The City of Bayonne
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November 30th, 2019

Gentleman:

On behalf of the Concessionaire and in accordance with the Concession Agreement, attached are Bayonne Water JV Financial Statements (for the period ending September 30, 2019) and a copy of the 2019 "Draft Annual Tariff and Changes Report" (ATCR) dated December 1, 2019.

As a reminder, this 2019 draft ATCR incorporates actual 2019 year-to-date data and estimated data through year-end (November & December). While this draft ATCR serves as the basis for the January 1st, 2020 tariff adjustments, a final version will be presented to the City on or before March 31st, 2020.

As noted in this draft ATCR, while volumes for 2019 have fallen below those necessary to meet the Revenue Requirement, both connection fees and Pass-through expenses (pass-through expenses were again less than the Baseline) have helped to offset the shortfall. As in the past, those Pass-through amounts have been credited to the Stabilization Fund increasing the balance from nearly $1.59M to about $2.30M.

The Rate Stabilization Fund provides additional flexibility for future exigencies, provides additional flexibility to deal with future uncertainties and to cushion the rate impact of anticipated major capital expenditures scheduled in the near/medium term.

We have been able to hold the tariff adjustment effective January 1st, 2020 to **4.1%** without using the rate stabilization fund.

We have already discussed the draft ATCR with Dennis Enright but look forward to reviewing it and answering any questions at the next regularly scheduled Operating Committee meeting or at another time that is convenient for City representatives.

Please don't hesitate to contact me with any questions or comments.

Kind regards,

Name: Donald Correll
Title: President, Bayonne Water Joint Venture, LLC

cc:
Mark Bonamo
Tim Boyle
John Joyner
Jason Kiernan
Chris Riat
Donna Russo
Dan Sugarman

Bayonne Water
2019 Draft Annual Tariff and Changes Report

Submitted on December 1, 2019

Bayonne Water 2019 Draft Annual Tariff and Changes Report

December 1st, 2019

The 2019 Draft Annual Tariff and Changes report is being presented to the City of Bayonne by Bayonne Water Joint Venture, LLC. Per the Concession Agreement, this report is presented at least 30 days prior to the start of the 2020 Concession Year on January 1st, 2020. All figures for the 2019 Concession Year are based on historical results for the first ten months of the year and reasonable estimates for the last two months of the year. The Concessionaire shall, within 90 days of the end of the 2019 Concession Year, notify the Authority of the actual amounts for each of the items listed in below.

a) *the total Revenues accrued attributable to the current Concession Year;*

   Total accrued revenue is expected to be $31,393,260.

b) *the Revenue Requirement for the current Concession Year, as calculated at the date of such report, (or in the case of the final Concession Year the pro rata portion thereof);*

   This compares to a 2019 Revenue Requirement of $31,322,808. This results in an expected surplus of $70,452.

c) *the Total Required Revenues for the 2020 Concession Year that is about to commence;*

   Total Required Revenue for the 2020 Concession Year is expected to be $32,672,852.

d) *the total accrued Pass-through Expenses for the current Concession Year;*

   Total accrued Pass-through Expenses are expected to be $9,128,965. This compares to a Pass-through Expense Baseline of $9,772,882.

e) *the Pass-through Expenses Adjustment for the Concession Year that is about to commence;*

   This results in an expected Pass-through Expenses Adjustment of ($643,917).

f) *the Tariff to be implemented with effect from January 1 of the Concession Year that is about to commence (2020);*

   This would result in an expected tariff increase of 4.1%.

g) *the projected balance in the Rate Freeze Deferral fund at the end of the current Concession Year will be;*

   The cumulative Rate Freeze Deferral fund balance was $1,592,217 on January 1, 2015 (the "True-up Date"). The balance as of 2015 captures the cumulative effect of all expected adjustments to the Tariffs. The revenue adjustment amount of $178,539 reflects the recovery of the Rate Freeze Deferral fund over the life of the concession as shown in the table below.

Rate Deferral Freeze Fund Balance				
	2016	**2017**	**2018**	**2019**
Rate Freeze Deferral Fund Balance (Includes pt)	-	-	-	-
Revenue Requirement Adjustment (J)	-	-	-	-
Annual Payment	-	-	-	-
Cumulative Adjustment (J)	178,539	178,539	178,539	178,539

h) the credit balance, if any, of each of the Stabilization Fund and the Incremental Capex Surplus; and

The Stabilization Fund account had an opening balance of $1,587,836 as of the beginning of the 2019 Concession Year, reflecting the deposits of the 2015, 2016, 2017 and 2018 Pass-Through Expenses Adjustment (at the Authority's sole discretion), the 2016 Excess Revenue, and the 2017 and 2018 Withdrawals by the Concessionaire. With the addition of the expected 2019 Revenue Surplus of $70,452 and the Pass-Through Expenses Adjustment of $643,917 into the Stabilization Fund, a balance of $2,302,205 is expected at year-end without any withdrawals.

Stabilization Fund Account				
	2016	**2017**	**2018**	**2019**
Opening Balance	509,660	1,668,102	1,608,440	1,587,836
Excess Revenue	589,484	-	-	70,452
[Deposit of Liabilities due to BMUA]	-	-	-	-
[Deposit of Pass-through Expenses Adjustment]	568,958	602,088	641,146	643,917
Withdrawal - Concessionaire	-	(661,750)	(661,750)	
Withdrawal - BMUA	-	-	-	-
Ending Balance	1,668,102	1,608,440	1,587,836	2,302,205

The Incremental Capex Surplus account had a balance of $0 at the beginning of the 2019 Concession Year. 2019 Incremental Capex is expected to be $5,663,582, compared to a threshold value of $2,829,020, resulting in an expected net 2019 Excess Capex of difference of $2,834,562.

Incremental Capex Surplus Account				
	2016	**2017**	**2018**	**2019**
Opening Balance	144,492	158,157	-	-
Addition	13,665	-	-	-
Withdrawal	-	(158,157)	-	-
Ending Balance	158,157	-	-	-

i) each Revenue Requirement Adjustment Event that occurred during the current Concession Year including Losses and projected Losses incurred in connection therewith, as well as the calculation of the change to the Revenue Requirement resulting therefrom, as calculated per paragraph 5.

Appendix A: Supporting Schedules

Bayonne Water - Revenue Path *(US$)*					
Beginning of Period	*01/01/17*	*01/01/18*	*01/01/19*	*01/01/20*	
End of Period	*12/31/17*	*12/31/18*	*12/31/19*	*12/31/20*	
Concession Year (Ended Dec-31)	**2017A**	**2018A**	**2019E**	**2020**	
Total Required Revenue					
Fixed Component of Revenue (Nominal)	21,017,187	21,946,962	22,715,105	23,510,134	
LA Index Revenue (Nominal)	4,815,207	4,999,265	5,150,242	5,305,780	
SA Index Revenue (Nominal)	2,403,034	2,486,345	2,561,432	2,638,787	
Revenue Requirement (rr)	28,235,427	29,432,571	30,426,780	31,454,701	**<= Base Revenue Requirement**
% Growth	*4.0%*	*4.2%*	*3.4%*	*3.4%*	
Pass-through Expenses Adjustment (pt)	-	-	-	-	
Total Revenue Requirement Adjustments	454,858	747,266	896,028	1,218,151	**<= Cumulative Rev. Requirement Adjustments**
Revenue Requirement (rr) - Post Adjustments	**28,690,285**	**30,179,837**	**31,322,808**	**32,672,852**	**<= Actual Revenue Requirement**
% Growth	*3.93%*	*5.19%*	*3.79%*	*4.31%*	
Revenue Requirement vs. Prior Year Actual Revenue	*1.8%*	*11.3%*	*4.0%*	*4.1%*	**<= Expected Rate Increase 1/1/2020**
Actual Revenue Y-o-Y Growth	*(3.8%)*	*11.1%*			
Actual Rate Increase Authorized (based upon Draft AI(CR)	*3.5%*	*4.5%*	*9.1%*		
Pass-Through Expense Adjustment					
Pass-Through Expense - Baseline	9,393,389	9,581,257	9,772,882	9,968,340	
Pass-Through Expense - Actual[1]	8,791,301	8,940,111	9,128,965	9,968,340	
Difference	(602,088)	(641,146)	(643,917)	-	**<= Pass-Through Expenses below baseline**
Pass-Through Expense - Adjustment (pt)	(568,958)	(602,088)	(641,146)	(643,917)	
Revenue Requirement Adjustment Events					
Required Return					
Years Left in the Concession	35.97	34.97	33.97	32.97	
(A) Actual Revenue Accrued vs Total Required Revenue					
Total Required Revenue	28,690,285	30,179,837	31,322,808	32,672,852	
Actual Revenue Accrued	27,115,573	30,114,435	31,393,260	32,672,852	**<= Projected Revenue YE 2019, cell N67**
Revenue Surplus / (Deficit)	(1,574,712)	(65,402)	70,452	-	
Stabilization Fund Account					
Opening Balance	1,668,102	1,608,440	1,587,837	2,302,206	
Excess Revenue	-	-	70,452	-	
[Deposit of Pass-through Expenses Adjustment]	602,088	641,146	643,917	-	
Withdrawal - Concessionaire	(661,750)	(661,750)	-	-	
Withdrawal - BMUA	-	-	-	-	
Ending Balance	1,608,440	1,587,837	2,302,206	2,302,206	
Stabilization Fund - Threshold	5,000,000	5,000,000	5,000,000	5,000,000	
Revenue Deficit (net of Stabilization Fund Withdrawals)	(912,962)	596,348	-	-	**<= Under-earned in 2017 and 2018**
Revenue Requirement Adjustment (A)	-	912,962	(596,348)	-	
Cumulative Adjustment (A)	276,319	379,426	311,878	311,878	

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(H) Actual Incremental Capex vs Threshold					
Incremental Capex (Nominal) - Threshold	2,707,421	2,773,549	2,829,020	2,885,600	
Incremental Capex (Nominal) - Actual[2]	4,541,744	4,683,243	5,663,582	2,885,600	
Difference	1,834,323	1,909,694	2,834,562	-	<= Capex above threshold in 2017, 2018 & 2019
Incremental Capex Surplus Account					
Opening Balance	158,157	-	-	-	
Addition	-	-	-	-	
Withdrawal	(158,157)	-	-	-	
Ending Balance		-	-	-	
Excess Capex (net of Inc. Capex Surplus Acct. Withdr.)	1,676,166	1,909,694	2,834,562	-	
Revenue Requirement Adjustment (H)	-	1,676,166	1,909,694	2,834,562	
Cumulative Adjustment (H)	-	189,301	405,611	627,734	
(J) Deferral During Rate Freeze					
Rate Freeze Deferral Fund Balance (Includes pt)	-	-	-	-	
Revenue Requirement Adjustment (J)	-	-	-	-	
Cumulative Adjustment (J)	178,539	178,539	178,539	178,539	
Total Revenue Requirement Adjustments (A+H+J)					
Total Revenue Requirement Adjustment	-	2,589,128	1,313,346	2,834,562	
Total Cumulative Adjustment	454,858	747,266	896,028	1,218,151	<=The accumulated recovery amount implies $747,266 in 2018, $896,028 in 2019 and an expected Rev. Requirement Adjustment of $1,218,151 in 2020.

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1. Represents purchased water (including NJ water tax), sewage charge and utility expenses.
2. Represents incremental capex plus vehicle lease expenses, and excess repair and maintenance.