

ADDITIONAL SEWER SALE QUESTIONS ANSWERED BY TOWNSHIP REGARDING POTENTIAL SALE OF THE SANITARY SEWER SYSTEM

April 20, 2018

23. Will there be any proforma budgets showing possible uses of the funds that would affect future taxes/capital projects versus not selling the system and continuing to maintain and improve the system.

We are not prepared at this time to present any proforma budgets to the public as the decision as to a sale/no sale of the sewer system has not yet been made. If a decision is made to sell the sewer system the sewer committee will present the Commissioners with financial recommendations for their consideration in the use of the sale proceeds not required to pay down sewer debt.

24. What does the approximately \$2 Million represent in answer to question 18? The 2018 General Fund Budget Summary states that revenue from sewer fees total \$7,865,500 and the sewer expenses total \$4,785,332, a difference of \$3,081,168.

The 2018 budgeted sewer wastewater treatment payments of \$1,200,000 for Abington and \$225,000 for Jenkintown need to be included as sewer revenue, making the 2018 total budgeted sewer revenue \$9,290,500. The 2018 budgeted sewer expenditure total needs to include the portion of the Township's overall debt servicing costs that is applicable to our sewer system capital bond funded expenditures. The 2018 budgeted sewer debt servicing payment of \$2,500,000 when added to the 2018 budgeted sewer operating total of \$4,785,332 brings the 2018 budgeted total sewer expenditure total to \$7,284,332. The net sewer revenue in excess of sewer expenditures is \$2,006,168. In the event of a sewer sale the \$2M excess revenue would be assigned over to Aqua. If the Township does not sell the sewer system the \$2M in excess sewer revenue would be transferred into a separate sewer fund and applied as debt servicing payments on future required sewer bond fundings as used to restore and make repairs to the sewer system. At the same time the general operating fund would need to offset the lost \$2M in sewer revenue by way of an immediate \$2M tax increase.

What part of the sewer expenses will continue after the sale?

None.

Will the Township continue to receive the Abington and Jenkintown Sewer Treatment Fees (\$1,200,000 + \$225,000) which are not included in the township sewer revenues of \$7,865,500?

No.

What is the annual debt service for the bonds dedicated to the sewer system?

Approximately \$2.5M.

25. Were there other bidders?

Yes.

If so, what criteria was used to select Aqua?

The other two bidders elected to withdraw from making an offer at the conclusion of the bid due date.

26. How much has the Township spent on the sewer system (restoration) since 2015.

\$14M

27. How much has the Township spent on the sewer system (restoration) in the past seven years.

\$21.5M.

28. How much do you anticipate spending on the system to complete repairs/upgrades outlined in the 537 Plan?

\$50M.

How many years do you anticipate it will take to complete all of the work?

The majority of the presently defined sewer work should be completed in the next 6-7 years. But sewer restoration work will be a continuing point of focus and expenditures on an ongoing basis thereafter.

29. How would a sale affect the Township's responsibility to complete the work outlined in the 537 Plan?

Aqua will renegotiate the 537 Plan with the DEP.

30. What is the yearly revenue from all sewer related sources and what is the projected revenue from those sources over the next 7 years?

The current 2018 budgeted sewer revenue is \$9,290,500. Cannot provide an answer to the second part of this question until the decision is made to sell/not sell the sewer system.

31. How would keeping the system impact the Township's tax and sewer rates? The Commissioners have indicated that Township taxes will rise whether we keep the system or not. If we keep it what is the projected/anticipated increase over the next 7 years versus if we sell?

If we sell the sewer system our best estimate of the increase in taxes and sewer rates over the next 6-7 years for an average taxpayer with a property assessment of \$150K will be approximately \$99. If we don't sell the sewer system the estimated tax increase for the average taxpayer will be approximately \$255, with little or no change in the current sewer rates.

32. What is the percentage of private laterals that were tested that will most likely be determined to be deficient?

While some properties within the Township have already had their laterals inspected, the data has not yet been fully tabulated and assessed. Once this work is completed the percentage numbers of deficiency within the tested areas will be released to the public, with the individual test results given to the property owners.

33. If the system is sold, what will be the total amount of capital expenditures before closing the sale?

The Township will be responsible to complete the current phase of the sewer system restoration work currently in progress. A final cost cannot be defined at this time as to the actual remaining capital expenditures it will take to complete the remaining work. A best estimate would be \$7M.

34. Shouldn't such expenditures, no matter what amount, be add to the sale as they increase the value of the system?

The current phase of the sewer work being done by the Township was factored into the bid price.

35. Have we attempted to negotiate the price?

Yes. Receiving the \$50.25M bid price from Aqua was done in accordance with the standards associated with a competitive bid process.

36. Have we had an independent separate appraisal made of the system?

Yes. In fact we've had two separate sewer system valuation appraisals completed in the past two years.

37. How does the appraisals compare with the offer being made by Aqua PA?

The appraisal range on the valuation of the Township's sewer system is between \$38M and \$44M. Aqua's bid price was \$50.25M.

38. Is the three year moratorium on sewer rates subject to change before the sale?

There is no rate moratorium. However, it is highly likely that rates will not change until 2022 based on Aqua's rate case cycle.

39. What is the projection for sewer rates for the next ten year if the system is not sold?

We anticipate Philadelphia Water Department (PWD) annual wastewater treatment costs to rise between 5-9%, in addition to increases related to the sewer borrowings.

40. What is the projection for sewer rates for the next ten years if the system is sold?

We do not anticipate any increase in rates until 2022 which is when Aqua's next rate case is expected to become effective. The actual rate set for 2022 will be determined by the PUC.

41. What are the capital improvements that Aqua has agreed to make?

Will be part of any agreement Aqua reaches with the DEP.

42. What are our obligations to current Township sewer employees and how much will it cost us if they are not hired by Aqua.

Aqua will interview all current Township sewer staff employees. If Aqua makes a job offer the employee has the right of acceptance or rejection. However this said, there will be no layoffs of sewer staff. Reallocation within the Highway Department of Public works will be evaluated.

43. The purpose of the sale is to provide us with adequate service and management of the sewer system. What happens if Aqua does not provide such adequate service and management?

See the answer to question #1 on the original Q & A list that was already posted to the Township's website.

44. Will a regulatory body control sewer rates?

Yes, the PUC.

45. Instead of a sale, what about hiring a full time knowledgeable sewer manager aided by an able consulting firm.

Doing this does not achieve the long term goals of the Township. However this concept was explored and does not remove any of the costs associated with repairing the current sewer system nor mitigate the significant future financial risks of operating the sewer system.

46. Instead of a sale, what about a long term lease on the system that would give the Township an upfront payment, continuing annual payments, and more control over the system?

Doing this does not achieve the long term goals of the Township. However this consideration was explored and the process garnered no expressed interest from any of the solicited vendors, authorities or utilities.

47. Is it correct that for the first three years Aqua cannot go to the PUC and request sewer rate increases?

There is no rate moratorium built into the transaction. However, it is expected that Aqua will not increase rates until 2022 base on their PUC cycle.

48. Is it correct that for the first three years sewer rates will be no higher than 105% of those rates currently set forth in Schedule 7.04 (a) of the Agreement?

It is expected that rates will not increase from the current rates until 2022.

49. If the sale is free and clear of all liens, doesn't that mean that the sewer bonds must be paid in their entirety?

Yes. The entire \$30M in sewer bond principal will be paid off from the \$50 in proceeds from the sale of the sewer system.

50. Please explain the impact upon Township residents of PA Title 66 Section 1329 (Valuation of acquired water and wastewater systems).

In general, Act 12 perception is that sellers may garner a higher purchase price for the system because now the full fair market value can be recovered in the rate base. However, both the PUC and OCA will scrutinize the purchase price through the Act 12 approval process to make sure the price does not exceed their view of fair market value.