SOLUTION

Investing in America’s Water

May 24, 2013
Orlando, FL

Joe Baumann &
Dan Sugarman
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

- Economic Development & Job Creation
- Rate/ Tariff Predictability & Stability
- Asset Management & Protection
- Debt Reduction & Credit Enhancement
- Employee Training & Operational Best Practices
- Community Relations & Customer Care
- Compliance Expertise & Environmental Stewardship
- Operational Efficiencies & Technical Capability

O & M related
All these elements together create our SOLUTION℠

Adding private capital

O & M related
What’s different about SOLUTION™

Traditional Models

LIMITED CAPITAL INVESTMENT

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

Municipal Water System + United Water + Private Equity Partner
After decades of neglect investment can no longer be deferred

WATER INFRASTRUCTURE RATE 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
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
### Bayonne’s challenges and objectives

<table>
<thead>
<tr>
<th>Challenges</th>
<th>Objectives</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deeply leveraged - beyond underlying value of assets</td>
<td>Mechanisms for guaranteed capital improvements</td>
</tr>
<tr>
<td>History of deferred investment in system assets</td>
<td>Improve asset condition and customer service</td>
</tr>
<tr>
<td>Credit quality problems: city needs funds for other services</td>
<td>Strengthen balance sheet and leave the Bayonne Municipal Utility Authority (BMUA) debt free</td>
</tr>
<tr>
<td>Difficulty attracting qualified staff to manage the utility</td>
<td>Steady and predictable rate rises for consumers</td>
</tr>
<tr>
<td></td>
<td>Maintain utility jobs and improve staff training</td>
</tr>
</tbody>
</table>
Elements of the transaction structure

- Municipal authority
- Concession
- Joint venture (LLC)
- O&M
- Capital projects as required

EQUITY
- Private equity partner
- United Water

DEBT
- Consortium of lenders

United Water
## Concession Agreement - Risk Allocation

<table>
<thead>
<tr>
<th>Risk Area</th>
<th>Description</th>
</tr>
</thead>
</table>
| **Underperformance of Revenue** | - 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** | - 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**            | - 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**     | - 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**      | - 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**           | - Quantity and quality of water supply is guaranteed by the Authority |
| **Inflation**             | - 30% of revenue is inflation linked which provides alignment between revenues and costs |
## Concession Agreement - Risk Allocation

### Costs

<table>
<thead>
<tr>
<th>Capex Increases</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>United assumes the risk of increased costs of the Base Capex program</td>
</tr>
<tr>
<td></td>
<td>Any divergence in ongoing capex from the agreed upon threshold results in a true up in the following year</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Opex Increases</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>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</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>O&amp;M Contract Terminated</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Large supply of companies with the financial strength and operational expertise to manage the System</td>
</tr>
<tr>
<td></td>
<td>Robust replacement and operating cost sensitivities</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Liquidity Issues</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>“Safety valves” kick in if pass-through costs or volumes are below certain levels during the rate freeze period</td>
</tr>
<tr>
<td></td>
<td>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</td>
</tr>
</tbody>
</table>

### Contractual

<table>
<thead>
<tr>
<th>Concessionaire / BMUA Default</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Significant termination compensation available in the event of a Concessionaire or Authority default</td>
</tr>
<tr>
<td></td>
<td>In both cases the termination payment must be at least the debt, accrued interest and make-whole</td>
</tr>
<tr>
<td></td>
<td>BMUA has no significant payment obligations as revenue shortfalls are passed through to rate payers under the rate adjustment mechanism</td>
</tr>
<tr>
<td></td>
<td>Termination payment would be funded by proceeds of a re-concession or a BMUA debt issuance</td>
</tr>
<tr>
<td></td>
<td>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</td>
</tr>
</tbody>
</table>

### Other

<table>
<thead>
<tr>
<th>Pension and Labour</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No material pension or labor liabilities</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Environmental</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>United operates 100+ systems under contract and also owns and operates utilities in 8 states</td>
</tr>
<tr>
<td></td>
<td>United has never had a contract terminated because of an environmental concern</td>
</tr>
</tbody>
</table>
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...

<table>
<thead>
<tr>
<th>CONCERNS</th>
<th>RESOLUTIONS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Who maintains system ownership</td>
<td>City retains system owner</td>
</tr>
<tr>
<td>Vague operational and technical standards</td>
<td>Governance and operational standard setting</td>
</tr>
<tr>
<td>Lose control over rates</td>
<td>Rates set by formula</td>
</tr>
<tr>
<td>Impact on jobs</td>
<td>Maintains water authority jobs</td>
</tr>
<tr>
<td>‘Windfall’ to concessionaire</td>
<td>Investment creates new local job opportunities</td>
</tr>
<tr>
<td></td>
<td>Oversight of funding</td>
</tr>
<tr>
<td></td>
<td>No excess revenues</td>
</tr>
</tbody>
</table>
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 SOLUTION™ 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.

Joe Baumann
Partner
(973) 622-5259
jbaumann@msbnj.com

Dan Sugarman
VP – Marketing & Strategy
(201) 784-7078
dan.sugarman@unitedwater.com