



Sewer Discussion

**Presented by:
Scott Shearer, Managing Director**

November 1, 2017

PFM Financial
Advisors LLC

PFM Solutions LLC

One Keystone Plaza,
Suite 300

N. Front & Market
Streets

Harrisburg, PA 17101

717.232.2723
pfm.com



Agenda

- Introduction
- Background of Sewer System
- Timeline to Date
- Financial Analysis
 - Impact to Township's Budget
 - Impact to Rate and Taxpayers
- Next Steps



Introduction & Meeting Objective

- The purpose of today's meeting is for the Commissioners to consider the authorization to circulate a draft Asset Purchase Agreement to the pre-qualified parties at the November 15 meeting
 - The Asset Purchase Agreement is a document which outlines the terms and conditions of a potential sale of assets (ie Sewer System)
 - The Township has made no determinations that it will or will not proceed with a potential sale
 - This is an additional step in the public process as the Township evaluates many items, including but not limited to:
 - Increasing regulatory complexities
 - Substantial capital expenditures for inflow and infiltration remediation
 - Near term need to renegotiate the Township's agreement with PWD
 - Sewer lateral concerns associated with the Sewer System
- Township will have additional future opportunities to discuss the potential sale in a public meeting before any final action can be taken
 - November 1: Public Works Meeting
 - November 15: Board of Commissioners to Authorize Release of Draft APA
 - December 20: Consideration/Discussion of Releasing Final Request for Bid
 - February/March: Ordinance to Approve Sale with Winning Bidder (if applicable)



The Sewer System

- Parts of the System are over 90 years old
- Approximately 120 miles of pipes ranging from 8"-33" diameters
- Flow is conveyed to Philadelphia Water Department (PWD)'s Northeast Water Pollution Control Plant through 2 interconnections (Interceptors A & C)
 - Also conveys flow from Abington, Jenkintown & Springfield Townships to PWD
- DEP mandates that there be no additional connections in the Township through at least 2019- slows potential economic growth within the Township
- Township is in the process of working through its Corrective Action Plan
 - Currently anticipates borrowing an additional \$50 million of sewer bonds between 2018 and 2023
- Current rates comprised of two components:
 - Fixed Fee of \$250/edu/year, plus
 - Usage fee of \$3.91/1,000 gallons for the 12 months ending the previous September 30
 - Average annual bill based on 48,000 gal/year: \$438



High Level Timeline of Events to Date

- August 2013 to August 2016: Township began discussions of restructuring options related to sewer system and significant additional internal due diligence of the system occurred during this time
 - Options evaluated included:
 - Maintain status quo
 - Hire an Executive Director
 - Form an Operating Sewer Authority
 - Form a Lease Back Authority
 - Contract Operations, Maintenance and Management
 - Sale of System
- September 2016: Township authorized the exploration of a possible sale of Sewer System and engaged professionals to assist
- April 2017: Township authorized the release of a Request for Qualifications to identify interested parties
- August and September 2017: Held management discussions with pre-qualified bidders and Commissioners in small groups focusing on issues important to the Township:
 - Staffing and Customer relations
 - Relationships with PWD/DEP
 - Capital planning process



Sewer Sale Scenarios (for Illustrative Purposes Only)

Scenario 1: Township maintains existing system and rebalances sewer rates and real estate taxes

Scenario 2: Township sells system and receives funds sufficient to pay off existing sewer debt (approx. \$31 million of principal and interest)

Scenario 3: Township sells system and receives funds sufficient to pay off all existing debt (approx. \$57 million of principal and interest)

Key Assumptions in preparing scenarios:

- Based on most recent budget and sinking fund meeting information
- Actual revenue and expenditure amounts will change
- Township may elect to address imbalances between revenues and expenditures through a variety of mechanisms including revenue increases, expenditure decreases, or draws on the fund balance
 - For illustrative purposes ONLY, these scenarios assume all imbalances are resolved via real estate tax increases
 - Township could utilize escrowed funds from the sale to smooth any impacts to the General Fund



Considerations for Sewer System Ownership

Township Maintains Sewer System							
	Township Control/ Responsibility: Management	Township Control/ Responsibility: Operations	Township Control/ Responsibility: Rates	Township issues debt to address sewer capital needs	Township has debt capacity to address other capital needs	Opportunities for Economies of Scale	Township Maintains Responsibility for Upgrades to Ensure Regulatory Compliance
Yes							
No							

Township Keeps:

Life Cycle Risk: Risk of a system needing routine and large capital expenditures to continue to operate effectively

Project Risk: Risk that an individual project will not be completed in a cost effective and efficient manner

Expenditure Controls: Ability to cut costs to manage rate increases

Note: Rates will take into account the operating expenses and debt service increases dictated by PWD and DEP

Township Sells Sewer System							
	Township Control/ Responsibility: Management	Township Control/ Responsibility: Operations	Township Control/ Responsibility: Rates	Township issues debt to address sewer capital needs	Township has debt capacity to address other capital needs	Opportunities for Economies of Scale	Township Maintains Responsibility for Upgrades to Ensure Regulatory Compliance
Yes							
No							

Township Transfers:

Life Cycle Risk: Risk of a system needing routine and large capital expenditures to continue to operate effectively

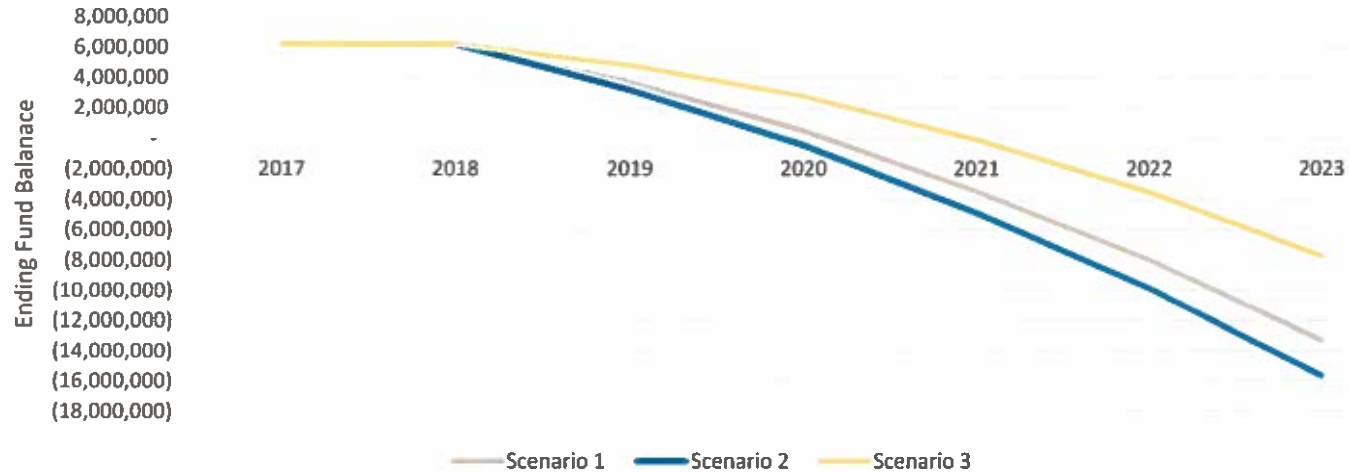
Project Risk: Risk that an individual project will not be completed in a cost effective and efficient manner

Expenditure Controls: Ability to cut costs to manage rate increases



High Level Impact to Township Budget

Projected Ending Fund Balance Assuming No Tax Increases



Scenario 1	
RE Tax Revenue CAGR 2019-2023	6.05%
Sewer Revenue CAGR 2019-2023	2.88%

Scenario 2	
RE Tax Revenue CAGR 2019-2023	6.49%
Sewer Revenue CAGR 2019-2023	NA

Scenario 3	
RE Tax Revenue CAGR 2019-2023	4.99%
Sewer Revenue CAGR 2019-2023	NA

General Notes:

- Revenue and expenditure trends assume 2.00% growth rate for illustrative purposes only to isolate impact of sewer. Actual trends will vary. If sewer operating costs increase to 5%, the sewer CAGR would increase to 4.16%, if the sewer operating costs increased to 10%, the sewer CAGR would increase to 6.43%.
- Please consult Township administration for Township's long term forecasts of revenues and expenditures.
- 2017 numbers from approved 2017 Budget
- Millage rate estimates for all years assume 1 collected mill = \$1,907,050
- 2018 Pro Forma figures illustrate estimates as of November 1, 2018. Final 2018 budget figures will change between this analysis and final adoption of budget that occurs in December 2018.



Impact to Cheltenham Real Estate Tax Payers

Real Estate Tax Rate Discussion							
	Actual	Preliminary	Projected	Projected	Projected	Projected	Projected
	2017	2018	2019	2020	2021	2022	2023
<u>Estimated Rates</u>							
Scenario 1: Maintain Ownership	8.4165	8.8552	10.3000	10.6489	11.1020	11.4096	11.8800
Scenario 2: Sell & Receive Sufficient Funds to Pay off Sewer Debt	8.4165	8.8552	10.5547	10.8940	11.3456	11.6625	12.1285
Scenario 3: Sell & Receive Sufficient Funds to Pay off All Debt	8.4165	8.8552	9.7052	10.0638	10.5151	10.8304	11.2964

Scenario 1 assumes the Township rebalances sewer and tax rates over time.

These real estate tax rates illustrated are amounts sufficient to maintain the current fund balance levels based on projected revenues and expenditures.

Actual future tax rates will be determined by the Board of Commissioners through the budgeting process.



Impact to Cheltenham Sewer Rate Payers

- Future sewer rates under the Township ownership are extremely likely to increase and illustrated rate projections are subject to several caveats
 - Projections assume that the treatment charge from PWD is relatively stable
 - Approximately 85% of operating expenses are determined by PWD
 - Projections assume that the current capital plan is sufficient to address the capital needs of the system as assessed by the Township in conjunction with its engineer and DEP/the EPA
 - Between operating and capital needs, Township has very little discretion on sewer expenditures
- Future sewer rates under a hypothetical purchaser are unknown
 - All the potential buyers have rates or rate classes which are generally higher than the Township's rates today
- Under a sale to Aqua/PAWC rate increases would be governed by the PUC and would generally occur in several "steps"
 - The Township may request a rate freeze at current rates which would maintain stability for a period of time, the next rate increase would then be determined by the timing of the purchasing entity's next application to the PUC
 - PUC generally advocates a policy of "gradualism" which means that it may take several rate cases for rates within the Township to normalize to the rest of the system
- BCWSA is not regulated by the PUC. Its rates are determined by the Authority Board in conjunction with its engineers and subject to state law which requires uniform and reasonable rates



Impact to Cheltenham Sewer Rate Payers (continued)

- Table below illustrates the Township's current sewer rate
- For comparison purposes, the current rates for the pre-qualified bidders are shown also

Sewer Rate Discussion						
	Current Township	Current BCWSA	Current Aqua [1]	Current Aqua [2]	Current PAWC [3]	Current PAWC [4]
Fixed Fee (per Month)	20.89	22.45	15.95	41.35	7.5	7.5
Rate Per 1,000 gallons	3.91	5.58	5.77	1.2	12.88	10.135
Assumed Annual Gallons	48,000	48,000	48,000	48,000	48,000	48,000
Average Annual Bill	438	537.24	468.36	553.8	708.24	576.48

[1] Aqua has a variety of different rate structures. This illustration is based on the Media Borough rates. Rate setting for any potential sale is at the discretion of the PUC.

[2] Aqua has a variety of different rate structures. This illustration is based on the White Haven Borough rates. Rate setting for any potential sale is at the discretion of the PUC.

[3] PAWC has a variety of different rate structures. This illustration is based on the Zone 1 rates. Rate setting for any potential sale is at the discretion of the PUC.

[4] PAWC has a variety of different rate structures. This illustration is based on the Zone 2 rates. Rate setting for any potential sale is at the discretion of the PUC.



Summary of Impact to Sewer Rate Payers and Real Estate Tax Payers

- General intent is to illustrate hypothetical sewer bills under scenario 2 or 3 are not significantly different than scenario 1.
- Assumes estimated rates and taxes in 2023 for illustrative purposes only

Scenario 1: Maintain Township Ownership of System- 2023			
Assumed Assessed Value	100,000	150,000	300,000
Pro Forma Real Estate Tax Bill	1,141	1,711	3,423
*Pro Forma Sewer Bill	507	507	507
Pro Forma Total Sewer & Township Real Estate Tax Bills	1,648	2,218	3,930

Scenario 2: Sell System & Receive Sufficient Funds to Payoff Sewer Debt- 2023			
Assumed Assessed Value	100,000	150,000	300,000
Pro Forma Real Estate Bill	1,166	1,749	3,499
*Breakeven Sewer Bill	481	469	431
Pro Forma Total Sewer Breakeven & Real Estate Tax Bills	1,648	2,218	3,930

Scenario 3: Sell System & Receive Sufficient Funds to Payoff All Debt- 2023			
Assumed Assessed Value	100,000	150,000	300,000
Pro Forma Real Estate Tax Bill	1,083	1,625	3,249
*Breakeven Sewer Bill	565	594	681
Pro Forma Total Sewer Breakeven & Real Estate Tax Bills	1,648	2,218	3,930

5% Growth of Treatment Costs	
150,000	539

10% Growth of Treatment Costs	
150,000	601

5% Growth of Treatment Costs	
150,000	501

10% Growth of Treatment Costs	
150,000	563

5% Growth of Treatment Costs	
150,000	626

10% Growth of Treatment Costs	
150,000	688

***Sensitivity Analysis Assuming Township Ownership:**

- If sewer operating costs increase by 5% as opposed to 2%, the sewer rate will increase by approximately \$30 which will then increase the breakeven sewer rate by the equivalent amount
- If sewer operating costs increase by 10% as opposed to 2%, the sewer rate will increase by approximately \$90 which will then increase the breakeven sewer rate by the equivalent amount
- Breakeven sewer bill does not represent the future rates under a purchaser, rather it represents the amount of sewer bills that makes a homeowner financially indifferent between selling the system and maintaining Township ownership. For instance, under Scenario 3, a home with a \$300,000 assessed value would have a breakeven sewer bill of \$681, which can be compared to the sewer bills on page 11.



Timeline of Events: Next Steps

- Discussion of Events to Date/ Next Steps- November 1, 2017
- Potential Authorization to Distribute Draft Asset Purchase Agreement- November 15, 2017
- Potential Authorization to Release a Request for Bid- December 20, 2017
- Release a Request for Bid- Late December 2017
 - Soliciting a Request for Bid does not obligate the Township to accept a bid
 - Will provide clarity on the value of the system in today's marketplace
- Receive Bids- February 2018
- Commissioners Evaluate Results of the Bids- February/March 2018