



Upper Pottsgrove Township

Discussion of the Sale of the Township's Sanitary Sewer Collection System

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Sewer System Sale

1. In early 2019, Upper Pottsgrove Township engaged PFM to explore selling the Township owned sanitary sewage collection system.
2. On February 5, 2020, PFM (on behalf of Upper Pottsgrove) issued a Request for Bids (“RFB”) for the potential sale.
 - a. Of the two bidders, PA American Water and Aqua, PA American Water had the highest bid of **\$13,750,000**.

Highest Bid, PA American Water
\$13,750,000



Pennsylvania American Water

1. Serves approximately 2.4 million people in 36 counties (19% of the population in Pennsylvania)
 - a. 74,000 wastewater customers
 - b. 35,500 customers in neighboring areas to Upper Pottsgrove (Royersford, Glen Alsace, & Exeter Districts)
 - c. 660,000 water customers
2. Employs 1,100 people across Pennsylvania
3. Invests in water/wastewater infrastructure
 - a. Spent over \$1.3 billion over past 5 years to upgrade water and wastewater infrastructure, improve service levels, meet regulatory compliance, and ensure reliability for the overall benefit of our customers throughout Pennsylvania.
4. Regulated
 - a. In addition to DEP and EPA, PA PUC has regulatory oversight of fees and customer service



How We Got Here and Where We Are

Estimated Timeframe	Event
May 6, 2019	PFM presented limited scope valuation results to Township
June 7, 2019	Released Request for Qualifications (“RFQ”)
June 26, 2019	Received RFQ responses
Late June 2019	Qualified bidders, sign Confidentiality Agreements
July 2019 – February 2020	Negotiated transaction documents & Meetings/Tours with bidders
February 5, 2020	Released Request for Bids (“RFB”)
March 16, 2020	Received RFB responses
March 20, 2020	Received BAFO proposals
March 25, 2020	Executive Session with High Bidder
April 6/8/14/16 2020	Public Presentations
April 20, 2020	Consideration of Ordinance to approve sale
TBD (9-12 months)	Financial Close



Reasons for Exploring the Sale

1. Retiring the debt of \$8,437,029 (as of December 31, 2019, Principal and Interest)
2. Replenishing an unfunded pension liability of \$1,700,000
3. Provide funding for the Township's deteriorating infrastructure of \$4,000,000 (our two buildings)
4. Eliminate the Township's exposure to capital spending (the cost to extend sewer service)
5. Eliminate system risk (system failure)
6. Fee reduction with reasonable future fees
7. Connection (Tapping) fee reduction



Reasons for Exploring the Sale 1. Retiring Debt

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Obligation	Sewer	Open Space	General	State (Road)
Del Val Series B of 2005	\$696,000		\$208,000	
PENNVEST Series of 2009	\$2,067,507			
General Obligation Series of 2012	\$1,685,000			
General Obligation Series of 2013	\$280,000	\$1,385,000 \$750,000		
Fulton Bank Loan – Series of 2014				\$241,257
Total Principal by Fund	\$4,728,507	\$2,135,000	\$208,000	\$241,257

TOTAL DEBT	
Total Principal	\$7,312,764
Total Interest	\$1,124,265
Total Principal + Interest	\$8,437,029



Reasons for Exploring the Sale 1. Retiring Debt (cont'd)

1. The Township is projecting that personnel and other operating costs will continue to rise in the future (non sewer related)
 - a. In order to mitigate or lessen the burden of future cost increases on taxpayers, the sewer sale will free up Township funds (lessen expenses) by:
 - Paying off General, Open Space Fund, and State (Road) Debt (**Reduces expenses by ~\$341,000**)

ANNUAL REDUCTION IN TOWNSHIP EXPENSES	
General Fund Debt Service	\$34,000
Open Space Fund Debt Service	\$247,000
State (Road)	\$60,000
Total	\$341,000

Additionally, all sewer related debt (\$4,728,505) will be paid off at closing



Reasons for Exploring the Sale 2. Replenishing Unfunded Pension Liability of \$1,700,000

1. As previously stated, the Township is projecting that personnel and other operating costs will continue to rise in the future
 - a. In order to mitigate or lessen the burden of future cost increases on taxpayers, the sewer sale will free up Township funds (lessen expenses) by:
 - Using \$1,700,000 of sewer sale proceeds to super fund the pension fund, the Township will lower the annual MMO payment (**Reduces expenses by *\$100,000**)

ANNUAL REDUCTION IN TOWNSHIP EXPENSES

Reduction in Pension MMO**	*\$100,000
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*Needs confirmed by the Township's actuary

**MMO stands for Minimum Municipal Obligation



Reasons for Exploring the Sale 3. Deteriorating Infrastructure

1. The Township will avoid having to raise real estate taxes for new capital infrastructure projects by using sewer sale proceeds instead.
 - a. At least **\$4,000,000** of projects are being contemplated which results in ~\$285,000/year in annual debt service



**HOMEOWNER EXAMPLE
\$175,000 ASSESSED VALUE**

ESTIMATED TAX INCREASE WITHOUT THE SALE OF THE SEWER SYSTEM		
	Annual Debt Service Cost	Annual RE Tax Equivalent
Real Estate Tax Avoided to Finance Township Infrastructure Projects (Using sale proceeds instead)	~\$285,000	\$183



Reasons for Exploring the Sale 4. Eliminate Sewer Capital Spending Exposure

1. The Township's Act 537 Plan is a state mandated planning document similar to a comprehensive plan
 - a. The plan identifies compromised or failing on-site systems
 - b. The plan must be approved by PA DEP
 - c. The Township will continue to be in charge of the Act 537 Plan if the system is sold (in coordination with PA American Water)

2. PA American Water will be assuming the responsibility to complete the capital projects listed in the Act 537 Plan.
 - a. Homes that are connected to the system under any of these projects will not have to pay the Township's Tapping Fee of **\$5,447**

ACT 537 PROJECT	PROJECTED CUSTOMERS	ESTIMATED COST
Regal Oaks Phase 2B	20-22	\$500,000
Horseshoe/Bruce Drives	39-42	\$1,800,000
Continental/Old Orchard Drives	69	\$2,500,000

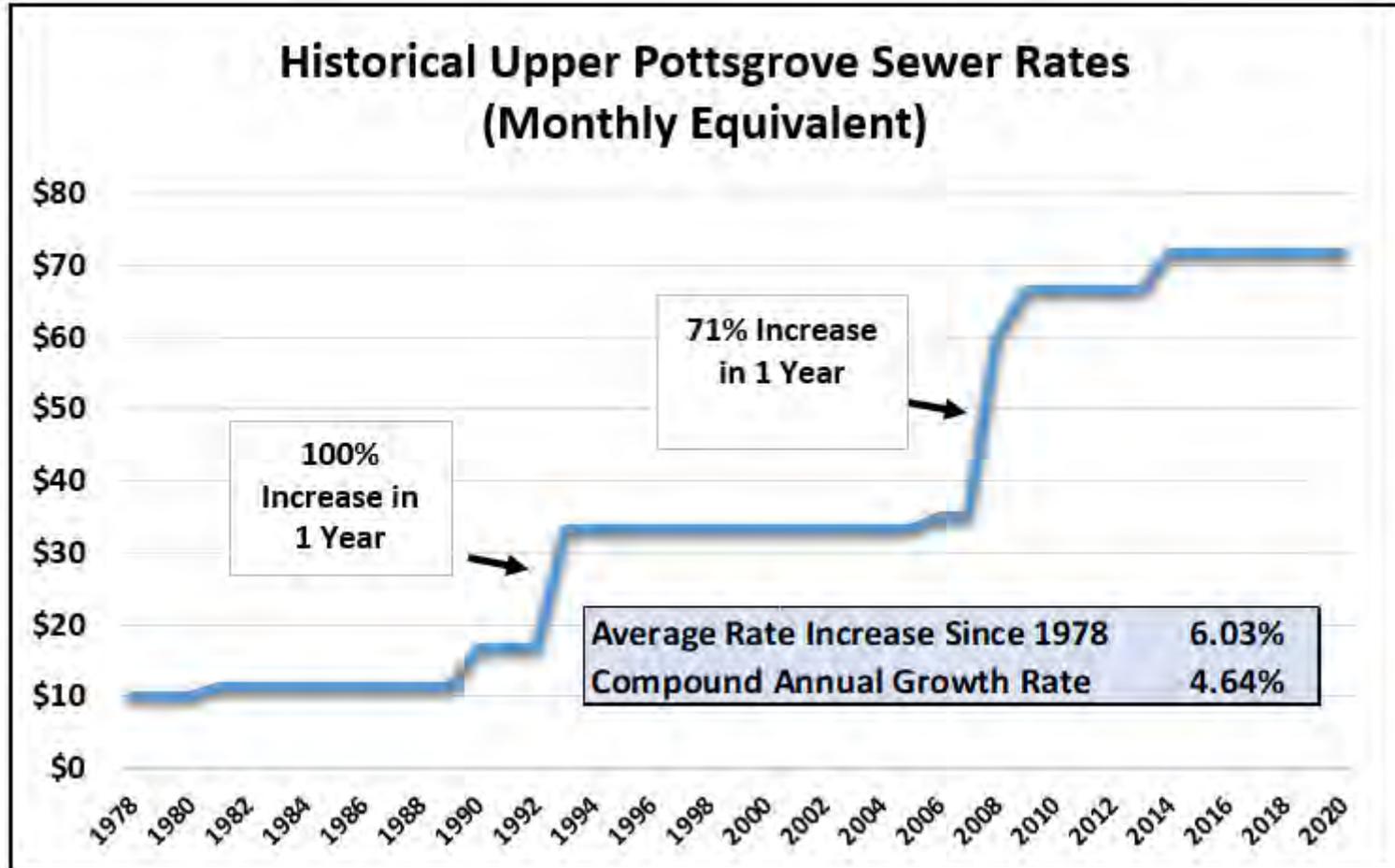


Reasons for Exploring the Sale 5. Eliminate System Risk

1. Selling to an experience operator eliminates future risk related to the sewer system
2. These risks include:
 - a. Unfunded mandates from regulatory agencies (DEP/EPA)
 - b. System failure (major infrastructure replacement)
 - c. Capital risk with the Pottstown Borough Authority
3. While Upper Pottsgrove Township would spread the cost of these events over its current customer base of ~1,600 customers, PA American has the ability to spread the costs over its 740,000 wastewater and water customer base in Pennsylvania
4. The Township will also eliminate the risk to its employees, who are typically handling sewer as only a portion of their duties, by selling to an experience operator with employees that are experts in the field of wastewater operations



Reasons for Exploring the Sale 6. Fee Reduction With Reasonable Future Fees

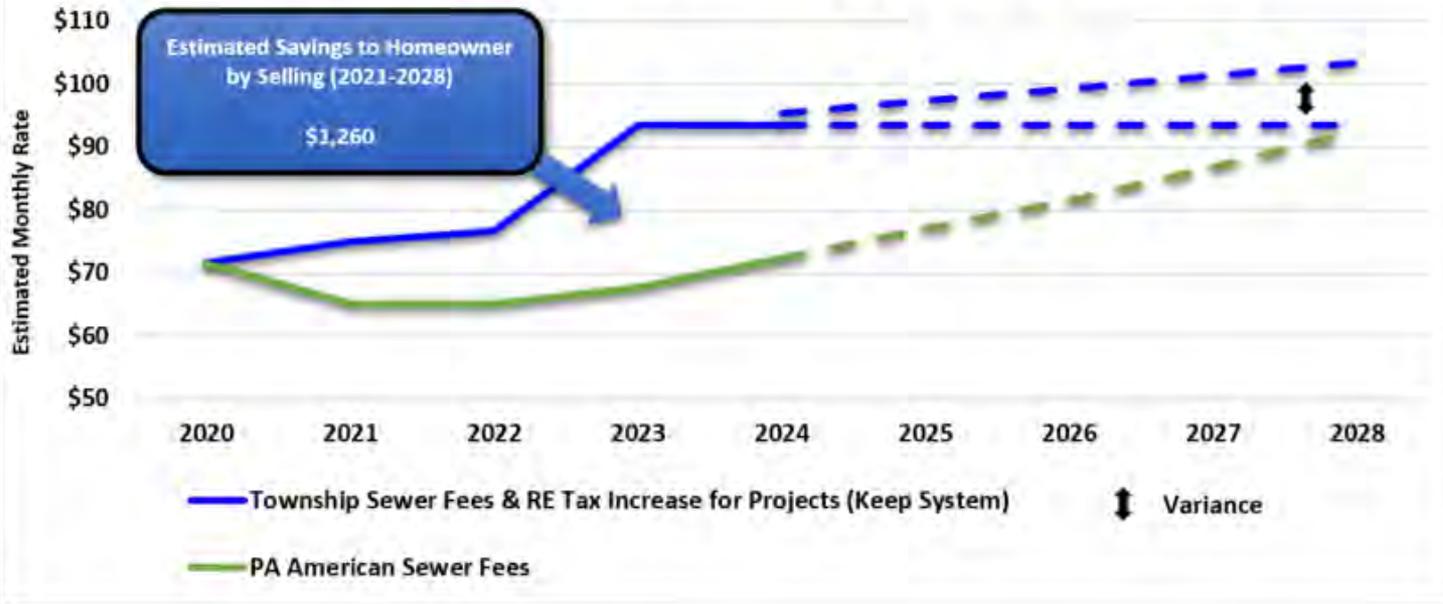




Reasons for Exploring the Sale 6. Fee Reduction With Reasonable Future Fees (cont'd)

1. The RFB asked bidders to provide estimated sewer fees* for the next 8 years (Ultimately PUC sets)
2. The Township then compared its projected sewer fees **and additional real estate tax increases for projects** if it keeps the system with PA American's rates if it sells the system

**Estimated Future Cost to Sample Homeowner (\$175k AV Home)
Township (with \$3.275mm Borrowing) vs. PA American Water**



Additional Benefits Not Shown on Graph

Township will also free up budget capacity (\$441,000) by:

1. Paying off debt
2. Funding pension

Which results in:

Ability to fund future operations and projects while better managing the need for tax increases



Reasons for Exploring the Sale 7. Connection (Tapping) Fee Reduction

1. The following projects will be assumed by PA American under the Act 537 plan
 - a. Regal Oaks Phase 2b
 - b. Horseshoe and Bruce Drives
 - c. Continental and Old Orchard Drives
2. Residents that are hooked up to the system through any of these projects will **not** have to pay a tapping fee to PA American Water. Currently, Township residents pay a tapping fee of **\$5,447** when they hook up to the Township's sewer system.
3. Other existing homes not included in these projects that would like to connect to the system will be assessed on a case by case basis and follow the rules in PA American Water's PUC approved tariff
4. Future connections for new homes outside of these projects will pay PA American's capacity fee of \$4,000/EDU (most likely incorporated in home prices)



Decision Matrix

Decision Point	Keep System	Sell System
1. Retiring Debt (\$8,437,029) P&I	Township continues to pay debt burden	No debt
2. Unfunded Pension	\$100,000 per year additional cost to general fund	No unfunded pension nor distress level
3. Deteriorating Infrastructure	\$285,000 per year additional cost to general fund	\$4,000,000 plus to use for infrastructure projects instead of borrowing
4. Eliminate Sewer Capital Project Sending	Incur additional debt burden or utilize sewer cash	None
5. Eliminate System Risk and Preventive Maintenance	~\$100,000 per year cost to sewer fund for planned maintenance and unquantifiable for overall risk	PA American Water assumes all risk and maintenance contingencies (DEP & EPA)
6. Sewer Fee Reduction with Reasonable Future Fees. The Fees on the "Keep System" side Assume Additional Sewer Debt of \$3,275,000.	2021: \$900 2022: \$920 2023: \$940 2024: \$940	2021: \$780 2022: \$780 2023: \$813 2024: \$868
7. Connection (Tapping) Fee	\$5,447	\$0 for identified projects



Wrap-Up

1. Upper Pottsgrove Township has spent well over a year conducting due diligence on the sale of its sewer system
2. The reasons for selling that were set out from day 1 (debt payoff, infrastructure needs, pension funding, risk elimination) can be accomplished with the bid of \$13,750,000 that is on the table from PA American Water
3. If approved, the Township will sell its system to an experienced, local, regulated sewer operator with projected estimated future rate increases similar to historical Township rate increases
4. In addition to selling to an experienced operator, the Township can better manage future tax increases that would need to occur from rising operating costs and infrastructure needs



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