



East Whiteland Township

Results of Sewer Monetization Exploration Process

November 11, 2020

Prepared by:

PFM Financial Advisors LLC

PFM Financial Advisors
LLC

213 Market Street
Harrisburg, PA 17101

717.232.2723
pfm.com



Sewer Exploration Team*

◆ Township Administration

- John Nagel, Manager
- Steve Brown, Assistant Manager
- John Neild, Acting Public Works Director
- Zachary Barner, Planning & Development Director
- Brittany Carosello, Planning Coordinator

◆ Township Solicitor

- Joe McGrory, Hamburg Rubin Mullin Maxwell & Lupin, PC
- Dan Maschi, Hamburg Rubin Mullin Maxwell & Lupin, PC

◆ Township Engineer

- Chuck Faulkner, Pennoni

◆ Special Transaction Counsel

- Tom Wyatt, Obermayer
- Kim Farmer, Obermayer

◆ Financial Advisor

- Scott Shearer, PFM
- John Frey, PFM
- Ben Kapenstein, PFM
- Garrett Moore, PFM

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



Township Goals

- ◆ To exit the sanitary sewer business and instead focus its resources on other core government functions while ensuring safe, reliable, and professional service at affordable rates for its residents
 - The Township has systems with aging infrastructure which over time will require additional investment
 - Due to this needed investment, it is projected that rates will rise regardless if the system remains with the Township or is sold

- ◆ To generate significant up-front proceeds to be used for Township purposes
 - Over the course of the next 9 – 12 months, the Township will be discussing specific uses of the funds during public meetings



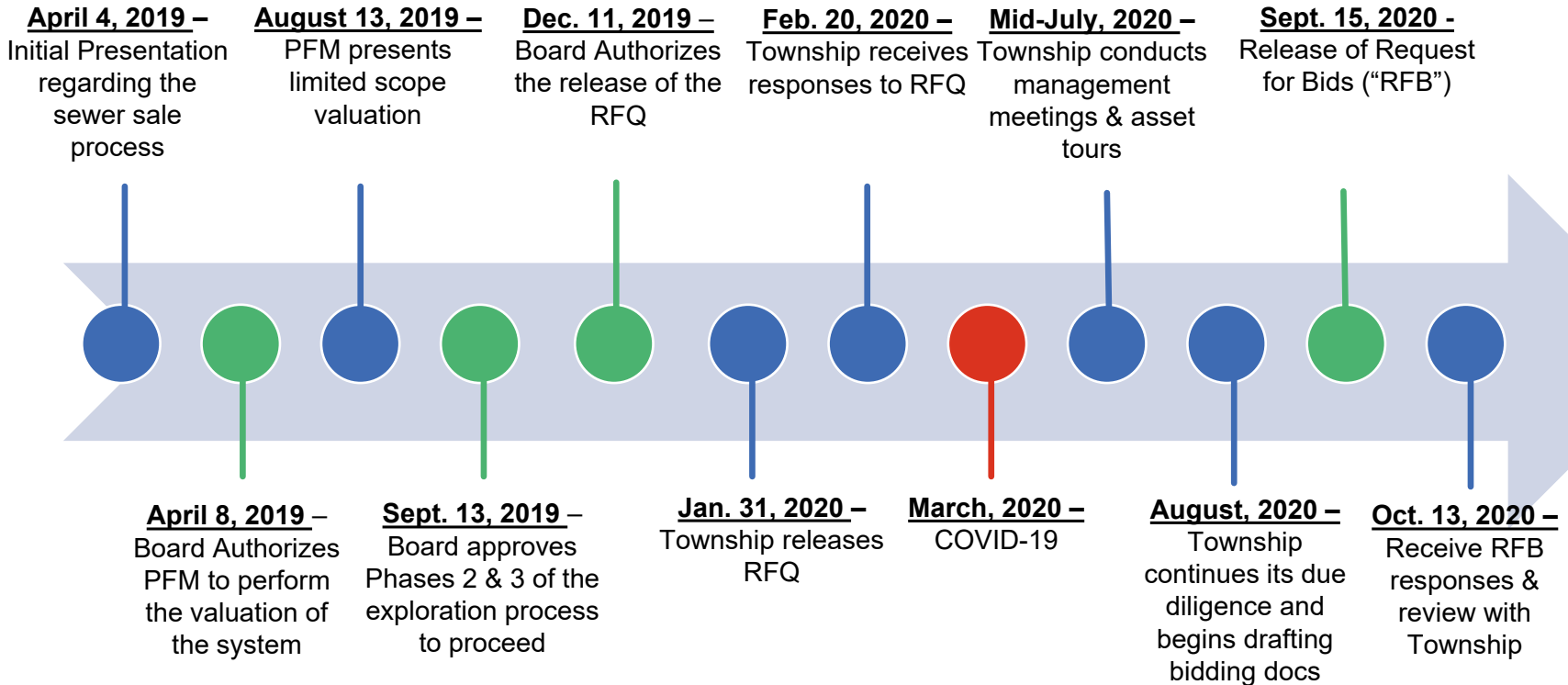
Summary of Key Events

- ◆ Enlisted expert outside engineering, financial and legal counsel to provide an objective assessment
- ◆ Solicited potential buyers/investors via a Request for Qualification based on industry established criteria for the possible execution of an Agreement
- ◆ Four potential bidders were pre-qualified and participated in a rigorous vetting, full disclosure and collaborative assessment process
- ◆ Issued a Request for Bid, due Oct 13, 2020



Timeline of Events

◆ The exploration process has progressed well since initiated





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 employees would lose their jobs, they will stay with the Township and be reassigned within the public works department
 - The Township will maintain control of its Act 537 Planning
 - Rates will be governed by the PUC after the mandatory 3-year rate freeze, assuming the Buyer is a regulated utility.



Rates

- ◆ The Buyer will initially adopt the Township current rates
- ◆ The Pennsylvania PUC will ultimately set rates if a regulated utility is selected as the Buyer
- ◆ There will be a mandatory 3-year rate freeze, per the Agreement
- ◆ Township currently bills its customers one of six ways outlined in the table below:

East Whiteland Township - Current Sewer Rate Comparison						
	Sewer District A	Sewer District B	Sewer District C	Sewer District D	Sewer District E	High Volume Customers [2]
Fixed Fee (per Month)	N/a	N/a	N/a	N/a	N/a	N/a
Rate per 1,000 gallons	N/a	N/a	N/a	N/a	N/a	\$6.20
Assumed Annual Gallons	N/a	N/a	N/a	N/a	N/a	100,000
Average Quarterly Bill	\$100.00	\$100.00	\$135.50	\$150.00	\$120.00	\$620.00
Annual Average	\$400.00	\$400.00	\$542.00	\$600.00	\$480.00	\$2,480.00
Approx. Accounts/EDUs	3,036/6,549		28/28	279/279	468/718	20
Source	Township [1]					

[1] Fee charged per EDU

[2] High volume customers are defined as those who use in excess of 100,000 gallons/quarter.



Bid Results – Aqua

3 Year Rate Freeze:

• **Bid Price** - \$54,930,000*

• Indicative rate table below assumes monthly rates and 4,000 gallons per month of usage)

Indicative rates for next 10 years [1][2][3]									
2021	\$36.40	2022	\$36.40	2023	\$37.31	2024	\$53.42	2025	\$54.76
2026	\$56.13	2027	\$56.13	2028	\$57.53	2029	\$58.97	2030	\$59.00

*Calculated as \$55 million Less \$70,000 in reimbursable fees to seller

[1] indicative rates for illustrative purposes. Aqua cannot guarantee rates, as that is done at the discretion of the PUC

[2] The Company's 10-year projection of rates/or the costs associated with the acquisition of the East Whiteland Wastewater system assumes base rate increases in 2025 and 2028, assuming an Asset Purchase Agreement is signed no later than March 1, 2021.

[3] The Company assumes approximately 30% cost allocation, and a DSIC surcharge beginning no sooner than 2023. These projections are for illustrative purposes and reflect reasonable expectations of the Company based on current industry trends, however, are subject to changes and the approval of the PA Public Utility Commission.



Bid Results – Bucks County Water & Sewer Authority

3 Year Rate Freeze:

Bid Price - \$20,000,000

Indicative rates for next 10 years [1]									
2021	\$36.40	2022	\$36.40	2023	\$36.40	2024	\$47.90	2025	\$47.90
2026	\$47.90	2027	\$47.90	2028	\$47.90	2029	\$47.90	2030	\$47.90

[1] Annual flat rate of \$574.80. BCWSA supplied an additional schedule of sewer rates, based on type of user, and includes a volumetric component.



Bid Results – PA American Water

3 Year Rate Freeze:

- **Bid Price** - Purchase price of \$ million (rate table below)

Indicative rates for next 10 years [1][2]									
2021		2022		2023		2024		2025	
2026		2027		2028		2029		2030	



Bid Results – VICO Carlyle Group, a Private Equity Firm

3 Year Rate Freeze:

- **Bid Price** - Purchase price of \$ million (rate table below)

Indicative rates for next 10 years [1][2]									
2021		2022		2023		2024		2025	
2026		2027		2028		2029		2030	



Estimated Sources & Uses of Proceeds

◆ Shown below are the estimated sources and uses of proceeds resulting from the transaction assuming Aqua bid is accepted

SOURCES	
Purchase Price	\$54,930,000
Cash on Hand*	\$9,000,000
Total Sources	\$63,930,000

*Estimated, may fluctuate until closing occurs.

USES	
Payoff of Debt*	\$14,900,000
Est. Transaction Fees/Contingency	\$1,000,000
Real Estate Escrow**	TBD
Total Uses	\$15,900,000+

*Estimated.

**Each missing easement will result in \$2,000 deposited into the escrow at closing. Once easements are satisfied, monies released back to Twp.

EST. PROCEEDS AVAILABLE FOR USE

~\$48,030,000



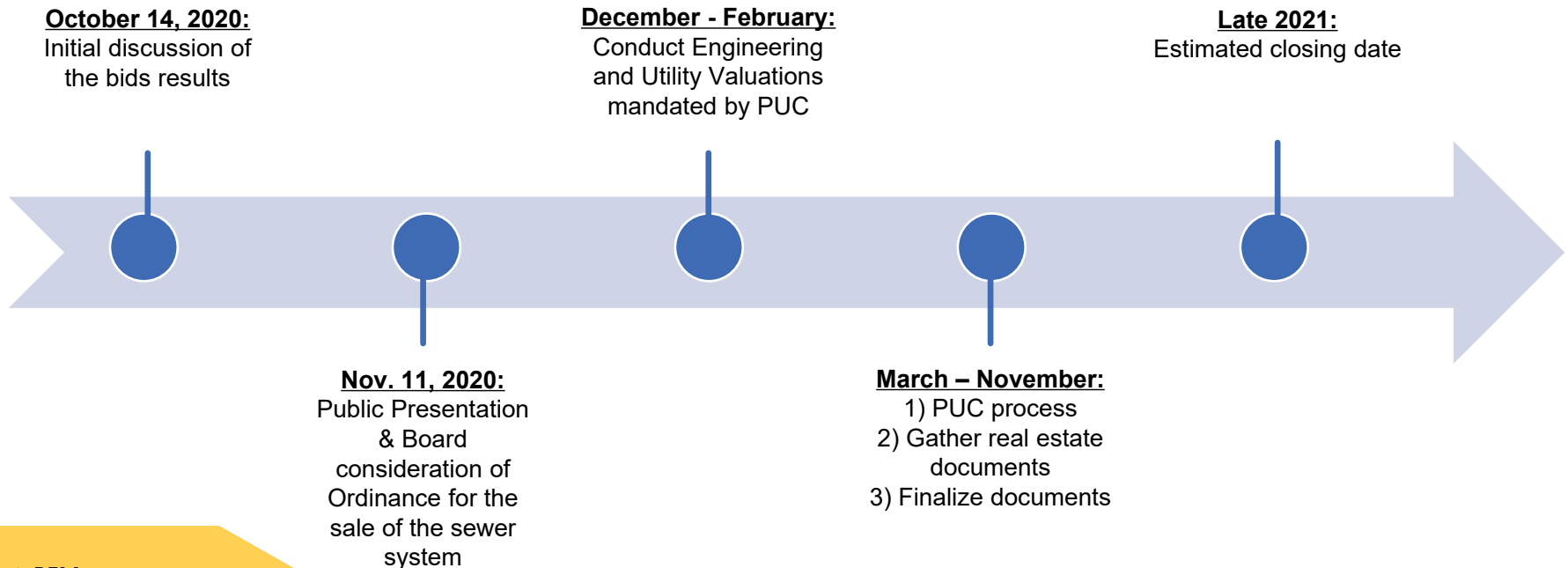
Possible Use of Proceeds

- ◆ **Reduce Debt:** Pay off outstanding debt related to both sewer and the public works facility
- ◆ **Fund Development of Township Campus:** Includes construction of a new police station, renovation of current administration building, and other improvements
- ◆ **Preserve Open Space:** Locate and preserve parcels which meet the community's needs through easements or acquisition
- ◆ **Improve/Add to Township Parks and Trails**
- ◆ **Implement Roadway Projects to Improve Traffic Flow**
- ◆ **Maintain Selected Historical Resources**



Estimated Closing Timeline

- Prior to closing, an application must be submitted to the PA PUC if Aqua is selected
 - Township is required to obtain an Engineering Assessment report, as well as retain a Utility Valuation Expert (UVE)
 - Should the Township decide to approve a sale to Aqua tonight, settlement would likely occur in late 2021
 - If Bucks County Water and Sewer Authority is selected, a faster closing could occur





Closing Remarks

- ◆ The Township began this exploration to determine the potential benefits that the residents could experience from the sale of the sewer system
 - With the \$54,930,000 purchase price being offered, funds will be available for the Township to accomplish many of its goals

- ◆ The key components of the sale are:
 - The system will be sold to an experienced local operator that will be heavily regulated by the PA PUC
 - Future rates will be set by the PUC
 - Aqua already provides water service to large portions of the Township
 - Funds will be used to benefit the residents of Township over the long term

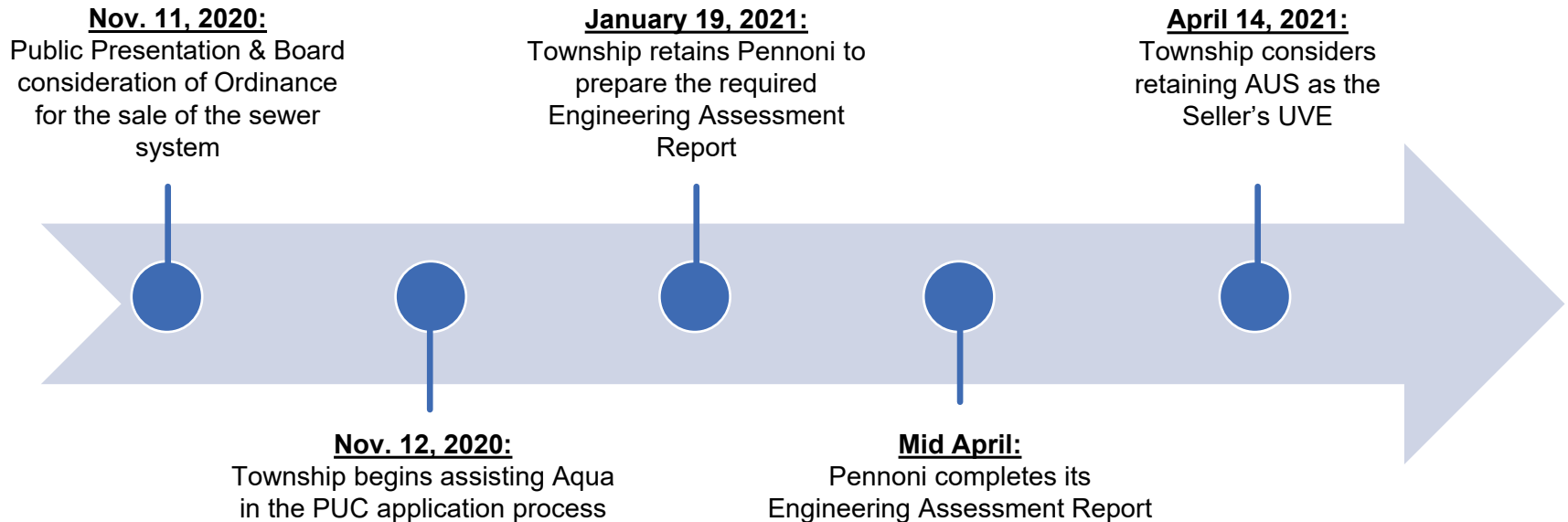


Timeline of Events Following the Board's November 11, 2020 Meeting



Timeline of Events – Following November 11, 2020 Mtg.

- Various tasks need to be completed prior to submitting the respective documents to the PUC for approval.
 1. First task is to complete the Engineering Assessment which Pennoni will have completed mid April.
 2. **Second task is for the Township and Aqua to hire their respective Utility Valuation Expert.**
 - a) Township is considering engaging AUS Consultants.
 - b) Expected completed date of that report is late May.
 3. Third task is to continue to collect and assemble various information for the PUC submission.





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