



Towamencin Township

Results of the Sewer Exploration Process

April 6, 2022

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Sewer System Monetization Exploration Team*

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*Represents the main parties involved from each entity, however others not listed contributed to the process.



Township Goals

- ◆ Throughout the exploration process, the Township's main goals for the residents have been:
 - Receive best in class sewer service at reasonable and competitive rates.
 - Allow the Township to focus on core government functions.
 - Reduce known and unknown liabilities.
 - Provide for Township-wide anticipated capital expenditures and improvements that will significantly benefit residents.

- ◆ These goals were analyzed under different scenarios including: 1) the Township kept the system; and 2) the Township monetized(sale or lease) the system.
 - Key considerations if the Township kept the system are:
 - The wastewater system has aging infrastructure which over time will require additional investment.
 - It is projected that rates will rise if the system remains with the Township.
 - The Township will need to raise significant revenue through tax increases to do the anticipated capital projects in the Township.

- ◆ This competitive process allowed the Township to properly conduct the needed due diligence.

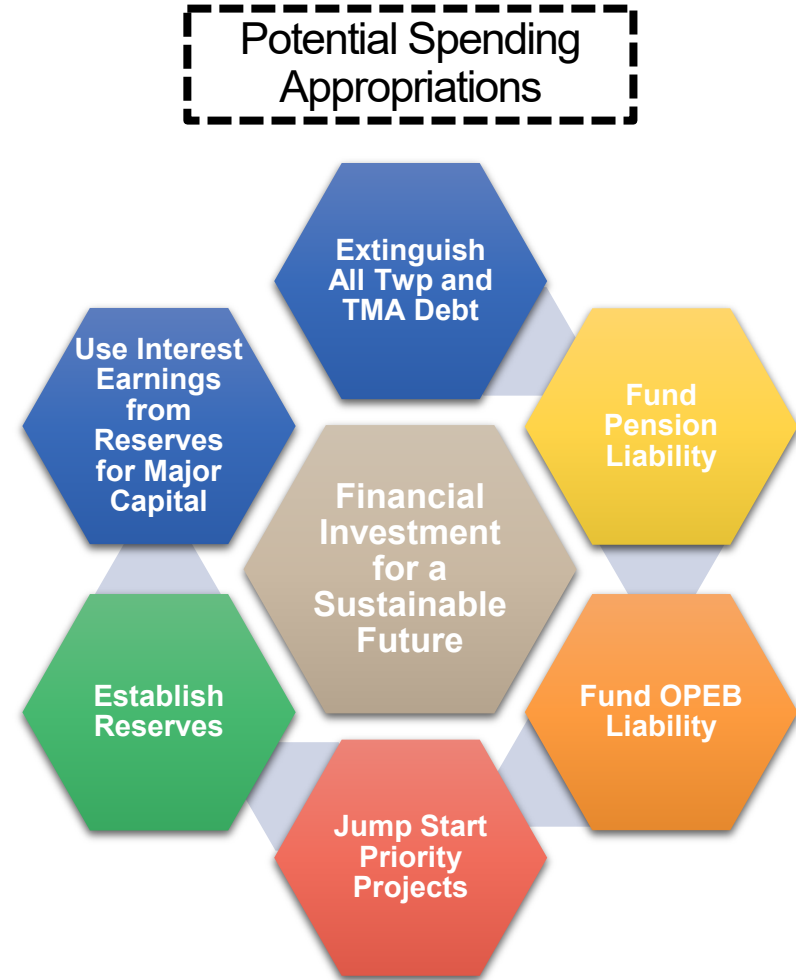


Resident/Household Impact And Township Balance Sheet Impact



How Could a Monetization Benefit Residents?

- ◆ In addition to providing residents with quality sewage service performed by an experienced operator, the transaction could also fund many Township initiatives to reinvest in the community.
- ◆ The plan would target investment in the Township that would enhance the lives of residents.
 - Some of the potential spending appropriations are shown in the graphic to the right.





Use of Proceeds - Payoff Debt Obligations and Other Liabilities

- ◆ As a part of the transaction, the Township would realize significant annual budgetary savings by paying off debt and funding pension and OPEB liabilities.
 - **The net savings impact to the budget with these initiatives is estimated at \$1,245,000 annually.**
- ◆ Residents may benefit from this by:
 - *An increase in the Homestead/Farmstead Exemption to maximum (equates to an additional \$574,165 annually or **\$130 in additional tax reduction per applicant**)*
 - *An increase in Park and Rec funding by reallocating debt millage (\$171,000 annually)*
 - *An increase in Volunteer Fire Co funding by reallocating debt millage (\$150,000 annually)*
 - *An increase in general fund revenues by reallocating debt millage to offset future cost increases/build a general fund balance (\$349,835 annually)*





Use of Proceeds - Establishment of Various Reserves & Funding Capital

- ◆ In addition to realizing budgetary savings, a large portion of the proceeds from a sale could go into various reserves for capital projects that would generate annual interest income to avoid any need for near term tax increases or a new stormwater fee imposed.
- Assuming estimated investment rates over the term of the reserves, the funds could generate an average of approximately \$1,900,000 - \$2,500,000 of additional annual income to the Township over the long term to contribute to various capital initiatives and leverage grant opportunities.
- The reserves are proposed to be perpetual.
 - The reserves created may be:
 - Facilities and Major Equipment
 - Fire Services Infrastructure/Equipment
 - Parks and Open Space
 - Stormwater Upgrades/MS4 Compliance Needs
 - General Capital Reserve
- ◆ A further \$5,000,000 could be set aside to jump start other projects until interest earnings are accumulated on the reserves above including: playing field improvements, road program catch up, fire apparatus and facilities, basketball and pickleball courts and playground improvements.





Illustration of Impact to Township Taxpayer and Ratepayer

Assumptions:

- Assumes a \$150,000 assessed value home.
- Current sewer bill is \$450 annually.
- Real Estate Tax is approximately \$325 assuming the current homestead/farmstead exemption.

| | Year 1 | Year 10 |
|--|----------------|----------------|
| Township Sells System | | |
| Change in sewer bill compared to 2022 rate | \$0 | \$611 |
| Change in real estate tax bill compared to 2022 | <u>(\$130)</u> | <u>(\$130)</u> |
| Net Impact to Household | (\$130) | \$481 |
| Cumulative Net Impact to Household Over 10yr period - | | \$2,979 |
| Average Per Year - | | \$298 |

| | Year 1 | Year 10 |
|--|--------------|----------------|
| Township Keeps the System | | |
| Change in sewer bill compared to 2022 rate | \$117 | \$356 |
| Change in real estate tax bill compared to 2022 | <u>\$251</u> | <u>\$446</u> |
| Net Impact to Household | \$367 | \$802 |
| Cumulative Net Impact to Household Over 10yr period - | | \$6,777 |
| Average Per Year - | | \$678 |



Impact to Township's Balance Sheet

- Township's goal would be to keep the reserves for the long term.
 - Use only the interest earnings.
- These reserves well in excess of \$50million would significantly improve the Township's balance sheet and
 - Bolster credit rating
 - Better ability to leverage grant opportunities
- Would provide long term sustainable financial flexibility to the Township.

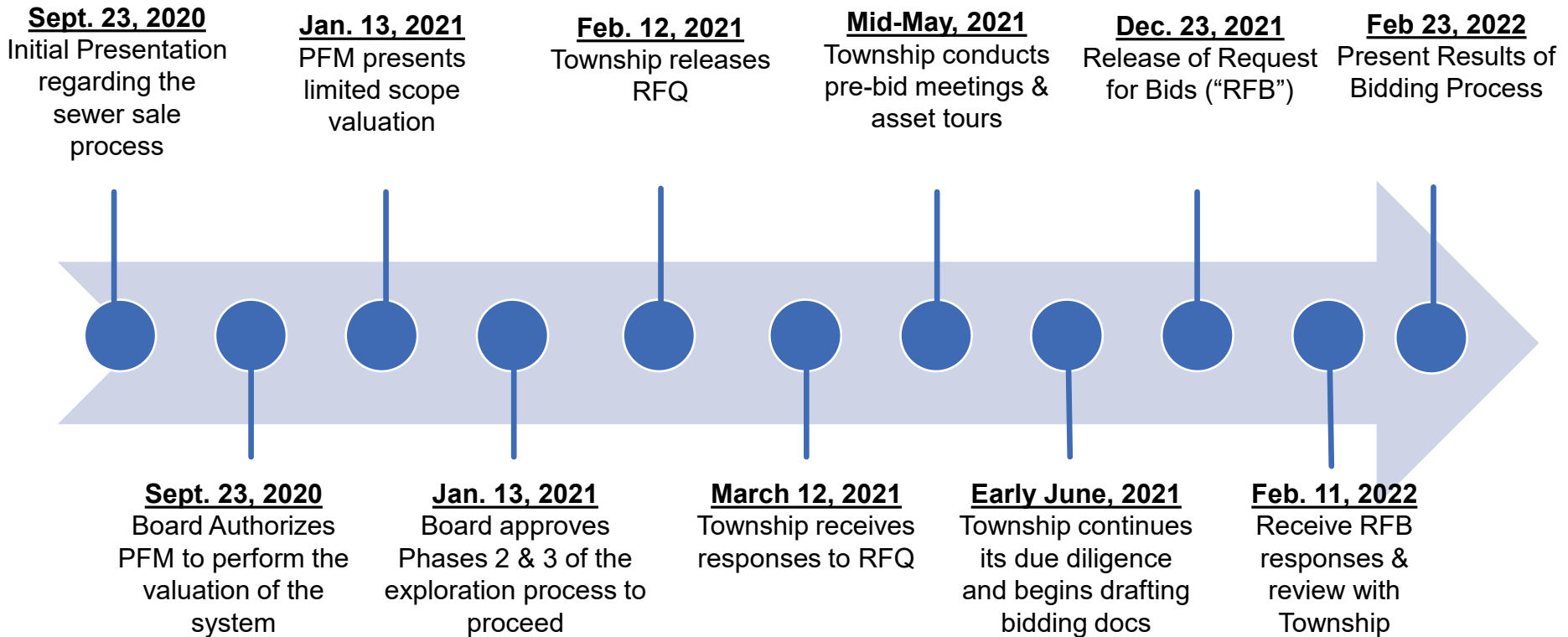


The Process



Milestone Events Leading Up To Today

◆ The exploration process has progressed since beginning back in 2020. The Township has provided transparent and frequent updates throughout the process and voluminous information available on the Township's website.





Pre-Qualified Bidders

◆ Five Bidders were pre-qualified during the RFQ process.

- **Aqua** – PUC regulated company interested in a sale of the system.
- **Pennsylvania American** – PUC regulated company interested in a sale of the system.
- **NextEra Energy** – Does not currently have a Certificate of Public Convenience and Necessity from the PA PUC but interested in a sale of the system so will need to obtain.
- **Franconia Sewer Authority** – Neighboring municipal authority (not regulated by the PUC) interested in a sale of the system.
- **VICO** – Financial team interested in a long-term lease of the system – would not be regulated by the PUC.



Highlights of the Request for Bids (“RFB”)

- ◆ The bid package was released in December 2021 and responses were due in February 2022.
- ◆ The bid package was comprised of the RFB and the APA (Asset Purchase Agreement) or ALA (Asset Lease Agreement).
- ◆ The RFB is the document that includes the various bidding forms in addition to defining the terms of submitting the bid, awarding the bid and timing of bid consideration.
 - Ex. The bids remain valid thru June 1, 2022 unless extended under certain actions.
- ◆ The ALA and APA are the documents that define all the business and legal provisions of the sale or the lease.
- ◆ Four bidders are interested in the APA and one bidder is interested in the ALA.
- ◆ The Bidders had the option of bidding on a two-year rate freeze and/or no rate freeze scenario.
- ◆ Along with purchase price, bidders were asked to provide their indicative, non-binding sewer rates through the next 10 years.
- ◆ **In evaluating the bids, the Township is considering what is the best overall package, inclusive of all qualitative and quantitative aspects.**



RFB Highlights - Employees Will Be Protected

- ◆ There are currently 14 employees dedicated to running the sewer treatment plant.
 - 12 full-time employees
 - 2 part-time employees
- ◆ The collection system is maintained by the Township Public Works Department. There would be no reduction in the workforce. Time spent on sewer maintenance would be redirected to street, parks and infrastructure maintenance.
- ◆ The Township has **mandated** as a part of the sale that all treatment plant employees are offered employment with the Buyer.
- ◆ These employees would be offered substantially comparable benefits and compensation to what they currently receive.



Types of Monetization - Outright Sale

- ◆ This is the most common structure used in monetizations in PA.
- ◆ All the assets are sold to a regulated or unregulated (authority) utility while reducing future risk and liabilities related to the system.
 - Township receives up-front payment.
- ◆ If sold to a regulated utility, PUC governs.
- ◆ If sold to an authority, Municipal Authorities Act governs.
- ◆ After closing, the Township is usually only involved in sewer operations for:
 - Act 537 planning & Economic Development
 - Coordinating street paving with new owner
 - Ordinance enforcement for I&I and environmental issues and sewer connections
- ◆ Rates are set by the PUC if purchaser is a regulated utility.
 - Rates typically increase every 2-4 years.
- ◆ If unregulated, authority sets rates.
- ◆ Purchaser may have the ability to spread costs across its customer base.



Types of Monetization - Asset Lease

- ◆ Less common than outright sale in PA.
- ◆ All the assets are leased to a concessionaire typically for 30-50 years.
 - Township receives up-front payment and possibly an annual payment.
 - Township retains ownership but shifts away certain risks and liabilities of the system.
 - After lease term, system is returned to the Township.
 - Township could then consider selling or leasing again at that time.
 - Presumably, the system should have a monetary value at that time.
- ◆ No PUC oversight.
 - All governance lies with the Township.
- ◆ After closing, the Township could still be involved in sewer operations.
 - Assuring the concessionaire adheres to concession agreement & operating standards.
 - Can be time consuming depending on involvement.
 - Potential for contract disputes between Township & Concessionaire.
- ◆ Base rates increases are prescribed in the Asset Lease Agreement.
 - Typically, smaller annual increases as compared to a sale to a PUC regulated entity.
- ◆ Capital projects & cost recovery are prescribed in the Asset Lease Agreement.
- ◆ System will be self sustaining, meaning costs will be paid by current customers.



Pennsylvania Public Utility Commission - Regulation of Rates

- ◆ The Pennsylvania Public Utility Commission (PUC) is the regulatory agency that oversees and regulates certain utility providers including some involved in this process.
- ◆ These companies are not permitted to adjust rates on their own.
 - Instead, they must submit a formal request to the PUC called a “rate case”.
 - The PUC will then spend nine months to a year analyzing thousands of documents and taking the testimony of numerous individuals in a “court-like” process to determine if and how much of a rate increase is justified.
 - Customers may submit their objections to rate changes and intervene in the PUC process.
 - The PUC has an Office of Consumer Advocate to argue for lower rates in these proceedings.
 - These rate increases would primarily be driven by future capital spending and operating costs.
 - Part of the PUC vetting would be to make sure that the capital projects that were undertaken are prudent and would enhance the system.
 - Based on history and future expectations, these companies may apply for a rate adjustment every few years. Some companies have gone extensive periods without a rate change.



Public Utility Commission - Act 12 Process

◆ Act 12 allows the seller of utility assets to sell for the Fair Market Value instead of only the depreciated original cost.

- May result in a higher purchase price for the assets.
- Long, exhaustive process with thousands of documents submitted to the PUC for review (and testimony given).
- PUC has six months from the date of acceptance of the acquisition filing to issue a final order either approving or denying the sale.

◆ Act 12 - Valuation Process

- At beginning of the PUC process, seller and buyer split the cost of an engineer to develop a list of system assets.
- Then the seller and the buyer each hire an independent utility valuation expert (UVE).
 - Each UVE will provide a Fair Market Value appraisal for the system.
 - The appraisals will then be averaged, and that value will be considered the Fair Market Value.
 - The appraisals, the FMV, the purchase price and the Seller's existing tariff shall be included in Buyer's application for PUC approval of the acquisition.
- Upon PUC final order approving the acquisition, the ratemaking rate base of Seller shall be the lessor of the purchase price or the FMV (unless a settlement is reached).



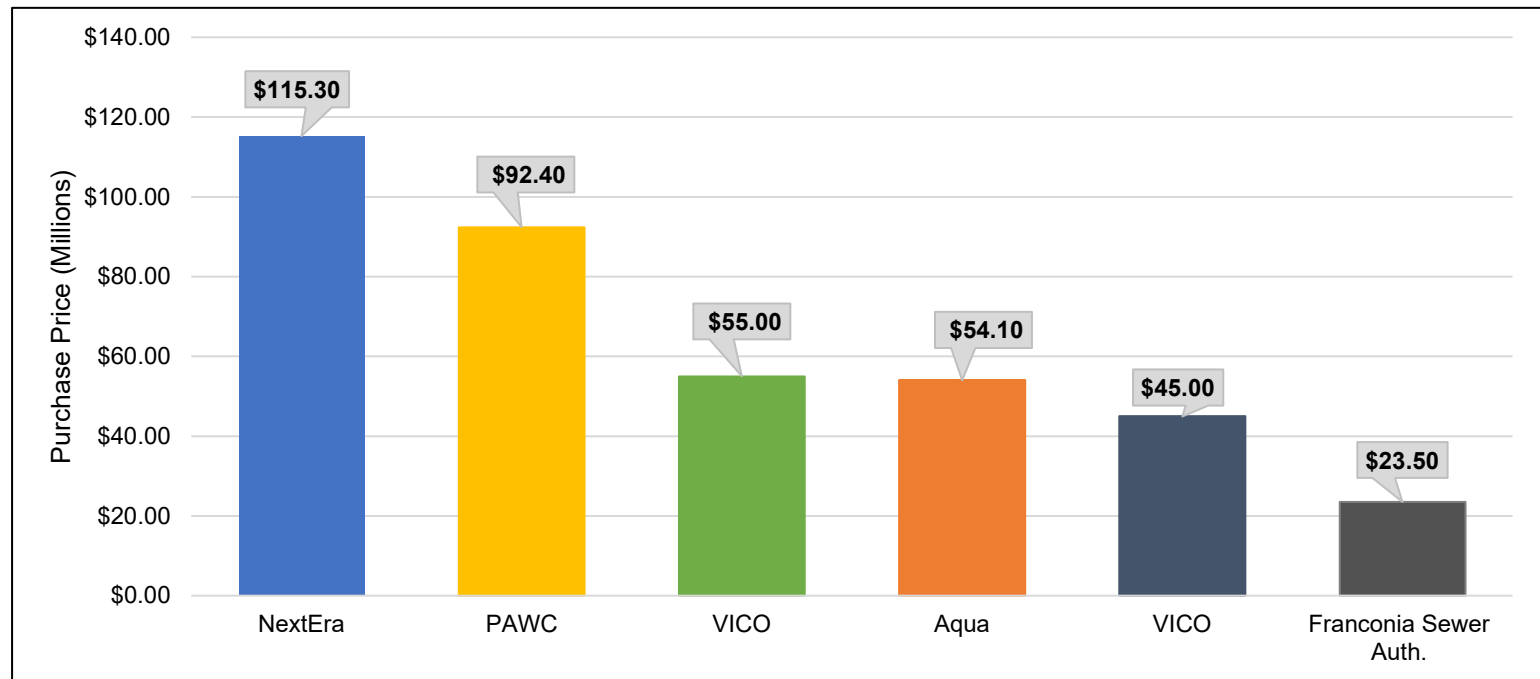
Comparison: Outright Sale vs. Asset Lease

| | Outright Sale of System | | System is Leased |
|---|---------------------------------------|--------------------------------------|---|
| | Investor Owned Utility | Municipal Authority | Concession Lease |
| Ownership | Purchaser | Purchaser | Remains with municipality |
| Term of Agreement | In perpetuity | In perpetuity | Typically 30-50 years |
| Regulator | PA Public Utility Commission ("PUC") | Municipality Authorities Act | Municipality (through the Lease Agreement & Operating Standards) |
| Municipality's Involvement with System after Closing | Little | Little | Could be Substantial and ongoing |
| Legal Contract | Asset Purchase Agreement ("APA") | Asset Purchase Agreement ("APA") | Lease Agreement & Operating Standards |
| Utility Rates | Set by PUC | APA and Municipality Authorities Act | Set in Lease Agreement |
| Closing | 1-1.5 years | 3-6 months± | 3-12 months± |
| Capital Improvements | Purchaser controls (regulated by PUC) | Purchaser controls | Set in Lease Agreement & Operating Standards with Municipality approval |
| Ability to Spread Costs? | Yes | Potentially | No |



Summary of Bids Received – Upfront Payment

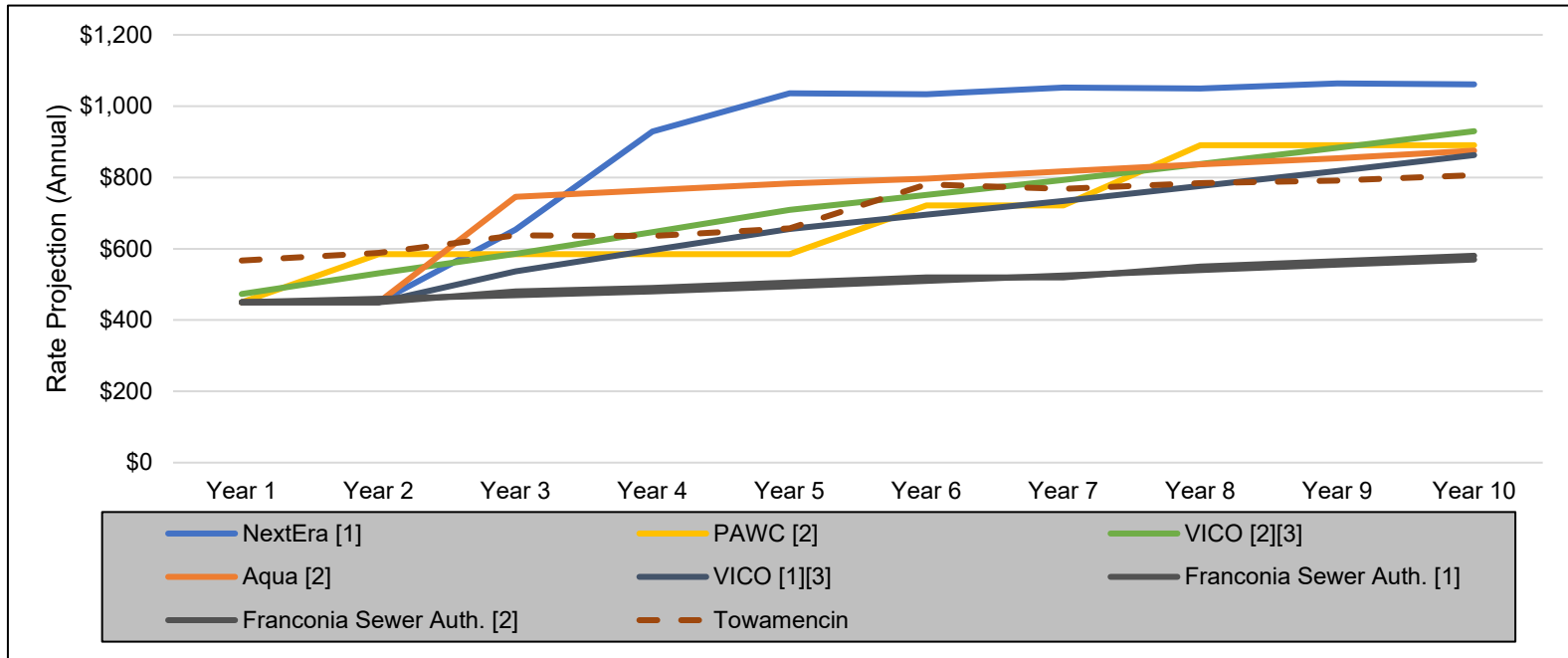
- Some bidders submitted only a response for the 2-year guaranteed rate freeze, others submitted a response for only the no guaranteed rate freeze period, and some submitted for both options.





Summary of Bids Received – Indicative Rates

- Indicative rates below also include what estimated rates are projected to be if the Township kept the system.



[1] Assumes a two-year rate freeze.

[2] Assumes no rate freeze.

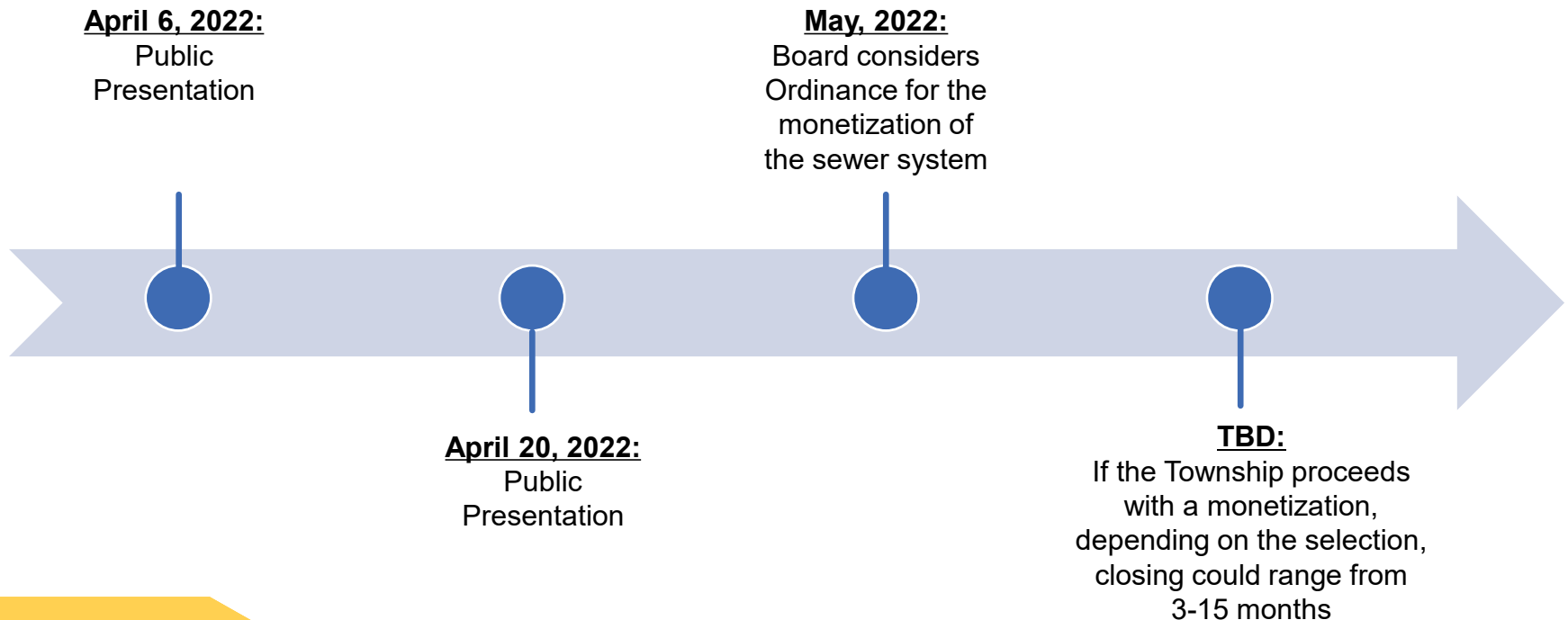
[3] Indicative rates inclusive of the Township & TMA's existing capital plans.

*Estimated rates assuming the Township keeps ownership of its system.



Estimated Timeline Going Forward

- ◆ Today is the first of two scheduled public presentations.
- ◆ Depending on outcome of May Board meeting, closing of a potential transaction could range from three months to fifteen months.





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Thank You



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