

THE BAYONNE CONCESSION P3

SECURING A CITY'S FUTURE THROUGH INFRASTRUCTURE UPGRADES AND ONGOING INVESTMENT

Municipalities such as Bayonne, New Jersey have increasingly turned to **P3 Concession deals to address the significant gap that exists between the amount of governmental capital available, and the enormous investment required to address decades of chronic underfunding** of the nation's water infrastructure. This investment gap is a threat to the continued development of municipalities across America—particularly in communities of color, where underinvestment has been particularly acute.

The City of Bayonne's water and sewer system is an example of how chronic underinvestment in infrastructure can stymie even the brightest municipal growth prospects. With convenient access to New York City, Bayonne was poised for major economic development in the early 2000s. However, the City was saddled with extensive debt resulting from budget shortfalls. Additionally, the New Jersey Department of Environmental Protection had effectively banned all new construction until the City resolved its deteriorating water and wastewater system. At the same time, operating the water and wastewater system was becoming more burdensome, with escalating environmental standards and extended vacancies in critical positions.

Wanting to capitalize on their tremendous development opportunity, the City of Bayonne decided to monetize their water and wastewater system. Bayonne started exploring options for leveraging its water and wastewater assets in 2010, considering both operations and maintenance (O&M) and concession agreements. **Ultimately, the city chose the concession model due to the need to reduce its significant debt, fund substantial infrastructure upgrades, and share the risks inherent system operation.** The Bayonne Concession deal allows the City to maintain ownership of their system assets. At the end of the 40-year term, the City also has the opportunity to regain operational control of their vastly upgraded water and wastewater systems.

The closing of the concession deal on December 21, 2012, triggered an immediate investment of \$150 million to defease the City's existing debt and fund urgent capital improvements. **This debt reduction helped raise the City's credit rating by Moody's from Baa1 with negative outlook to A3 within three years.** In addition to defeasing outstanding debt, \$14 million was deployed over the first two years to address Bayonne's decaying water infrastructure and to install a state-of-the-art automatic metering system. Based on the infrastructure investment and operating plans, **the City estimated that the concession agreement would result in \$35 million in net present value savings over the life of the deal compared to the City's continued management.**



The initial capital improvements targeted critical safety deficiencies and also led to a reduction in the water loss rate, helping open the door to redevelopment projects citywide. The agreement also calls for annual capital investments of \$2.5 million (increasing with inflation) to maintain and improve the system infrastructure over the 40-year term of the agreement. As part of the agreement, the private investors agreed to provide access to capital for unanticipated infrastructure needs in addition to the planned annual investment. However, the agreement also allows the City to pursue public sources of financing if they so choose.

With the continual investment in physical infrastructure and automation technology, Bayonne has largely avoided the multitude of problems that other municipalities experience with aging infrastructure—boil water alerts and increased pollution from stormwater surges—while meeting the rising environmental standards from federal and state authorities.

In December 2022, the Bayonne Water Joint Venture LLC celebrated 10 years of successful operation. Since the inception of the deal more than ten years ago, Bayonne, New Jersey has undergone a major development renaissance that has added millions in new tax revenue, created hundreds of jobs, and continues to support local small businesses. **Bayonne's resulting revitalization demonstrates how a Public-Private Partnership (P3) concession model can be a lifeline for cities struggling to fund critical water and wastewater infrastructure while balancing the other fiscal priorities involved in running a city.**

Furthermore, over the 10-year life of the concession agreement to date, Bayonne's water rate increases have remained below both the national average and the city's historical average for the previous 10 years. These relatively lower rate increases demonstrate the concession model's value proposition: **The resulting savings from proactive infrastructure upgrades, procurement advantages and operational efficiencies offset the additional costs associated with the increased capital expenditures, higher cost of private capital and investor profit.**

The concession deal exemplifies **how ongoing, proactive investments in water technology and infrastructure**, in concert with operational expertise, can produce the savings required to keep water and sewer rate increases below national averages. Beyond savings, the concession agreement helps protect the environment by ensuring compliance with increasingly stringent State and Federal regulations. **Most importantly, however, the citizens of Bayonne can count on reliable and affordable water and sewer service—which increasingly cannot be taken for granted—for years to come.**

