<u>Additional FAQ's (answers provided by PFM)</u>

1. **How much of the $1 million and change that the township gets from TMA goes towards things other than collection system maintenance?**

   The $1.1mm that was used for township overhead and public works was accounted for in the models and analyses. As a worst-case scenario, we assumed that all of that money was used for non-sewer related items.

   For clarification, Cheltenham absolutely knew **before** and during and after the exploration process about the financial impact of relying on sewer revenues for general fund purposes. Cheltenham Township most definitely did not find out about this after the sale. PFM was engaged in late 2016 and models and analysis were reflecting this in early 2017 and throughout the process including up to closing in late 2019 and then after closing as well.

2. **Why did we bake in 5% yearly increases for the sewer general expenses in our rate projection? None of the other bidders used that assumption and if you back that assumption out, the projection will look pretty similar to Franconia's.**

   The model that assumes the Township keeps the system assumes 5% increase in general operating costs which includes many line items such as labor, healthcare, materials and supplies. Other assumptions were provided in a previous FAQ response such as using today's cost of borrowing and the assumption that the Township will receive various grants for capital projects. The long term capital requirements did not factor in inflation. This results in a fair and reasonable analysis.

   VICO expressly stated that they assumed a 2% inflation rate on operating expenses, Franconia states, "Proposer is a not for profit and the above indicative monthly bills are based upon its historical rate increases which average 2.80%". We are not sure if interpreting that as their stated assumption on inflation rates is correct assumption to make. NEE, Aqua & PAWC did not expressly state their assumed inflation rate (or if they assumed one at all). To assert that they didn't assume any inflation would be inappropriate.

   Our methodology is completely appropriate where we use an escalator for operating expenses but not for capital requirements. This is not meant to be a precise accounting model but rather more of an econometric model. Assuming no escalator in the capital costs blends everything down to a very reasonable assumption. Again, this is very standard practice in modeling and especially for long term planning for local governments.

3. **Why is low interest debt being paid off?**

   We must pay off the sewer related debt. There is NO question about that. That is about $9mm or so. A decision on the balance of the debt can be made closer to the closing date taking into account market conditions at that time which is probably a year away.