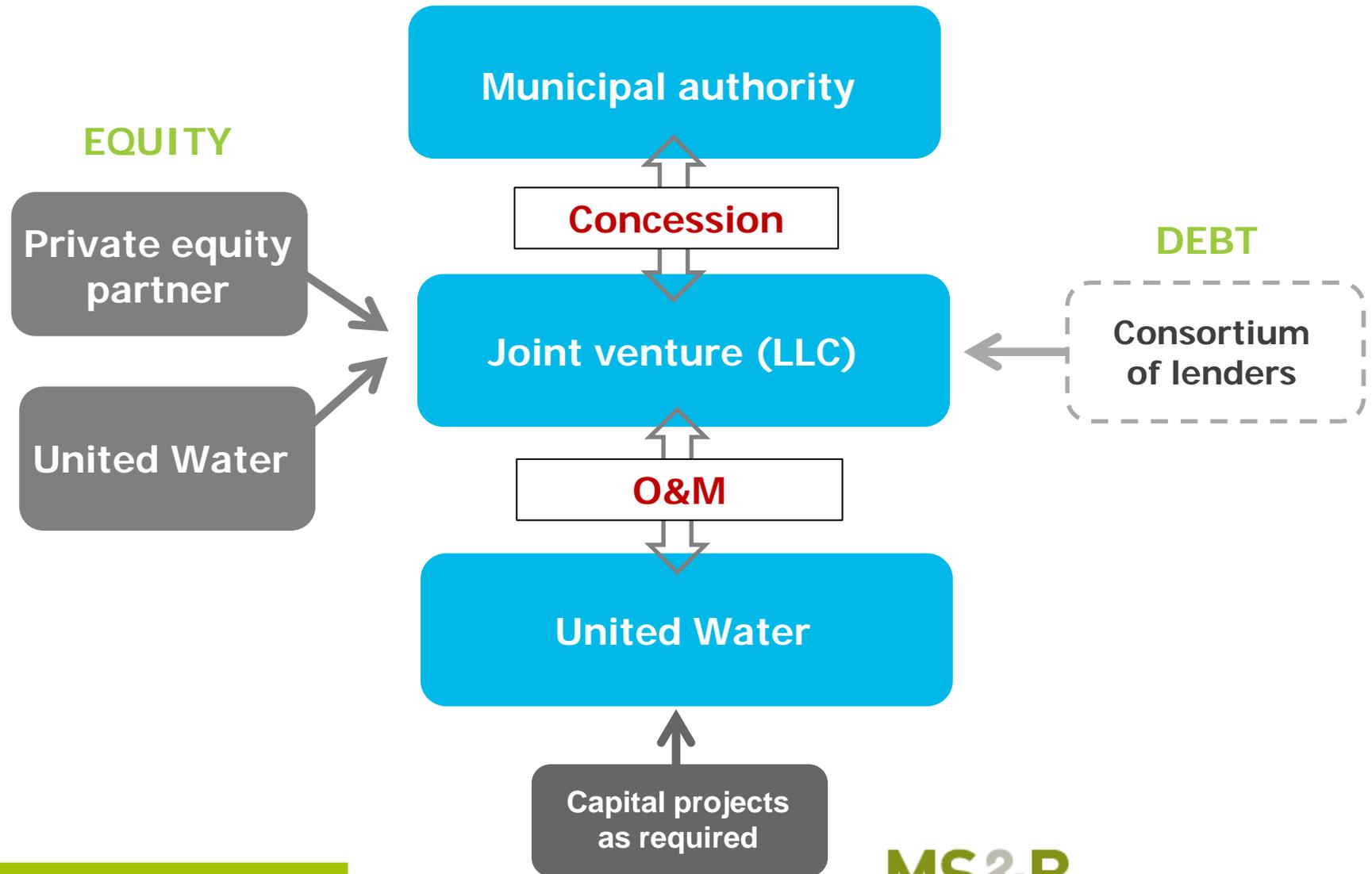


- Difficulty attracting qualified staff to manage the utility

Objectives

- Mechanisms for guaranteed capital improvements
- Improve asset condition and customer service
- Strengthen balance sheet and leave the Bayonne Municipal Utility Authority (BMUA) debt free
- Steady and predictable rate rises for consumers
- Maintain utility jobs and improve staff training

Elements of the transaction structure



Concession Agreement – Risk Allocation



Revenue

Underperformance of Revenue	<ul style="list-style-type: none"> ▪ No volume risk due to contracted Revenue Requirement set out for the term of the Concession Agreement ▪ A rate adjustment mechanism will be applied to ensure the defined Revenue Requirement is maintained ▪ Such rate adjustments will occur annually and will be bi-directional ▪ Issuer is not dependent upon regulatory approval for rate base adjustments typical of a regulated utility
Rate Increases to Unsustainable Levels	<ul style="list-style-type: none"> ▪ Water rates are comparable to other municipalities and sewer rates are considerably lower ▪ Rate growth stipulated in the Concession Agreement is below the historical rate growth in NJ
Usage Risk	<ul style="list-style-type: none"> ▪ Customer growth in New Jersey has grown steadily over the past 40 years and are expected to show even higher levels of growth in Bayonne from various developments in the region ▪ In the event that usage actually decreases, there are contractually protected rate adjustments to ensure payment to the Concessionaire according to the Revenue Requirement
Counterparty Risk	<ul style="list-style-type: none"> ▪ 93% of customers are residential and spread over 11,000+ accounts, limiting counterparty risk ▪ Residents of Bayonne are relatively affluent, with a median household income 12% greater than the national average
Collections Risk	<ul style="list-style-type: none"> ▪ Collections are expected to increase from the installation of the new metering system ▪ Secured by the BMUA's obligation to remit proceeds of annual lien sales for unpaid bills
Supply Risk	<ul style="list-style-type: none"> ▪ Quantity and quality of water supply is guaranteed by the Authority
Inflation	<ul style="list-style-type: none"> ▪ 30% of revenue is inflation linked which provides alignment between revenues and costs

Concession Agreement – Risk Allocation

Costs

Capex Increases	<ul style="list-style-type: none"> United assumes the risk of increased costs of the Base Capex program Any divergence in ongoing capex from the agreed upon threshold results in a true up in the following year
Opex Increases	<ul style="list-style-type: none"> Costs are either pass-through to rate payers, covered by United under a fixed price contract, fixed amount as per the Concession Agreement or represent relatively small overhead and administrative costs
O&M Contract Terminated	<ul style="list-style-type: none"> Large supply of companies with the financial strength and operational expertise to manage the System Robust replacement and operating cost sensitivities
Liquidity Issues	<ul style="list-style-type: none"> “Safety valves” kick in if pass-through costs or volumes are below certain levels during the rate freeze period Availability of a \$10.0 million revolving credit facility, a \$6.5 million rate stabilization payment amount, and \$5.0mm of cash on the balance sheet will mitigate any short term liquidity risk

Contractual

Concessionaire / BMUA Default	<ul style="list-style-type: none"> Significant termination compensation available in the event of a Concessionaire or Authority default In both cases the termination payment must be at least the debt, accrued interest and make-whole BMUA has no significant payment obligations as revenue shortfalls are passed through to rate payers under the rate adjustment mechanism Termination payment would be funded by proceeds of a re-concession or a BMUA debt issuance A Deficiency Agreement between the City of Bayonne and the BMUA will be maintained throughout the life of the Concession which will allow the BMUA to issue bonds back by the City to pay termination payments
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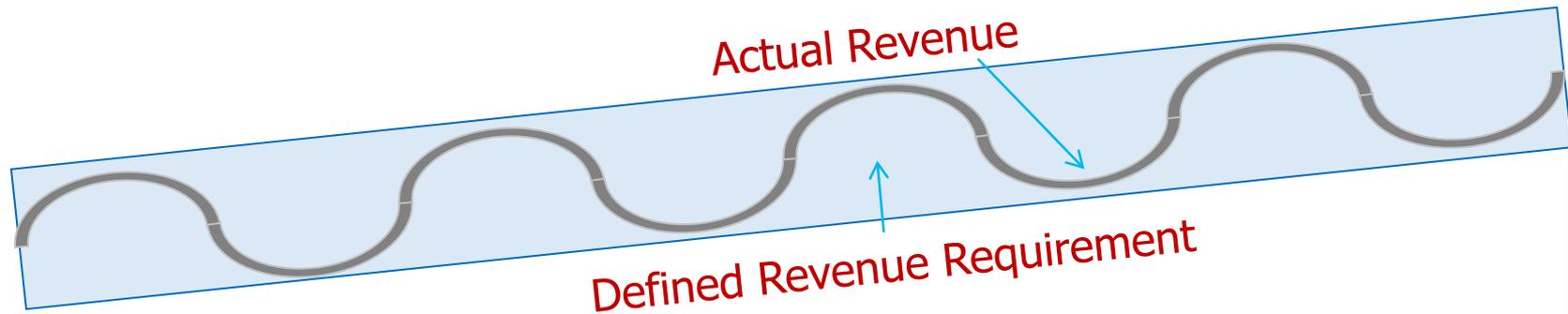
Other

Pension and Labour	<ul style="list-style-type: none"> No material pension or labor liabilities
Environmental	<ul style="list-style-type: none"> United operates 100+ systems under contract and also owns and operates utilities in 8 states United has never had a contract terminated because of an environmental concern

Long-term contract provisions provide customers greater reliability and stability



'Revenue path' approach limits rate increases, prevents windfall profits and provides flexibility to guarantee ongoing investment



Improved system efficiency reduces operating costs



Capital investment reduces risk of service disruption and protects the environment

Bayonne had questions...



CONCERNS

Who maintains system ownership

Vague operational and technical standards

Lose control over rates

Impact on jobs

'Windfall' to concessionaire

RESOLUTIONS

City retains system owner

Governance and operational standard setting

Rates set by formula

Maintains water authority jobs

Investment creates new local job opportunities

Oversight of funding

No excess revenues

It has worked: we unlocked hidden value from the city-owned asset

- Upfront, eliminated \$125M of BMUA debt
- Capital investment to modernize water, sewer and storm water system of \$107M over 40 years
- We hired and trained all BMUA employees
- BMUA determined city saves \$35M over duration of the contract



Day one at Bayonne: United Water greets its new employees

PUBLIC SECTOR TAKE AWAYS

○ SET REALISTIC GOALS

- RISK ALLOCATION
- RATE INCREASES
- CAPITAL NEEDS
- AVOID TRYING TO SOLVE UNRELATED PROBLEMS

○ PREPARE EXTENSIVE DUE DILIGENCE

- QUALITY DUE DILIGENCE PACKAGE
- TIE UP LOOSE ENDS

○ ENGAGE EXPERIENCED PROFESSIONAL TEAM

- ENGINEERING, FINANCIAL AND LEGAL

○ ENGAGE ALL STAKEHOLDERS EARLY

- ELECTED OFFICIALS, EMPLOYEES, USERS





It took bold champions in Bayonne to take these first steps in using private capital to invest in America's water infrastructure.



"I can feel it! We're about to make a huge breakthrough."

Bayonne's mayor said that this transaction helped the city earn its first credit upgrade in 5 years

- Just three months after the deal closed, Moody's Investors Service upgraded Bayonne's credit rating.



Moody's Investors Service
Global Credit Research

'The stable outlook reflects the city's recent progress in reducing its debt burden through the lease-sale of the MUA operations...'

- The private placement (debt) for the deal itself was rated investment grade by Fitch Ratings.



Bayonne Mayor Mark A. Smith

United Water's SOLUTIONSM is gaining recognition



Received New Jersey Alliance for Action Distinguished Engineering Award, May 2013

Voted by peers as 'Partnership of the Year' at the American Water Summit 2012 for having delivered **"the most dramatic improvement in service and customer value in the three most recent years"**

Featured at the 2012 Clinton Global Initiative as an **"innovative partnership which meets one of the world's most pressing challenges"**



Municipalities need creative alternatives to meet America's water challenge



Questions?

We have the whole



SOLUTION

Investing in America's Water

Thank you.



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