

**An Objective Analysis of the City of Peoria's Option to Purchase the
Peoria District of Illinois American Water Company**

A Report to the CEO Council

Prepared by the CEO Council Water Infrastructure Objective Study Committee

Submitted September 15, 2016



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1. COMMITTEE MEMBERS

Chair

Thomas D. Fliege, Arthur J. Gallagher & Co.

Members

Tim Bertschy, Heyl Royster Voekler & Allen

Bill Cirone, retired, The Federal Companies

Mark DeSantis, WEEK-TV

Brent Eichelberger, Commerce Bank

Joe Glawe, CliftonLarsonAllen

Diane Oberhelman, Cullinan Properties

David Ransburg, former Mayor of Peoria/retired, LR Nelson

Honorable Chuck Weaver, Illinois State Senator

Staff

Jeff Griffin, CEO Council, Peoria Area Chamber of Commerce

Shelley Epstein, Consultant

Ashley Taylor, CEO Council

2. COMMITTEE FORMATION AND BACKGROUND

The CEO Council has a history of examining some of the most vexing issues facing the Tri-County Area, and initiating actions to address those problems. In recent years, the CEO Council helped create the Downtown Development Corporation to spearhead growth in the Warehouse District, served as the project manager to establish the University of Illinois Medical School Cancer Center, advocated for passage of the referendum to create the Peoria Riverfront Museum, and recently launched Greater Peoria Works to encourage employers to provide work experience to young people. All of these actions, and many others, have been pursued in an effort to help the Peoria area be more economically secure and culturally vital – to improve our “Quality of Place.”

At the request of the CEO Council in December 2014, Tom Fliege agreed to Chair a committee to study the questions associated with the purchase option available to the City of Peoria, once every five years, re: the water infrastructure currently provided by Illinois American Water Company. The last such option had occurred in October 2013.

Customers served by this water district include the city of Peoria and several surrounding communities (Exhibit 2).

It was a mandate of the committee that this study be performed as an objective, due diligence examination which would normally be done in considering any business proposition. The CEO Council felt that the particular nature/background of its membership lent itself well to this type of endeavor. Business people routinely analyze purchase opportunities on such a basis, with the goal being to make a “buy/no buy” recommendation to leadership.

Upon forming the CEO Council Water Infrastructure Objective Study Committee, our first effort was to clarify our purpose with this Mission Statement:

“To complete an objective, fact-based analysis to determine the costs and benefits associated with the City of Peoria exercising – or not exercising – its repurchase provision of the 1889 Franchise Agreement ...”

(See Exhibit 1 for full Mission Statement.)

We then established five sub-committees to facilitate our study:

Best Practices

Information Gathering

Labor Relations

Legal/Legislative

Pro Forma/Bonding

Well-known and respected community leaders assumed chairmanships of these sub-committees: Mark DeSantis (WEEK-TV); Brent Eichelberger (Commerce Bank); Joe Glawe (CliftonLarsonAllen); Diane Oberhelman (Cullinan Properties); and David Ransburg (former mayor of Peoria/retired, LR Nelson). Other committee members included Illinois State Sen. Chuck Weaver, Tim Bertschy (Heyl Royster Voekler & Allen), and Bill Cirone (retired, The Federal Companies). Jeff Griffin, Ashley Taylor, and Shelley Epstein assisted in a staff capacity.

Parties invited to participate in committee meetings included Peoria Mayor Jim Ardis, all City Council members, and organized labor representatives. We regularly updated CEO Council members on our progress.

For eighteen months, the Water Infrastructure Objective Study Committee received monthly updates from each of the sub-committees, including ongoing legislative efforts, and a comparative analysis of best practices and financial and operational experiences of communities across Illinois and the nation.

Guest speakers also provided background information, including Illinois State Rep. David Leitch; Greater Peoria Sanitary District Manager Stan Browning; and water supply expert Don McCaully. All have provided significant insight into the pros and cons of operating municipally owned water systems.

One major obstacle to the study was the inability to segment IAWC's Peoria District's specific revenues and expenses. By law, Illinois-American Water Company is allowed to group information of this nature by zones with other communities, which made obtaining precise Peoria-only data impossible.

However, utilizing public information, the Pro-Forma/Bonding sub-committee was able to accurately interpolate that data from multiple sources.

As a project of the CEO Council, the Water Infrastructure Objective Study Committee is hereby reporting its findings to the full CEO Council. The CEO Council will decide what disposition is to be made of the study and its conclusions. Certainly, a primary option is that the results and recommendations be shared with the ultimate decision-makers: the Mayor and the City Council, as well as the community at-large.

Our task was to provide an objective, fact-based document to assist our city leaders in making a fully informed, fact-based decision, as the result of intensive due diligence performed by professional business people, who have dispassionately gathered and analyzed all relevant information.

Although the next vote on this issue is not scheduled to come up until Fall of 2018 – the City Council has a purchase option every five years -- the committee has finalized its analysis and made recommendations by the Fall of 2016 to allow city leadership time to consider our recommendations, determine the best course of action for the long-term interests of city residents, and initiate a plan of action.

3. OVERVIEW – WHY WE STUDIED THIS ISSUE AND WHAT WAS LEARNED

The CEO Council has undertaken the first independent, objective, fact-based and comprehensive study of Peoria’s private water system in the city’s history. The study was pursued because water is our most vital resource, the essential element to our region’s personal and economic growth.

After nearly two years of thoughtful analysis, the CEO Council has determined the City Council can benefit by examining our report on this important issue. Our findings are summarized as follows:

- Peoria water rates are substantially higher than nearby communities and the national average

- Local control of water is a desirable goal
- Substantial revenue from the water system could be used for the public good
- Economic development could be greatly enhanced under public ownership
- Multiple management/operational options exist under city ownership
- For a fair and appropriate price, the purchase of the privately owned water system could be of great long-term benefit to the citizens of the Peoria area

Why should our city leaders act to protect our most important natural resource?

- Because our livelihood, now and for generations to come, depends on the continued supply of fresh, inexpensive water, a resource that is currently controlled by an out-of-state conglomerate.
- Because we have greater confidence in long-term local control of this essential commodity will be fully utilized to the benefit of the citizens.
- Because Peoria's rates are twice the national average and double what some neighboring cities charge.
- Because public ownership, in the long-term, could provide a financial benefit to the community.
- Because a public water system could be used to attract residents, businesses and job creators.
- Because it's impossible to foresee the potential opportunities that may be available in the future if the water system is under public control, opportunities that are not now within our reach.

4. PEORIA WATER INFRASTRUCTURE HISTORY

The 1870 Illinois Constitution significantly restricted cities' borrowing capacity through the issuance of bonds. Peoria was among the fastest growing cities in the state at that time, and needed to expand its publicly owned water infrastructure. The conflict between Peoria's needs and Peoria's bonding capabilities resulted in seriously limiting Peoria's ability to operate and improve the water system in the best interests of Peoria residents.

As a result, the City of Peoria sold its public water system to a private entity in 1889, and for 127 years various private enterprises have provided water to residents and businesses throughout the city of Peoria and some surrounding communities. In the 1889 Franchise Agreement, with an eye toward eventual re-acquisition, the city and the private operator agreed that the city would have the right to repurchase the water system every five years, and outlined a process for the city and the private operator to determine a fair price for the system.

Most often, this five-year window has passed without much notice.

We believe that only once in the ensuing 100-plus years (1998) did the City Council exercise that purchase option and undertake a full appraisal of the water system. After a lengthy legal battle initiated by Illinois-American Water Company, an appraisal process established a price for the system. That price was and continues to be thought by many as being significantly inflated. Subsequently, the City Council voted in 2005 not to complete the purchase.

The last time that purchase window opened, October 2013, the City Council voted not to pursue its option to determine the value of IAWC's Peoria District (See Exhibit 2 for a list of communities in the Peoria District). The City Council examined some of IAWC's financial statements in executive session, but due to proprietary concerns those documents were not made public.

Following that vote, there was an unsuccessful attempt to extend or "sell" the purchase option in the Franchise Agreement for a 20-year period of time. The two parties to such a change could not reach agreement on terms, and the proposal was dropped by the City Council.

With that backdrop, and with the next window in 2018 fast approaching, the CEO Council decided to undertake a thorough and objective review of the issues that will face the City Council when the option is available again.

5. THE FRANCHISE CONTRACT HIGHLIGHTS

- The contract contains an option clause, which allows the city to initiate a non-binding purchase and appraisal process to determine the price of the water system. A clear analogy would be a prospective buyer making a non-binding offer to buy a house while standing on the curb; only then will the buyer be allowed to enter the house and evaluate it.
- If the City and IAWC cannot agree on a price for the water system, there is an appraisal process to determine the price. Under the appraisal process, IAWC and the City each appoint a member to the appraisal commission with a third appraiser being appointed by the other two members. The three-member commission is charged with determining a just and fair price for the water system. The City then has the right to exercise the option to purchase or alternatively refuse to do so at the appraised price. Unfortunately, that can only be done after several hundreds of thousands of dollars is spent on discovery, leaving the City of Peoria with a large out-of-pocket expense. This process is a significant disincentive for the city to pursue a complete appraisal.
- The contract states that the appraisal commission “shall equitably decide what amount the City of Peoria is justly and fairly entitled to pay the grantees for the water works and all the pertains thereto, save said unexpired franchise, and shall make a written award of the then cash value of such water works property...”. It can be anticipated that the parties will differ over the interpretation of this language. One reasonable interpretation would be that the purchase price of the system should be affordable to the City of Peoria.
- In 2005, after a lengthy and expensive effort to select a third appraiser, the City of Peoria accepted an appraiser proposed by IAWC. He ultimately supported an appraisal at a price that the City Council determined was too high to be affordable.

6. THE 2005 APPRAISAL PROCESS

The 2005 Appraisal Process revealed the disparity between valuations which assume that the likely buyers would be either a Government Owned Utility (GOU) or an Investor Owned Utility (IOU). A GOU approach results in a significantly higher appraised value because of a municipality's ability to secure capital through bonds at a much more advantageous rate than an IOU. In short, the GOU approach operates under the theory that a municipality should pay more than a private investor owned company because it pays no taxes and has a lower cost of funds.

In the 2005 appraisal, the difference between these two valuations was in excess of \$200 million – the difference between a viable business proposition and a non-viable proposition.

While it would seem a given that the Peoria District of Illinois American Water Company is clearly an IOU -- it is, and has been owned by IAWC for decades – IAWC's argument was that the entity should be valued as the GOU that it would become, once purchased by the City of Peoria. The final value was weighted heavily to a combination of the GOU approach and an engineering study of the replacement cost of the infrastructure.

7. BEST PRACTICES

More than 85 percent of the U.S. population is served by publicly owned water systems. Most communities in central Illinois – East Peoria, Peoria Heights, Washington, Morton, etc. – are served by public water systems.

To obtain comparative data, 15 cities were surveyed -- 12 with public water systems and 3 with private ownership. Ten of the surveyed cities are in Illinois; cities ranged from small to large, and some are similar in size to Peoria. (The complete details of the survey can be found in Exhibit 3.) Following is an overview of the chief findings:

- Public systems typically have lower water rates. Water rates in Peoria are twice the national average, and double what some neighboring cities charge. Peoria water rates have increased nearly 60% since 2003. IAWC recently requested an 18 percent increase that will be imposed by the end of the year. (See Exhibit 4a for a history of Peoria rate increases and Exhibit 4b for a projection of future rates.)
- Public systems are usually regulated by local officials. Private systems are regulated by a state agency; for Peoria and IAWC that is the Illinois Commerce Commission whose members are appointed by the governor and confirmed by the Illinois State Senate.
- Public systems are transparent regarding finances, rates, expenses and capital investment. Similar information is not available under private ownership, like IAWC's.
- Municipally owned water systems have much greater latitude to assist with local economic development goals and opportunities. This allows local officials to proactively extend water lines or do so in response to specific business or residential opportunities. Investor-owned utilities generally do not participate in economic development opportunities. Locally owned water systems can offer rates to entice new businesses or help existing ones expand or remain. A local system can construct a rate schedule that is attractive to economic development. Rates of investor-owned utilities must be approved by the Illinois Commerce Commission and do not reflect local priorities, especially in multi-city rate zones.

8. MANAGEMENT/OPERATIONS OPTIONS

There are a wide variety of management options for the water system, as evidenced by the survey of other communities. Possibilities include:

- a city-run water department
- a city-owned water system run by a private company
- an independent government water agency

- consolidating the water system with an existing government, like the GP Sanitary District
- establishing an independent foundation to operate the water system (see Indianapolis)
- a privately-managed system in which the city owns stock (see Nashua, N.H.)

With so many options, there is potential for a creative solution that best fits Peoria.

9. LABOR CONCERNS

Union members and the union representing IAWC laborers have in the past opposed public ownership. Any public purchase should protect existing employees, their pensions, and their rights to collectively bargain. Other cities that have purchased private systems have successfully resolved these potentially difficult issues, without reducing the unionized workforce. Locally, union members working for IAWC in Peoria have expressed satisfaction with private ownership. It should be made clear that the purpose of the public purchase is not to disenfranchise or harm the existing union workforce.

10. LEGAL and LEGISLATIVE ISSUES

Many of the legal issues involved in the purchase were resolved a decade ago when the Illinois Supreme Court affirmed the standing of the 1889 Franchise Agreement. If the city pursued a purchase again, it should be anticipated that IAWC might again seek legal action to forestall a buyout. The company has used the courts elsewhere to delay a sale. Legislation has been introduced in the Illinois General Assembly to require private water companies to reveal various financial information on a community-by-community basis, rather than in large zones. In the recent past, Peoria and a few suburbs have been a single water district within IAWC, and Peoria district-specific financial information was available. That is not

the case today. Other legislation is pending that would require that appraisers not differentiate between a GOU and IOU purchaser.

Neither bill has had a committee hearing, but Sen. Chuck Weaver has had discussions with IAWC in an effort to resolve legislative differences. The Illinois Attorney General, the Citizens' Utility Board and the village of Bolingbrook all voice support for these legislative initiatives, and additional Illinois cities served by IAWC are also likely advocates.

11. PRO FORMA & BONDING

One primary objective was to determine the financial feasibility of a City of Peoria purchase of IAWC's Peoria Water District. To accomplish this objective, the committee obtained a large amount of financial information from the Illinois Commerce Commission's IAWC rate case filings, documents from other municipal purchases, and data from the 2005 City of Peoria pursuit of its purchase option.

Feasibility is dependent on obtaining a purchase price which can be funded by the City of Peoria through the issuance of bonds. Although there is no existing pool of funds that could serve as an (equity) investment, the city has the needed bonding capacity to purchase the Peoria District, even if it is simultaneously issuing bonds for the CSO project.

The existing cash flow from the Water District must be adequate to service the debt on the bonds. In short, if the purchase price results in debt service greater than the existing cash flow, the purchase might not be feasible.

Assuming a purchase price that meets this criteria, the purchase of the Water District appears to have little downside and a substantial long-term financial benefit to the citizens of Peoria. With a traditional 20-25 year bond amortization, the next generation of citizens will undeniably see a significant financial benefit as debt service is retired.

The committee considered the possibility that a substantial investment might be needed in the existing infrastructure as much of it reaches the end of its lifespan

in the coming decades. Any independent and objectively determined purchase price or appraisal would have to take this into consideration.

Regardless of who owns the infrastructure (private or public) as it needs to be replaced in the coming years, it will fall to the end users (citizens/customers) to pay for these future capital expenditures either through the rate-making process, if the system remains private, or the consideration of rates by a public entity.

This brings us to the all-important purchase price, and the methodology and process to establish same. The committee believes it highly unlikely that IAWC and the city will agree on a purchase price, thereby invoking the process outlined in the 1889 Franchise Agreement. It is to be expected that IAWC does not wish to lose a highly lucrative and profitable segment of its business.

The committee spent considerable time reviewing the process and methodology utilized in 2005, which was the last time the City Council initiated a full appraisal. The committee believes the ultimate appraised value was flawed, and that based on that appraisal, the Council had justification to reject it.

Appraising a company is difficult at best and even more difficult when appraisers cannot agree on fundamental issues. This is precisely what occurred in 2005. To put this in perspective, the city's appraiser valued the water system at \$96.5 million and IAWC's appraiser valued it at \$317.4 million. This is obviously more than two appraisers arguing about the minutia of appraisal theory.

The differences in the appraisals are many, and an in-depth discussion would consume many pages. The real difference is whether the value of the Water District should be based on ownership by a private company (IOU), or whether it should be based on already being owned by a hypothetical government entity (GOU) which does not pay taxes and has lower borrowing rates due to its tax-free status.

IAWC's appraiser argued that since the most likely buyer is a government entity, it should be valued as if already owned by same. The appointed three-man commission weighted both appraisal methods, but weighted heavily in favor of the government-owned approach.

The final decision in 2005 resulted in a price that was unaffordable for our government entity. A different weighting would have had substantial impact on the appraised value.

The committee believes that a change in approach to the appraisal process will result in a more accurate – and more affordable -- outcome that is fair to both the city and IAWC. This will require a committed and persistent effort, on several fronts -- legal, appraising and otherwise -- by the city to ensure an accurate and appropriate result in accordance with the 1889 agreement.

12. POLITICAL LANDSCAPE

Any due diligence of the business case for purchasing the water system must consider the political landscape. The elected City Council has the final say on whether to proceed with an appraisal and a purchase. In 2013, the Council voted 8-3 not to initiate an appraisal. In each of the preceding five-year cycles, the Council voted not to go forward or the deadline passed without city action.

In one public referendum on this issue, held more than a decade ago, Peorians voted overwhelmingly not to re-municipalize the water system. It must be pointed out, however, that IAWC ran a campaign against pursuing the purchase, but there was no corresponding educational counter-campaign advocating for the other position.

In 2014, the city manager's proposal to extend the Franchise Agreement from 5 years to 20 years died without a council vote after a minimal effort to oppose the city manager's proposal.

13. CONCLUSIONS - REASONS TO CONSIDER BUYING THE WATER SYSTEM

- **Secure local control of the water supply**

Water is our most vital resource; our very lives depend on it. Water is one of the reasons the Peoria community was founded where it is, and the Illinois River has been essential to the economic health of the community since its founding. Yet our supply of drinking water is controlled by IAWC, not the citizenry. In fact, our government representatives do not know if our water supply is being sold or transferred outside the region, nor can they control such action.

Peoria sits above the San Koty Aquifer, a near limitless supply of fresh, drinkable water, just 70 feet below the surface. Other regions, California and the Southwest for example, envy our access to abundant, high-quality water, and easy access to it, because water equals economic growth. Even western Illinois suffers from radon pollution, necessitating expensive filtration and treatment to become potable.

With Peoria's availability of abundant, high-quality fresh water, our area has the opportunity for economic growth. It is in the best long-term interests of city residents and the entire community for this most important of resources to be in public control and promoted as a valuable regional asset. Our future depends on it.

- **Assure the future availability of water for business and residential growth**

- **Gain greater control of water rates**

Peoria water rates are twice the national and substantially higher than nearby local public water systems. History indicates they will continue to rise higher than inflation under private control, just as they have for more than 100 years. Why?

1. A private owner borrows money for infrastructure repair, maintenance and system expansion at far higher interest rates than are available to a public owner. The cost of money is higher for a private owner, a cost that gets passed along to ratepayers.
 2. A private owner pays taxes that a public owner does not.
 3. A private owner collects and distributes profit to shareholders; a public owner needs no profit.
 4. Rates are set by the Interstate Commerce Commission with little or no local input or control.
 5. Rates would be set by the City Council or other local agency
- **Compete with other communities more effectively**
 - **Ability to use the revenue stream to benefit the community by:**
 1. Improving community services.
 2. Proactively improving the water system infrastructure
 3. Promoting and facilitating economic development
 4. Enhancing coordination with other community improvements
 - **To realize these benefits, a “fair” price must be established,**
This should be a price that the private owners would receive from another private purchaser. A balanced and proper appraisal is essential to secure a “fair” price.
 - **In the event that a “fair” price cannot be agreed upon, options include:**
 1. Negotiation
 2. Amendment of the Purchase Option Agreement
 3. Legislation
 4. Litigation
 5. Other

14. RECOMMENDATIONS

- The CEO Council should forward this report to the Peoria City Council for their review and consideration. It is in the best interests of Peoria taxpayers/water consumers to fully and transparently examine this issue.
 - Timing is critical for City Council deliberations, considering the 2018 deadline outlined in the Franchise Agreement and historically low interest rates that would be favorable if purchase is pursued.
- These findings should be made available to the public and the media to stimulate discussion of continuing a private water system versus a public utility in our community.
- The CEO Council should establish a committee to educate and inform Peoria residents and other stakeholders about this issue.
 - A thorough public education strategy must be developed and implemented to gain residents' understanding and support for a publicly owned water system. Potential benefits of public ownership must be fully explained, including the coordination of public services like street maintenance, snow removal, etc. Nearly 130 years of precedent must be overcome, along with residents' emotional concerns about public ownership. Change is never easy.
 - Experts and representatives of communities that have purchased their water systems should be invited to Peoria to share their experiences.
 - In a business evaluation, the question should be raised whether it is financially advantageous for Peorians to own their water system rather than rent it.
 - Emphasis should be placed on individual water consumers. An educational campaign should address this essential question:
"What's in it for me?"
- The CEO Council should encourage the raising of private funds to assist the city in conducting the appraisal process.

- The CEO Council and the City Council should engage leadership in other communities – West Peoria, Bartonville, Bellevue -- served by the IAWC Peoria District in an effort to work together should a purchase be pursued.
- Managing the appraisal process is critical to getting a fair price for the water system. The City Council must be steadfast in protecting the public's interest and must invest the necessary financial resources to ensure a fair outcome.
 - During the appraisal process, the city must retain the best legal counsel available, with extensive experience with the appraisal of public utilities and the biases of the small community of appraisers.
 - The city should not compromise on the selection of the third appraiser under the 1889 Franchise Agreement. In 2005, the city accepted a third appraiser proposed by IAWC, and that led to a higher than expected appraisal.
 - The city must diligently protect its interests in drafting the Rules of Order for the Appraisal Commission. Those rules should be drafted to produce a true fair market appraisal.

15. EXHIBITS

1. Mission Statement
2. Other nearby communities served by IAWC
3. Comparative survey of various cities
4. IAWC rate data
 - a. History of rate increases – percentage and ownership
 - b. History of rate increases – visual history and comparisons
5. Financial highlights

Exhibit 1

CEO Council Water Infrastructure Objective Study Committee

Mission Statement

To complete an objective, fact-based analysis to determine the costs and benefits associated with the City of Peoria exercising – or not exercising – its repurchase provision of the 1889 Franchise Agreement, and subsequent documentation, with the Illinois-American Water Company Peoria District, using internal and external expertise wherever available.

To include financial considerations for the City of Peoria, ratepayers and surrounding communities, and on the long-term growth of the City and the regional economy.

To investigate alternative ownership/management structures, infrastructure investments and service levels for customers of the Illinois-American Water Company Peoria District.

To consider potential impacts on the employees of the Illinois-American Water Company Peoria District.

To make an objective recommendation to the CEO Council on the merits of exercising the repurchase provision – or not, based on the financial analysis and other facts obtained in the detailed study.

Exhibit 2 - Other nearby communities served by IAWC

West Peoria*

Bartonville*

Bellevue*

Dunlap (resale)

Hanna City (resale)

Alta

Chillicothe

Mossville

Pekin

*In the Peoria District and subject to purchase with the Peoria water system

Exhibit 3 - Comparative survey of various cities

Water Objective Study Committee - Best Practices sub-committee

City	Population	Water Customers	When was water company purchased?	Governing Structure	Operating Budget	Capital Budget	Revenue	Reserves	Average Residential Bill for 6,000 gal/mo.	Last Rate Increase	PILOT Payments	Other Cities Served	State Oversight	Union Status
Peoria, IL	116,513	52,262	1889 franchise agreement signed	private/IAWC	not available	not available	not available	not available	\$55.40/month	8.8% -- 2012	IAWC pays prop taxes	West Peoria, Bartonville, Limestone	ICC	Unionized workforce
East Peoria, IL	24,000	8,100	always public, created in 1912	city department	\$3.1M	\$272,000	\$3.20	\$9M	\$36.12/month	3% per year	none	None	No	Unionized Workforce
Springfield, IL	147,000	45,000	1860s, bought one well from defunct private operator	city department	\$62M	\$36M	\$30M	\$10M	\$22.77/month	2011	\$447K + \$220K in kind	Rochester, Sherman, Jerome	No	Unionized Workforce
Moline, IL	46,000	17,000	1886	city department	\$9.5M	\$1.5M	\$9.5M/9.5% annual increase	\$5M	\$41.57/month	2011/3 year increase	No	one satellite system that is a mobile home park	No	Unionized Workforce
Joliet, IL	148,000	45,000	purchased from private operator in 1880s, public since	combined water sewer city department	\$45M w/wastewater	\$15M w/wastewater			\$26.13/month	35% in 2009; 5% 2010 and 2011; 9% rejected 10/2015	\$4 M subsidy to general fund	channahan, sherwood	No	Unionized Workforce
Normal, IL	55,000	17,251	always public	city department	\$10.5M	\$4.7M	\$10.2M	\$6.3M	\$42.79/month	3/10/13 6% consumptions 10% customer charge	No. Pay city for in-kind services. No excess	None	No	No
Bloomington, IL	79,000	30,500	publicly created 1875; expanded 1929 with private purchase	city department	\$16.3M	\$8.1M	\$17.9M	\$17.5M	\$33.14/month	5/2011; 7%	no, loans made to city general fund	yes; Hudson, Towanda, Crestwicke, others	No	Yes
St. Charles, MO	374,000	65,000	created 1963. always public	city department	\$7.2M	\$1,2M	\$8.9 M	\$9M	\$23.00/month	5.8% 2015	No	Yes, in St. Charles county	No	half union
Indianapolis, IN	853,000	80,000	city bought from private operator in 2002; Citizens Energy acquired from city in 2011	public charitable trust	\$130M	\$54.2M	\$169M	0/paying off debt	\$38.15/month	\$6/month pending	Pays prop taxes	8 county metro area	No	Unionized Workforce
Austin, TX	891,895	215,955	created 1871	city department	\$270M	\$182M w/wastewater	\$287M	\$38M	\$40.73/month	13.50%	yes	Many	No	Some. Right to work state
Bolingbrook, IL	74,000	22,000	created current system 2001; bolingbrook had public water system dating to mid-1900s	private/IAWC	not available	not available	not available	not available	\$86.89/month	2011/bills increased since	IAWC pays taxes	No	ICC	No
Des Moines, IA	209,220	81,073	1911 with a price agreement reached in 1913	City owned, City Council Appointed Board of Trustees	\$40.9M	\$22.6M	\$59.4M	\$25M	\$28.34/month	10%	\$940K	Yes	No	Unionized Workforce
Huber Heights, OH	38,142	16,000	1995	City Owned, Contractor Operator	\$2.9M	\$1.27M	\$4.6M	\$5M	\$24.55/month	2006	\$135K	Yes	No	No
Pekin, IL	34,081	14031 (as of 2010)	1888 and in 1982 ICC approved merger of Pekin Water Works and IAWC	IAWC	\$5.8M	unknown	\$8.5M	unknown	\$42.39/month	17.40%	IAWC pays taxes	No	ICC	Unionized workforce
Rockford, IL	150,251	55,000	1869 Rockford Water Works company incorporated and in 1874 the city passed a vote and it became a municipality owned waterworks.	city department	\$22.3M	\$11.9M	\$23.7M	\$16.3M	\$24.71/month	3% in 2015	No	No	No	Unionized workforce

Exhibit 4a - History of rate increases - percentage and ownership

#	Date Received	% Increase		Owner
1	May-75	26.30%	*	Peoria Water
2	May-77	21.90%	*	Peoria Water
3	May-79	11.00%	*	Peoria Water
4	Dec-80	24.50%	*	Peoria Water
5	Dec-81	15.60%	*	Peoria Water
6	Oct-83	7.00%	*	Peoria Water
7	Sep-84	7.60%	**	IAWC—Peoria District
8	Mar-86	8.34%	**	IAWC—Peoria District
9	Dec-90	7.69%	**	IAWC—Peoria District
10	Feb-93	12.45%	***	IAWC—Peoria District
11	Jan-96	7.88%	***	IAWC—Peoria District
12	Dec-97	15.14%	***	IAWC—Peoria District
13	Feb-01	8.00%	***	IAWC—Peoria District
14	Aug-03	13.30%	*	IAWC—Peoria & Southern Districts
15	Jul-08	14.90%	*	IAWC—Peoria & Southern Districts
16	Apr-10	22.40%	*	IAWC—Zone 1
17	Sep-12	8.80%	*	IAWC—Zone 1

* Source: Illinois Commerce Commission website

** Source: Illinois Commerce Commission staff

*** Source: Sue Atherton, IAWC (Sept. 2002)

13.69% Average rate increase (1975-2012)

15.37% Average rate increase (2008-2012)

6.13% Average annual increase 1975-2012 (37 years)

9.22% Average annual increase 2007-2012
(5-year period prior to the last regular rate hike)

* When the last general rate increase was approved in 2012, the Qualifying Infrastructure Plant (QIP) charge for Peoria was 3.48%, It is now 8.12%. Therefore, costs to customers has increased by 4.64% since 2012.

Exhibit 4b – History of rate increases - visual history and comparisons

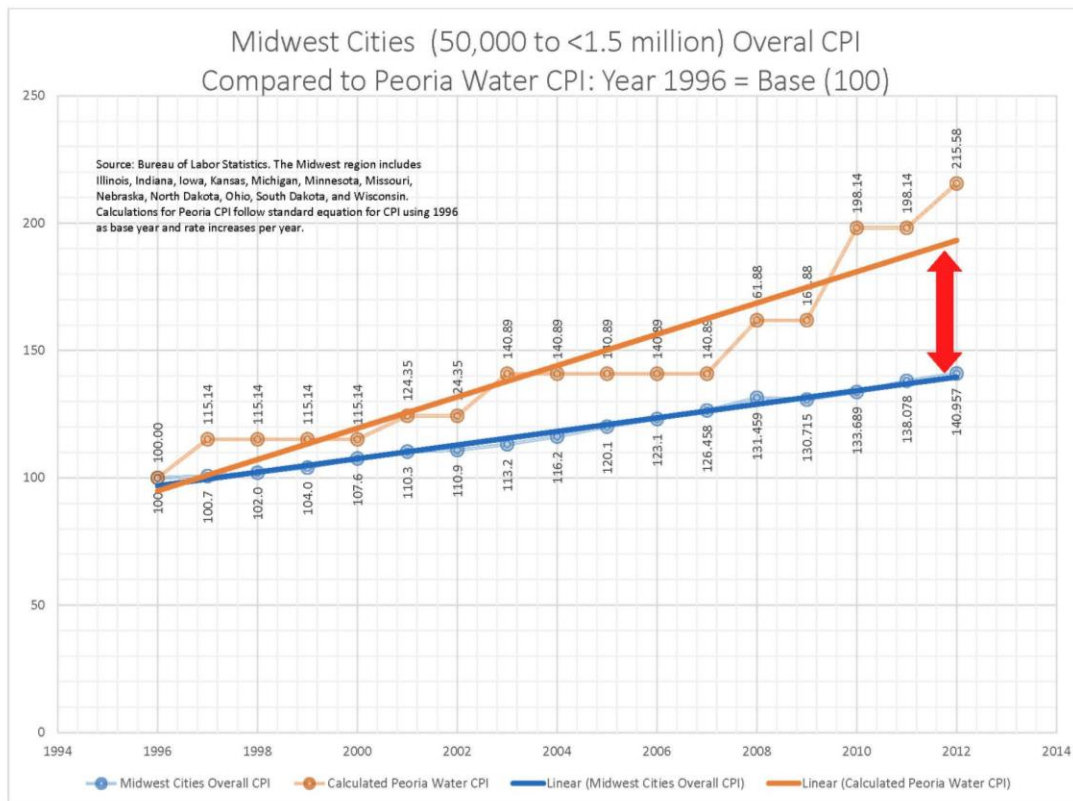
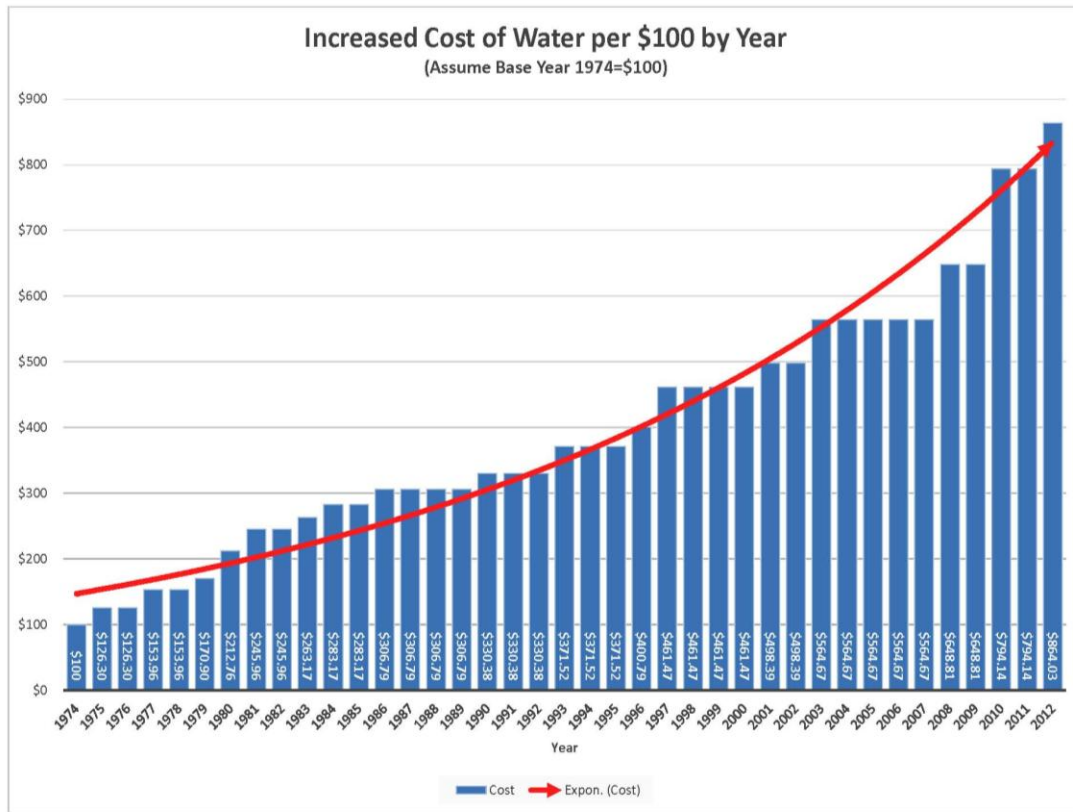


Exhibit 5 - Financial Highlights

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Illinois-American Water Company Total Company Statement of Operating Income with Adjustments For the Test Year Ending September 30, 2013

Line No.	Description	Company Rebuttal Case Pro Forma Adjusted	Approved Adjustments (Appendix A, p. 3, Column (i))	Pro Forma Present (Cols. b+c)	Company Proposed Increase (Company Update & Rebuttal)	Gross Revenue Conversion Factor	Rates With Order Adjustments (Cols. d+e+f)	Adjustment To Proposed Increase	Operating Statement Per Order (Cols. g+h)
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
1	Tariff Revenue	\$ 208,610,790	\$ 2,190,580	\$ 210,801,370	\$ 34,768,620	\$ (325)	\$ 245,569,665	\$ (16,840,102)	\$ 228,729,563
2	Other Revenue	3,491,246	-	3,491,246	-	-	3,491,246	-	3,491,246
3	Total Operating Revenue	212,102,036	2,190,580	214,292,616	34,768,620	(325)	249,060,911	(16,840,102)	232,220,809
4	Uncollectible Accounts Expense	1,983,451	18,620	2,002,071	295,854	(324)	2,297,601	(143,141)	2,154,460
5	Labor	25,120,426	-	25,120,426	-	-	25,120,426	-	25,120,426
6	Fuel & Power	6,099,830	182,000	6,281,830	-	-	6,281,830	-	6,281,830
7	Chemicals	7,626,126	-	7,626,126	-	-	7,626,126	-	7,626,126
8	Waste Disposal	1,267,050	-	1,267,050	-	-	1,267,050	-	1,267,050
9	Service Company Fees	20,113,947	(3,423)	20,110,524	-	-	20,110,524	-	20,110,524
10	Group Insurance	6,282,114	-	6,282,114	-	-	6,282,114	-	6,282,114
11	Pensions	3,136,896	-	3,136,896	-	-	3,136,896	-	3,136,896
12	Regulatory Expense	963,326	(54,374)	908,952	-	-	908,952	-	908,952
13	Insurance - other	2,925,004	-	2,925,004	-	-	2,925,004	-	2,925,004
14	Customer Accounting	2,616,935	-	2,616,935	-	-	2,616,935	-	2,616,935
15	Rents	1,229,184	-	1,229,184	-	-	1,229,184	-	1,229,184
16	General Office Expense	2,363,139	-	2,363,139	-	-	2,363,139	-	2,363,139
17	Maintenance - other	7,968,939	-	7,968,939	-	-	7,968,939	-	7,968,939
18	Miscellaneous	11,665,253	(51,159)	11,614,094	-	-	11,614,094	-	11,614,094
19	Depreciation & Amortization	43,885,732	-	43,885,732	-	-	43,885,732	-	43,885,732
20	Taxes other than Income	13,721,048	-	13,721,048	-	-	13,721,048	-	13,721,048
21	Total Operating Expense								
22	Before Income Taxes	158,968,400	91,664	159,060,064	295,854	(324)	159,355,594	(143,141)	159,212,453
23	State Income Tax	1,388,408	76,001	1,464,409	1,528,779	(1)	2,993,187	(740,460)	2,252,727
24	Federal Income Tax	8,730,219	573,213	9,303,432	11,530,396	-	20,833,828	(5,584,782)	15,249,046
25	Deferred Taxes and ITCs Net	2,103,819	-	2,103,819	-	-	2,103,819	-	2,103,819
26	Total Operating Expenses	171,190,846	740,878	171,931,724	13,355,029	(325)	185,286,428	(6,468,383)	178,818,045
27	NET OPERATING INCOME	\$ 40,911,190	\$ 1,449,702	\$ 42,360,892	\$ 21,413,591	\$ -	\$ 63,774,483	\$ (10,371,719)	\$ 53,402,764
28	Rate Base (Appendix A, p. 4, Column (d))								\$ 706,385,738
29	Overall Rate of Return Per Order								7.56%
30	Revenue Change (Col. (i) Line 3 minus Col. (d), Line 3)								\$ 17,928,193
31	Percentage Revenue Change (Col. (i), Line 30 divided by Col. (d), Line 3)								8.37%

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Illinois-American Water Company
Total Company
Adjustments to Operating Income
For the Test Year Ending September 30, 2013

		Sum of schedules for: Zone 1 "ZN", Chicago Metro Water "CW", Chicago Metro Waste Water "CS", Pekin "PK" & Lincoln "LC"							
Line No.	Description	Interest Synchronization (Per Order)	Rate Case Expense (Per Order)	Social/Service Memberships (Staff Ex. 11.0 Sch. 11.2 Corrected)	Management Audit Costs (Per Order)	Call Center Expansion Costs (Per Order)	Chemical Expense (Per Order)	Revenue Adjustment (AG Ex. 1.03) (AG Ex 2.2, C-1)	Subtotal Operating Statement Adjustments
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
1	Tariff Revenue	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,302,388	\$ 2,302,388
2	Miscellaneous Revenue	-	-	-	-	-	-	-	-
3	Total Operating Revenue	-	-	-	-	-	-	2,302,388	2,302,388
4	Uncollectible Accounts Expense	-	-	-	-	-	-	19,570	19,570
5	Labor	-	-	-	-	-	-	-	-
6	Fuel & Power	-	-	-	-	-	-	182,000	182,000
7	Chemicals	-	-	-	-	-	-	-	-
8	Waste Disposal	-	-	-	-	-	-	-	-
9	Service Company Fees	-	-	-	-	(3,423)	-	-	(3,423)
10	Group Insurance	-	-	-	-	-	-	-	-
11	Pensions	-	-	-	-	-	-	-	-
12	Regulatory Expense	-	(54,374)	-	-	-	-	-	(54,374)
13	Insurance - other	-	-	-	-	-	-	-	-
14	Customer Accounting	-	-	-	-	-	-	-	-
15	Rents	-	-	-	-	-	-	-	-
16	General Office Expense	-	-	-	-	-	-	-	-
17	Maintenance - other	-	-	-	-	-	-	-	-
18	Miscellaneous	-	-	(51,159)	-	-	-	-	(51,159)
19	Depreciation & Amortization	-	-	-	-	-	-	-	-
20	Taxes other than Income	-	-	-	-	-	-	-	-
21	Total Operating Expense	-	-	-	-	-	-	-	-
22	Before Income Taxes	-	(54,374)	(51,159)	-	(3,423)	-	201,570	92,614
23	State Income Tax	(17,080)	2,411	2,270	-	151	-	93,165	80,917
24	Federal Income Tax	(128,831)	18,187	17,112	-	1,145	-	702,680	610,293
25	Deferred Taxes and ITCs Net	-	-	-	-	-	-	-	-
26	Total Operating Expenses	(145,911)	(33,776)	(31,777)	-	(2,127)	-	997,415	783,824
27	NET OPERATING INCOME	\$ 145,911	\$ 33,776	\$ 31,777	\$ -	\$ 2,127	\$ -	\$ 1,304,973	\$ 1,518,564

Exhibit 5 - Financial Highlights

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Illinois-American Water Company
Total Company
Adjustments to Operating Income
For the Test Year Ending September 30, 2013

Sum of schedules for: Zone 1 "ZN", Chicago Metro Water "CW", Chicago Metro Waste Water "CS", Pekin "PK" & Lincoln "LC"									
Line No.	Description	Subtotal Operating Statement Adjustments	Scott AF Base Large User Tariff (IAWC Exhibit 5.02SR)	(Source)	(Source)	(Source)	(Source)	(Source)	Total Operating Statement Adjustments
	(a)	(j)	(k)	(l)	(m)	(n)	(o)	(p)	(q)
1	Tariff Revenue	\$ 2,302,388	\$ (111,808)	\$ -				\$ -	\$ 2,190,580
2	Miscellaneous Revenue	-	-	-	-	-	-	-	-
3	Total Operating Revenue	2,302,388	(111,808)	-	-	-	-	-	2,190,580
4	Uncollectible Accounts Expense	19,570	(950)						18,620
5	Labor	-	-	-	-	-	-	-	-
6	Fuel & Power	182,000	-	-	-	-	-	-	182,000
7	Chemicals	-	-	-	-	-	-	-	-
8	Waste Disposal	-	-	-	-	-	-	-	-
9	Service Company Fees	(3,423)	-	-	-	-	-	-	(3,423)
10	Group Insurance	-	-	-	-	-	-	-	-
11	Pensions	-	-	-	-	-	-	-	-
12	Regulatory Expense	(54,374)	-	-	-	-	-	-	(54,374)
13	Insurance - other	-	-	-	-	-	-	-	-
14	Customer Accounting	-	-	-	-	-	-	-	-
15	Rents	-	-	-	-	-	-	-	-
16	General Office Expense	-	-	-	-	-	-	-	-
17	Maintenance - other	-	-	-	-	-	-	-	-
18	Miscellaneous	(51,159)	-	-	-	-	-	-	(51,159)
19	Depreciation & Amortization	-	-	-	-	-	-	-	-
20	Taxes other than Income	-	-	-	-	-	-	-	-
	Total Operating Expense	92,614	(950)	-	-	-	-	-	91,664
21	Before Income Taxes	92,614	(950)	-	-	-	-	-	91,664
22	State Income Tax	80,917	(4,916)						76,001
23	Federal Income Tax	610,293	(37,080)						573,213
24	Deferred Taxes and ITCs Net	-	-	-	-	-	-	-	-
25	Total Operating Expenses	783,824	(42,946)	-	-	-	-	-	740,878
26	NET OPERATING INCOME	\$ 1,518,564	\$ (68,862)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,449,702

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Illinois-American Water Company Total Company Rate Base For the Test Year Ending September 30, 2013

Line No.	Description	Company Rebuttal Case Pro Forma Adjusted	Approved Adjustments (Appendix A p. 5, Column (i))	Ordered Rate Base (Col. b+c)
(a)	(b)	(c)	(d)	
1	Gross Utility Plant in Service	\$ 1,444,484,154	\$ -	\$ 1,444,484,154
2	Less: Accumulated Depreciation	(522,109,805)	-	(522,109,805)
3	Net Utility Plant in Service	922,374,349	-	922,374,349
4	Construction Work in Progress	\$ -	\$ -	\$ -
5	Utility Plant Acquisition Adj. - DuPage	117,409	-	117,409
6	Additions to Rate Base			
7	Cash Working Capital	3,512,000	(1,177,000)	2,335,000
8	Materials & Supplies	3,563,769	-	3,563,769
9	Deferred Charges - Tank Painting	11,447,243	-	11,447,243
10	FAS 109 Reg. Asset-Net of Liability	1,550,071	-	1,550,071
11	Service Company Audit Costs	1,002,691	-	1,002,691
12		-	-	-
13		-	-	-
14		-	-	-
15	Deductions From Rate Base			
16	Customer Advances	(77,848,070)	-	(77,848,070)
17	Pension Asset (Liability)	9,575,289	(9,575,289)	-
18	OPEB Liability	(1,952,531)	-	(1,952,531)
19	Contributions in Aid of Construction	(174,651,449)	-	(174,651,449)
20	Accum. Depr. On CIAC	73,396,805	-	73,396,805
21	Budget Payment Plan	(3,651)	-	(3,651)
22	Deferred Federal Income Taxes	(52,692,881)	(63,133)	(52,756,014)
23	Deferred State Income Taxes	(2,187,870)	-	(2,187,870)
24	Investment Tax Credit - pre 1971	(2,014)	-	(2,014)
25	Rate Base	<u>\$ 717,201,160</u>	<u>\$ (10,815,422)</u>	<u>\$ 706,385,738</u>

Exhibit 5 - Financial Highlights

Illinois-American Water Company
Total Company
Adjustments to Rate Base
For the Test Year Ending September 30, 2013

Sum of schedules for: Zone 1 "ZN", Chicago Metro Water "CW", Chicago Metro Waste Water "CS", Pekin "PK" & Lincoln "LC"									
Line No.	Description	Cash Working Capital (Per Order)	Pension Asset (Staff Ex. 10.0 Sch. 10.1)	Management Audit Costs (Per Order)	FIN 48 ADIT (AG Ex. 2.2)	(Source)	(Source)	(Source)	Total Rate Base Adjustments
	(a)	(b)	(c)	(e)	(f)	(f)	(g)	(h)	(i)
1	Gross Utility Plant in Service	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2	Less: Accumulated Depreciation	-	-	-	-	-	-	-	-
3	Net Utility Plant in Service	-	-	-	-	-	-	-	-
4	Construction Work in Progress	-	-	-	-	-	-	-	-
5	Utility Plant Acquisition Adj. - DuPage	-	-	-	-	-	-	-	-
6	Additions to Rate Base								
7	Cash Working Capital	(1,177,000)	-	-	-	-	-	-	(1,177,000)
8	Materials & Supplies	-	-	-	-	-	-	-	-
9	Deferred Charges - Tank Painting	-	-	-	-	-	-	-	-
10	FAS 109 Reg. Asset-Net of Liability	-	-	-	-	-	-	-	-
11	Service Company Audit Costs	-	-	-	-	-	-	-	-
12		-	-	-	-	-	-	-	-
13		-	-	-	-	-	-	-	-
14		-	-	-	-	-	-	-	-
15	Deductions From Rate Base								
16	Customer Advances	-	-	-	-	-	-	-	-
17	Pension Asset (Liability)	-	(9,575,289)	-	-	-	-	-	(9,575,289)
18	OPEB Liability	-	-	-	-	-	-	-	-
19	Contributions in Aid of Construction	-	-	-	-	-	-	-	-
20	Accum. Depr. On CIAC	-	-	-	-	-	-	-	-
21	Budget Payment Plan	-	-	-	-	-	-	-	-
22	Deferred Federal Income Taxes	-	1,465,867	-	(1,529,000)	-	-	-	(63,133)
23	Deferred State Income Taxes	-	-	-	-	-	-	-	-
24	Investment Tax Credit - pre 1971	-	-	-	-	-	-	-	-
25	Rate Base	\$ (1,177,000)	\$ (8,109,422)	\$ -	\$ (1,529,000)	\$ -	\$ -	\$ -	\$ (10,815,422)