



AGENDA ITEMS #: #19-34 & #19-36
COUNCIL MTG OF: April 16, 2019
FROM: David Caron, Town Administrator
OFFERED BY: Administration
PREPARED BY: Administration
SUBJECT: Agreement Regarding the Southern New Hampshire Regional Water Interconnection Project and Drinking Water and Groundwater Trust Fund Grant Authorization

STAFF REPORT
Public Hearing 5-7-19

PURPOSE: To request Town Council approval of the Agreement Regarding the Southern New Hampshire Regional Water Interconnection Project (SIA) and to construct water system improvements necessary to effectuate the SIA and;

To request Town Council authorization to enter into a Drinking Water and Groundwater Trust Fund grant agreement with the NH Department of Environmental Services to fund the water system improvements required by the SIA.

TOWN ADMINISTRATOR COMMENTS: Council support for both Resolutions #2019-018 and 020 is critical to advancing the project and developing an advantageous cash flow as illustrated below. It is anticipated that approximately 25% of the gross cash flow will be expensed in additional operating costs. Until such time as the Council directs otherwise, all revenues will flow initially to the Water Department's enterprise fund.

BACKGROUND:

The Town of Derry has been working with the State of New Hampshire for the past year on a state funded initiative to provide additional drinking water to the southern tier communities of Salem, Windham, Atkinson, Hampstead and Plaistow. In 2016, the Legislature voted to transfer administrative responsibilities of the \$300M MTBE fund from the Department of Environmental Services to a Legislative Committee which established the Drinking Water and Groundwater Trust Fund. This fund will be used as the main financial catalyst to implement the SIA, as well as other projects statewide needed to address drinking water contamination and water supply issues.

Under the SIA, Manchester Water Works (MWW) has agreed to supply water from its existing Water Treatment Plant on Lake Massabesic and from its proposed treatment facility along the Merrimack River to Windham, Salem, Atkinson, Hampstead and Plaistow. The SIA proposes to route water through Derry's existing water system. The SIA requires an extension of the Derry water system along Rte. 28 to the Windham town line as well as other Derry water system improvements needed to flow up to 3.13 million gallons per day (MGD) of drinking water into Windham. The SIA proposes additional infrastructure in Windham, Salem, Atkinson, Hampstead and Plaistow to be constructed to ultimately connect all the communities.

The SIA clearly states that all infrastructure improvements required in Derry to implement the SIA, estimated at \$6.29 Million, will be paid by a grant from the Drinking Water and Groundwater Trust fund with no costs to Derry taxpayers or water ratepayers. The SIA further sets forth the cost of water, purchase guarantees, liability issues, timelines, etc.

DISCUSSION:

Staff has worked with NH DES and the other participating communities and, with consultation with the Town Council, drafted the SIA containing the following highlights:

Project Goal

- 1) Phase I would be constructed in 2019/2020 in Derry to provide 1 million gallons per day (1 MGD) of capacity to the municipalities and water companies in the agreement.
- 2) Phase II improvements, which may include water main upgrades in Derry on Manchester and Tsienneto Roads, North and South Main Streets and Route 28 are to be constructed prior to December 31, 2023 which will provide additional capacity to a total of 3.13 MGD on as needed basis should additional demand require it.
- 3) Manchester Water Works will provide the source water for the project.
- 4) Salem will purchase water directly from MWW at the Derry-Windham town line and will own, operate and maintain the new main along Route 28 in Windham.
- 5) Derry's purchased water capacity of 2.9 MGD is unaffected by this agreement. Each community will purchase water rights directly from Manchester. Derry's pre-purchased capacity will be available for Derry properties.

Infrastructure (Phase I)

- 1) NHDES will cover 100% of cost to engineer and construct 8,400 feet of new water main along Route 28 between Ryan's Hill and the Windham/Derry town line. Derry may also acquire up to an additional 1,400 feet of main in Windham prior to Salem's new metering station off Northland Road.
- 2) NHDES will cover 100% of cost to upgrades to the Rockingham Road pump station, the New Water Booster pump station on Manchester Road and the PRV station on Route 28. The existing meter/control valve vault at the Londonderry/Derry town line will also be upgraded.
- 3) Derry's infrastructure work could begin as early as summer 2019 with a substantial completion date as early as May 2020 and final completion date of December 2020.

Rate Structure

- 1) MWW will bill Salem directly for all water that passes from MWW through Derry into Windham and will initially charge Salem its prevailing in-town rate (currently \$1.55 per 100 cf). This rate will be effective for the first 10 years of the SIA and will be subject to the same increases as MWW in-town customers. In years 11 to 15 MWW will escalate the rate charged to Salem until it equals MWW prevailing out-of-town retail rate (currently 1.78 per 100 cf)
- 2) Derry 's wholesale rate charged by MWW (currently \$1.137 per 100 cf) is unaffected by the SIA. Derry shall receive \$1.00 per 100 cubic feet of all water that passes from Derry into Windham. This rate is fixed for 15 years after which it may be adjusted by mutual consent of Derry, Windham, Salem, HAWC (Hampstead Area Water Company serving Hampstead and Atkinson) and Plaistow, or by binding arbitration.
- 3) Communities receiving water from Derry shall be required to purchase a minimum amount of water which would provide at least 500,000 GPD of demand by 2021. Salem will be first to connect in 2020, at a minimum average daily flow of 250,000 GPD.

Other Considerations

- 1) Derry will not be responsible for fire flows south of Derry's border, nor shall the Town be responsible for flow interruptions caused by system malfunctions. It shall be the responsibility of communities to guarantee their own flows using storage tanks or other devices.
- 2) The water main design will include the addition of 13 hydrants to provide full fire protection, in an area currently served by cisterns.
- 3) The water main extension will provide the opportunity for future system expansion to Derry neighborhoods including Kilrea Road, Windham Depot Road, Mark Street and Goodhue Road.

FISCAL IMPACT:

The projected value of the improvements to the Derry Water System is \$6.29 Million; all of which will be funded by the NH DES Drinking Water and Groundwater Trust Fund grant. There will be no cost to Derry.

Derry will receive \$1.00 per 100 cubic feet of water sold to Salem.

The estimated gross revenues to Derry are:

@ 250,000 GPD (2020) = \$122,000 per year (guaranteed by SIA beginning FY21)

@ 500,000 GPD (2021) = \$244,000 per year (guaranteed by SIA beginning FY22)

@ 1,000,000 GPD (TBD) = \$488,000 per year (estimated Phase 1 demands)

@ 3,130,000 GPD (TBD) = \$1.53 Million per year (estimated Phase 2 demands)

Derry's estimated annual operation and maintenance costs are \$50,000/yr (includes \$40,000 a year in electrical costs based on 500,000 GPD). Estimated annual depreciation (asset maintenance) costs are \$80,000/year.

RECOMMENDED ACTION BY COUNCIL:

The Council is urged to support Resolution 2019-018 (Vote 4/16/2019) and 2019-020 (Vote 5/7/2019).

RECOMMENDED MOTION:

Please see Resolutions 2019-018 (Vote 4/16/2019) and 2019-020 (Vote 5/7/2019).

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