

PRIVATIZATION OF GWA

PROVIDING CHOICES FOR
OUR COMMUNITY AND
GWA EMPLOYEES

DECEMBER 2004

EVERYONE ONE ON GUAM WANTS THE SAME THING:

A well working system that insures our water is always clean and safe for our families and neighbors.

- A well working system that gives employees the resources and support to excel in their work so that employees can confidently serve their customers and provide for their families.
- Customers want this.
- Employees want this,
- Our island deserves this

THE DEBATE

- The question before all of us:
- What will be the best way to rebuild, operate, manage, and maintain the system to serve our customers, GWA employees and our island?

COMMUNITY HAS FINAL SAY

- CCU does not have the final say.
- Employees will have a say.
- The public will have a say.
- Our people will have the final say thru their elected representatives in the CCU, and legislature and the Governor.

COMMUNITY HAS FINAL SAY

- The debate and discussion on this issue will bring the community together to make the best decision for island customers and GWA employees.

CUSTOMERS & CCU AGREE WITH GWA
EMPLOYEES:
GWA HAS BEEN BADLY MANAGED FOR YEARS.

- Everyone agrees that the government has failed to manage GWA well.
- Government management has failed to maintain and improve the system so that all have reliable service and clean and safe drinking water always.
- Government management has failed to provide GWA employees what they need to serve customers well.

GWA EMPLOYEES KNOW HOW BADLY THE SYSTEM HAS BEEN MANAGED

- "GWA employees have been the most deprived employees in the Govt. of Guam."
- GWA has lacked "funding caused by our leaders who rejected any rate increases for years."
- GWA employees have not been given "basic tools, equipment and training" necessary for them to do their job successfully

GWA EMPLOYEES KNOW HOW BADLY THE SYSTEM HAS BEEN MANAGED

- GWA has been mismanaged “by inexperienced directors who had no idea how to run and operate a water utility”.
- GWA funds have been wasted by previous Directors “on pet projects” to garner votes for the next election.
- (quotes taken from PDN ad)

GWA EMPLOYEES KNOW HOW BADLY THE SYSTEM HAS BEEN MANAGED

- As a government managed operation, GWA employees have unfairly been blamed for the failure and mismanagement of the system.

GIVEN THE MANY PROBLEMS, PRIVATIZATION HAS BEEN PROPOSED AS AN ALTERNATIVE

- Over the past seven years, elected officials have passed a number of laws to partially or completely privatize the management and operation of GWA.
- The idea of privatization has been proposed, even before the creation of the CCU.
- Frustrated by the same long-standing problems, U.S. EPA has threatened to take over the system and turn it over to a private operator because GWA does not consistently meet federal clean and safe drinking water standards.
- ***EPA considers our system a threat to the public health of our people***

GWA IS OPERATING BETTER BUT MAJOR CHALLENGES REMAIN

- Nov. 2002: The CCU is elected by ratepayers/voters, and is not appointed by the Governor and confirmed by the Legislature. The CCU is accountable directly to the customers/voters.

CCU-elect persuades EPA to work w/ newly elected CCU, GWA employees and our customers to allow us to fix the system instead of immediately placing it in receivership and hiring a private operator.

Jan 2003: An experienced GM (David Craddick) was hired. The GM was not hired based on political connections.

- CCU also hires first professional Chief Financial Officer for GWA (Wiegand)

GWA IS OPERATING BETTER BUT MAJOR CHALLENGES REMAIN

- June 2003: GWA and EPA agree to seventy five (75) specific changes (the Stipulated Order) to improve GWA and assure our public of a reliable and safe system. GWA and EPA agree to plans to invest a minimum of \$250 million to rebuild the system and improve operations to begin to meet all federal standards and customer expectations.
- This is the first major plan to fix the system developed by GWA, a plan that now also has the EPA and Federal Court blessing.
- An EPA compliance manager (Kemp) also is hired.

GWA IS OPERATING BETTER BUT MAJOR CHALLENGES REMAIN

- September 2003: Despite strong public opposition, CCU proposes a series of gradual rate increases of 20%-30% over the next few years. The increases would be used to rebuild the system and provide GWA employees the resources they need to improve services.
- December 2003: CCU rejects proposal to privatize GWA under the BOS contractor Raytheon, as required by public law. CCU wants any privatization to be subject to competitive bid, and not sole source.
- April 2004: After more than a decade without rate increases, GWA secures the first of two (2) rate increases in 2004.

GWA IS OPERATING BETTER BUT MAJOR CHALLENGES REMAIN

- May 2004: CCU approves a re-organization of GWA designed by management and the employees. Two long-time GWA employees (Miller and Chargualaf) are promoted to lead the primary service divisions.
- August 2004: CCU approves FY 2005 budget to include the first \$105 million bond issuance for GWA. CCU again approves pay increments in hopes the government would allow GWA employees to receive them.
- October 2004: The PUC approves a 2nd rate increase and also commits to annual increases in FY 2006 and FY 2007 in order to make sure GWA has enough money to pay for long term financing needed to rebuild the system and support GWA employees. These first two rate increases provide over \$5 million per year to help GWA employees fix the system.

GWA IS OPERATING BETTER BUT MAJOR CHALLENGES REMAIN

- November 2004: GWA hires underwriters UBS/Paine Webber and Citigroup to raise the first \$105 million for GWA.
- A new Chief Engineer also is hired to bring more management depth to GWA.
- CCU negotiates settlement to meter procurement protest to allow GWA to purchase the radio-read meters it wants.
- EPA specifically notes the great improvements at Ugum. Southern residents receive more reliable service, even during heavy rains.

OTHER IMPROVEMENTS

- Over the past two years, Management has attempted to provide more training to employees, resulting in a number of employees earning the necessary certifications to do their job.
- GWA also has reduced the number of employees w/o wholesale layoffs. This means GWA is doing more with less and using the savings to further help pay for resources and improvements.

OTHER IMPROVEMENTS

- CCU AGREES WITH EMPLOYEES THAT THERE HAVE BEEN IMPROVEMENTS SINCE JANUARY 2003 WHEN THE CCU TOOK OVER.
- THESE IMPROVEMENTS HAVE RESULTED FROM THE HARD WORK OF MANAGEMENT, EMPLOYEES, CCU AND CONSTANT PRESSURE FROM CUSTOMERS AND U.S. EPA SEEKING IMPROVEMENTS.

DESPITE IMPROVEMENTS, CHALLENGES REMAIN

- Parts of our island still do not have consistent water pressure.
- As CCU visited all 19 villages this past year, customers continue to complain about low pressure, poor response time to complaints, rate increases without improved service. Some villagers call for privatization. They have lost faith in a govt. run system.
- After reducing the amount of sewage overflows in 2003 and most of 2004, recent problems at Southern Link result in millions of gallon of sewage overflow into our aquifer and ocean.
- Customers and media continue to point out problems w/ customer service ("no answer") and leak repair ("slow response").

DESPITE IMPROVEMENTS, CHALLENGES REMAIN

- During their November EPA was extremely critical of GWA progress to insure clean and safe water always is being provided. EPA cites failures in operations to insure disinfection and proper reporting. Some of these failures were identical to failures found during the last visit.
- EPA was also critical of our failure after two years to obtain enough DRC's to operate the system. EPA also was critical a Chief Engineer still had not been hired.
- EPA also believes GWA has not moved fast enough to remove barriers to its ability to act independently to improve operations. These barriers include issues involving Civil Service, PUC, procurement and others.
- EPA threatened to fine GWA for the third time for failure to meet deadlines.
- EPA official says he doesn't drink GWA water because it is still not safe

DESPITE IMPROVEMENTS, CHALLENGES REMAIN

- Employees complain CCU does not communicate well enough with them, particularly about privatization efforts.

PRIVATIZATION ALTERNATIVES BEING EVALUATED

- CCU has hired professional help to determine if and how privatization could better serve the public interest and the employees.
- CCU evaluated different types of PVT:
 - -- Partial privatization of some GWA operations (Management Service Contracts/BOT/BOO)
 - -- Full PVT of GWA operations (Concession)
 - -- Sale of GWA

PRIVATIZATION ALTERNATIVE BEING EVALUATED

- No matter what PVT option would be considered, CCU maintains clear policy that the people of Guam would always maintain ownership of the water and water rights.
- For this reason, CCU rejected sale of GWA as an option.

CCU EVALUATED PARTIAL VS. FULL PVT

■ Concession

- Legislative Approval
- Greater Flexibility
- Long Term
- Less GWA Control / Involvement
- Private funds, more expensive (slightly) (Can do Government funds)
- Employees, Private
- Speeds system improvement
- Transaction time and cost greater
- Political insulation better
- Lower rates over time
- Technology application is faster
- Private-Sector Partner takes regulatory risk
- Held to higher regulatory standard
- Higher financial risk to contractor
- More efficiency
- Buy-out possible, at cost

■ Management / Services Contract

- Legislative Approval
- Less Flexibility
- Short Term 10-15
- More GWA Control / Involvement
- Government funds, less expensive
- Employees, Public/Private
- Speeds system improvement
- Transaction time and cost less
- Less political insulation
- Higher rates over time
- Technology application is slower
- Public takes regulatory risk
- Held to lower regulatory standard
- Less financial risk to contractor
- Less efficiency
- Buy-out possible, at cost

PRIVATIZATION ALTERNATIVE BEING EVALUATED

- After extensive debate, CCU chose full PVT thru Concession as the best type of PVT for these reasons:
- People of Guam retain ownership of all water and all system assets;
- GWA system is well suited to a single operator of an integrated water and wastewater system;
- The extensive improvements needed are better managed and financed by a single operator than splitting operations into separately managed entities.
- Private operator could raise the money faster and maybe cheaper than GWA;
- Single operator can better provide all employees with consistent training and better pay and benefits (like GTA);
- PVT reduces the amount of undue political influences over management, employees and service to customers.
- Concession approach gives operator sufficient time to manage/improve and finance system changes in order to keep rates affordable.

PRIVATIZATION ALTERNATIVE BEING EVALUATED

- CCU recognized the importance of involving GWA employees in pursuing PVT that it asked employees to create an Employee group of elected representatives to participate in and monitor efforts to obtain PVT proposals.

The CCU is currently pursuing legal authority from Gov./Legislature to obtain proposals from private companies to fully operate, maintain and expand the system under a Concession franchise.

PRIVATIZATION ALTERNATIVE BEING EVALUATED

- Proposed legislation requires GWA employee involvement and also provides that professional consultants would be hired on behalf of employees.
- Legislation requires employee participation in creating and evaluating RFP solicitations to insure employees are involved in all critical steps involved in evaluating proposals.
- PVT operator would still be subject to PUC approval of any future rate increase.

PRIVATIZATION ALTERNATIVE BEING EVALUATED

- Concession proposals would be evaluated on the basis:
- of the quality/experience of proposed operator
- the ability of the proposed operator to meet and maintain all performance standards established in the RFP
- how PVT rate increases compare to GWA rate increases
- CCU can reject proposals but CCU can not implement a Concession PVT proposal without final approval by the Legislature and Governor

PRIVATIZATION ALTERNATIVE BEING EVALUATED

- Tentative Timelines:
- CCU/GWA finalizes proposed Concession legislation for submission to the 28th Guam Legislature (Dec. 2004)
- Concession legislation is passed by Senators/Governor (February 2005)
- RFP/Pre-qualification of Bidders/Bidder due-diligence/Obtain final proposals (Mar. 2004-Dec 2005)

TWO CHOICES BETTER THAN ONE (OR NONE)

- One year from now, the people of Guam and GWA employees will have two choices to providing what everyone wants:
 - An improving GWA under government management, and
 - An alternative proposal from a good private company.

TWO CHOICES BETTER THAN ONE (OR NONE)

- THE PEOPLE OF GUAM AND THE EMPLOYEES OF GWA DESERVE AN OPPORTUNITY TO CHOOSE THE BEST WAY TO MANAGE AND OPERATE THEIR WATER AND WASTE WATER SYSTEMS.

TWO CHOICES BETTER THAN ONE (OR NONE)

- The CCU believes it has an obligation to customers and employees to study which is the best way to operate the system to benefit customers and support employees.
- The CCU wants to avoid a federal takeover by EPA which would greatly exclude the people of Guam from fixing its own system its own way.

PEOPLE OF GUAM WILL MAKE THE RIGHT CHOICE

- For the next year, the people of Guam will debate and evaluate its options for fixing our system and operating it for the future.
- We have confidence that the people of Guam and the GWA employees will unite behind the approach that best meets Guam's needs for today and tomorrow.