



Towamencin Township

Results of the Sewer Exploration Process – Post Bid Receipt, Public Forum #2

April 20, 2022

Prepared by:

PFM Financial Advisors LLC

PFM Financial Advisors
LLC

100 Market Street
Harrisburg, PA 17101

717.231.6265
pfm.com



Summary of Key Events

- ◆ Dating back to 2020 and even prior, the Township enlisted expert outside engineering, financial and legal counsel to provide an objective assessment.
- ◆ Township solicited potential buyers/investors via a Request for Qualification based on industry established criteria for the possible execution of an Agreement.
- ◆ Five potential bidders were pre-qualified and participated in a rigorous vetting, full disclosure and collaborative assessment process.
- ◆ Township issued a Request for Bid (“RFB”), due February 11, 2022.
- ◆ Township presented the results of the RFB on February 23, 2022.
- ◆ Township conducted first public forum on April 6, 2022.



Estimated Sources & Uses of Proceeds

- Shown below are the estimated sources and uses of proceeds resulting from the transaction assuming the NextEra bid is accepted.

SOURCES	
Purchase Price	\$115,300,000
Cash on Hand*	\$5,000,000
Total Sources	\$120,300,000

*Estimated, may fluctuate until closing occurs.

Estimated Proceeds Available for Reserves
\$87,000,000

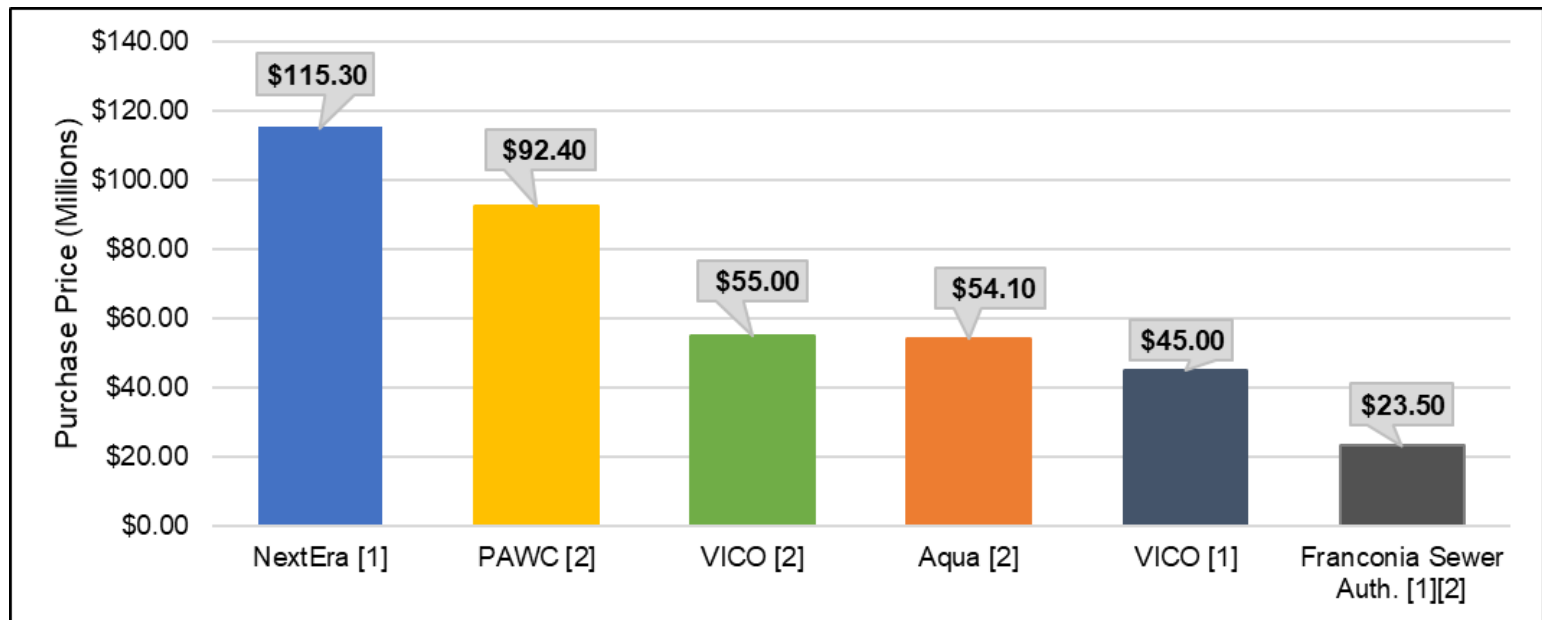
USES	
Payoff of Sewer Debt*	\$9,000,000
Payoff of All Other Debt*	\$10,000,000
Pension/OPEB Funding	\$7,500,000
Jump Start Priority Projects	\$5,000,000
Transaction Fees & Contingency*	\$1,800,000
Total Uses*	\$33,300,000

*Estimated.



Summary of Bids Received – Upfront Payment

- ◆ The RFB asked for both purchase price/upfront payment and indicative rates.
- ◆ 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.



[1] Assumes a two-year rate freeze.

[2] Assumes no rate freeze.



Key Business Terms of the Potential Transaction

- ◆ The transaction that is being considered can be summarized as follows:
 - The sanitary sewer system and related equipment would be sold to the Buyer.
 - Service would continue as usual only under different ownership.
 - No **sewer treatment employees** would lose their jobs, they will be offered employment with the Buyer. The **Township employees** that currently maintain the collection system will stay with the Township and will be redirected to street, parks and infrastructure maintenance.
 - The Township will maintain control of its Act 537 Planning and economic development.
 - Rates will be governed by the PAPUC after the mandatory 2-year rate freeze.



Possible Use of Proceeds

- ◆ **Elimination of Debt** ⁽¹⁾: Approximately \$19 million
- ◆ **Fund Pension & OPEB Liabilities**: Approximately \$7.5 million
- ◆ **Jump-Start Key Township Capital Projects**: Approximately \$5 million
- ◆ **Establish Various Capital Reserves to Fund Township wide projects**:
 - Facilities and Major Equipment: Approximately \$15 million
 - Fire Services Infrastructure/Equipment: Approximately \$10 million
 - Parks and Open Space: Approximately \$20 million
 - Stormwater Upgrades/MS4 Compliance Requirements: Approximately \$20 million
 - Transportation Projects: Approximately \$22 million

[1] IRS regulations require debt to be paid off instead of investing the sale proceeds at a higher rate.



Reinvesting Proceeds Back Into the Community – *Use of the Budgetary Savings*

- ◆ 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 to be \$1,245,000 annually.**
- ◆ Residents may realize a benefit from this budgetary savings through:
 - An increase in the Homestead/Farmstead Exemption to the maximum.
 - This equates to an additional \$574,000 annually, **or \$130 in additional tax reduction per applicant.**
 - An increase in Park & Recreation funding by reallocating debt millage (\$171,000 annually).
 - An increase in Volunteer Fire Company 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 (\$350,000 annually).



Reinvesting Proceeds Back Into the Community – *Use of the Interest Earnings from Reserves*

◆ **Open Space and Parks Reserve:** \$20 Million (est. annual interest earnings of \$600,000 per year). The Township will continue to seek additional funding sources including grants.

- Implement Parks and Trails Evaluation (adopted - 2020) over the next 10 years
- Update Open Space Needs Analysis (last update 2006)
- Open Space acquisitions
- Towamencin Youth Association annual capital requests for athletic field improvements - \$50,000 per year
- Community Pool infrastructure – Average \$50,000 per year



Reinvesting Proceeds Back Into the Community – *Use of the Interest Earnings from Reserves*

◆ **Stormwater Upgrades/MS4 Requirements:** \$20 Million (est. annual interest earnings of \$600,000 per year). The Township will continue to seek additional funding sources including grants.

- Fund Towamencin share of Skippack Creek Alliance Pollution Reduction Plan over the next 5 years
- Fund Towamencin share of additional 5-year cycles
- Complete Strategic Stormwater Management Plan (adopted March 2021) over the next 5 – 10 years
- Replacement of 150,000 linear feet of corrugated storm sewer pipe over the next 15 years

◆ **Creation of this reserve eliminates the need for a separate storm water fee in the future.**



Reinvesting Proceeds Back Into the Community – *Use of the Interest Earnings from Reserves*

◆ **Fire Service Infrastructure/Equipment:** \$10 Million (est. annual interest earnings of \$300,000 per year). The Township will continue to seek additional funding sources including grants.

- Main Fire Station upgrade/replacement to meet current & future needs and standards
- Replace Pumper Trucks (2) every 10 years
- Replace Rescue Truck every 25 years
- Replace Tanker Truck as needed
- Replace Support Vehicles every 5 - 10 years
- Replace Other Equipment as needed



Reinvesting Proceeds Back Into the Community – *Use of the Interest Earnings from Reserves*

◆ **Facilities and Major Equipment:** \$15 Million (est. annual interest earnings of \$450,000 per year). The Township will continue to seek additional funding sources including grants.

- Fund Township vehicle and equipment replacement schedule
- Capital repairs and upgrades to Township facilities (non-park) as needed



Reinvesting Proceeds Back Into the Community – *Use of the Interest Earnings from Reserves*

◆ Transportation Projects: \$22 Million (est. annual interest earnings of \$660,000 per year). The Township will continue to seek additional funding sources including grants.

- Fund Township share or match of planned and anticipated intersection improvements, such as:
 - a) Welsh and Orvilla Roads
 - b) Sumneytown Pike and Valley Forge Road
 - c) Sumneytown Pike and Troxel Road
 - d) Sumneytown Pike and Kriebel Road



Illustration of Impact to Township Taxpayer and Ratepayer

Year 1		Retain Ownership	System Sold
Household Impact	Sewer Fees	\$450	\$450
	Real Estate Taxes	\$450	\$320
	Homestead Exemption	\$50,000	\$76,000
Budgetary Impact	Outstanding Debt	\$19,079,000	\$0
	Annual Debt Service Expense	\$2,200,000	\$0
	Capital Reserves	\$4,000,000	\$87,000,000

Year 10		Retain Ownership	System Sold
Household Impact	Sewer Fees	\$806	\$1,061
	Real Estate Taxes	\$896	\$320
	Homestead Exemption	\$50,000	\$76,000
Budgetary Impact	Outstanding Debt (1)	\$34,765,000	\$0
	Annual Debt Service Expense	\$4,500,000	\$0
	Capital Reserves	\$4,000,000	\$87,000,000

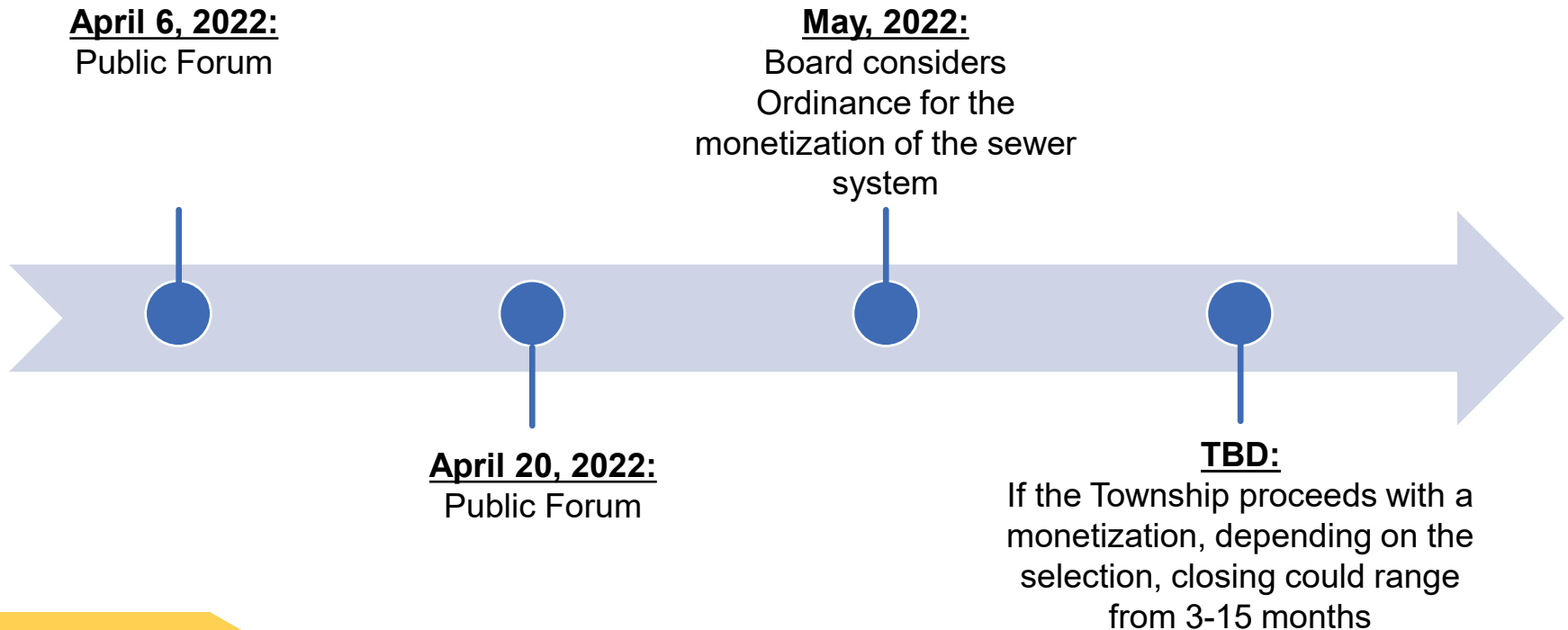
Cumulative Net Impact to Household over 10-Year Period		\$16,000	\$12,000
Average Per Year		\$1,600	\$1,200

[1] Reflects the amount of debt outstanding in Year 10, actual debt outstanding could be as high as \$45 million, or higher, depending on the time of the borrowing and the reference year.



Potential Timeline Going Forward

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





Closing Remarks

- ◆ The Township began this exploration to determine the potential benefits that the residents could experience from the sale or lease of the sewer system.
 - With the \$115,300,000 purchase price being offered by NextEra, funds would be available for the Township to accomplish its goals.
- ◆ The key components of the sale are:
 - The system would be sold to an experienced operator that will be heavily regulated by the PAPUC
 - Future rates would be set by the PAPUC
 - Funds would be used to benefit the residents of Township over the long term



Disclosure

The information and any analyses contained in this presentation are taken from, or based upon, information obtained from the recipient or from publicly available sources, the completeness and accuracy of which has not been independently verified and cannot be assured by PFM. The information and any analyses in these materials reflect prevailing conditions and PFM's views as of this date, all of which are subject to change. To the extent projections and financial analyses are set forth herein, they may be based on estimated financial performance prepared by or in consultation with the recipient and are intended only to suggest reasonable ranges of results. Opinions, results, and data presented are not indicative of future performance. The printed presentation is incomplete without reference to the oral presentation or other written materials that supplement it. To the extent permitted by applicable law, no employee or officer of PFM's financial advisory business, nor any of PFM's affiliated companies, accept any liability whatsoever for any direct or consequential loss arising from negligence or from any use of this presentation or its contents. The ultimate decision to proceed with any transaction rest solely with the client.

Thank You



pfm