



Sewer Discussion Supplement #2

DATE: Thursday, May 1, 2018

TIME: 7:30 P.M.

LOCATION: Curtis Hall, 1250 Church Road, Wyncote, PA 19095



Agenda

- Net Proceeds
- Financial Implications
- Resident & Township Impacts
- Financial Pro Forma Worksheets



Net Proceeds



Est. Net Proceeds Calculation

•Bid Price	approx. \$50 million
• Less: Est. Sewer Debt Payoff and Transaction Costs	<u>approx. \$30 million</u>
•Est. Net Available to be Redeployed	approx. \$20 million

- For discussion purposes only, the \$20 million of net proceeds could be used to eliminate other Township debt.
- If the sewer transaction is approved, extensive planning and analysis will occur to determine the optimal deployment of the proceeds based on the Township's long term goals and objectives
- Some dollars could be set aside for discretionary investments



Financial Implications



Financial Projections (for Illustrative Purposes Only)

- **Base Year Projections** - 2018 approved budget is used as base year with projections through and including 2023. Actual revenue and expenditure amounts will change based on actual experience.
- **Scenario 1 (TOWNSHIP KEEPS SEWER)**: Township retains existing system and PWD treatment costs increase by 9.00%, real estate tax and sewer rate recalibrated
 - **Capital Improvements** - Assumes Township completes \$50 million of sewer capital improvements in the next five years & \$10 million of general purpose improvements
 - **Revenue Growth Rate** - Revenues grow on average by approximately 0.5%-1%. Sewer revenues grow by more to support additional debt and PWD costs.
 - **Expenditure Growth Rate** - Expenditures on average grow by 2% except pension and insurance costs which grow by 5%. In scenario 1 debt service increase to fund sewer projects.
 - **Schedule** - Assumes tax/sewer rate shift occurs in 2019.
 - **Laterals** – Does not factor in any costs for private lateral replacements to the rate payers.
- **Scenario 2 (TOWNSHIP KEEPS SEWER)**: Same assumptions as Scenario 1, but assumed Township completes \$80 million of sewer capital improvements
- **Scenario 3 (TOWNSHIP SELLS SEWER)**: Township accepts Aqua proposal and uses proceeds to pay off Township debt (Assumes net proceeds used to pay down debt. Actual usage of net proceeds may be redeployed for other purposes.)
 - **Capital Improvements** - Assumes Township completes planned 2018 \$10 million of general purpose improvements
 - **Revenue Growth Rate** – Revenues grow on average by approximately 0.5%-1%.
 - **Expenditure Growth Rate** - Expenditures on average grow by 2% except pension and insurance costs which grow by 5%.
 - **Schedule** – Assumes Closing occurs in Spring 2019.
 - **Laterals** - Does not factor in any costs for private lateral replacements to the rate payers.



Resident and Township Impacts



Marginal Impact on Residents

- Table below reflects impact to a resident with an average use of 48,000 gal/year of sewer and a market value of \$275,000. Individual impacts will vary based on actual usage and assessed values.

	Actual 2018	Projected 2019	Projected 2020	Projected 2021	Projected 2022	Projected 2023
<u>Scenario 1 (Keep system)</u>						
Ave Real Estate tax bill (Assumes \$275,000 market value)	\$1,682	\$2,022	\$2,123	\$2,225	\$2,348	\$2,409
Ave Sewer bill (Assumes 48,000 gal/year)	<u>438</u>	<u>438</u>	<u>438</u>	<u>463</u>	<u>519</u>	<u>622</u>
Total	\$2,120	\$2,460	\$2,561	\$2,688	\$2,867	\$3,031
<u>Scenario 2 (Keep system)</u>						
Ave Real Estate tax bill (Assumes \$275,000 market value)	\$1,682	\$2,022	\$2,123	\$2,225	\$2,348	\$2,408
Ave Sewer bill (Assumes 48,000 gal/year)	<u>438</u>	<u>438</u>	<u>438</u>	<u>463</u>	<u>556</u>	<u>758</u>
Total	\$2,120	\$2,460	\$2,561	\$2,688	\$2,904	\$3,167
<u>Scenario 3 (Sell system to Aqua and Adjust RE Tax Rates)</u>						
Ave Real Estate tax bill (Assumes \$275,000 market value)	\$1,682	\$1,840	\$2,059	\$2,161	\$2,285	\$2,347
Ave Sewer bill (Assumes 48,000 gal/year)*	<u>438</u>	<u>438</u>	<u>438</u>	<u>438</u>	<u>672</u>	<u>679</u>
Total	\$2,120	\$2,278	\$2,497	\$2,599	\$2,957	\$3,026

*For illustrative purposes, PUC process will dictate final rates.

*Assumes new Aqua rate case in 2022 and imposition of potential 1% DSIC in 2023.



Benefits to Township under Scenario 3

- Improved fiscal health & stability:
 - Elimination of DEP sanctions by transferring responsibility to Aqua
 - Lessened exposure to PWD by transferring negotiation responsibility for operating and capital costs
 - Reduction in total debt outstanding & reduced exposure to interest rate increases
 - Frees up borrowing capacity for other potential opportunities
 - Shifting risk and obligation for environmental liabilities and for interceptor and main replacements/repairs
 - Improved coordination of storm sewer inspections and road paving when Aqua has street open to do repairs
 - Re-opening the Township for commercial developments by ending the EDU moratorium



Financial Pro Forma Worksheets



Bond Yield Forecast & Rate Assumptions

Rate	Market Yld	Q2 18	Q3 18	Q4 18	Q1 19	Q2 19	Q3 19	Q4 19	Q1 20	Q2 20	Q3 20
United States											
US 30-Year	3.15	3.21	3.33	3.45	3.54	3.65	3.80	3.86	3.98	4.05	4.07
US 10-Year	2.98	2.92	3.04	3.15	3.25	3.34	3.46	3.52	3.64	3.68	3.64
US 2-Year	2.48	2.41	2.56	2.70	2.84	2.97	3.09	3.14	3.16	3.20	3.20
US 3-Month Libor	2.36	2.27	2.43	2.59	2.75	2.92	3.04	3.11	3.17	3.22	3.25
Fed Funds Rate - Upper Bound	1.75	1.95	2.15	2.40	2.55	2.75	2.90	3.00	3.00	3.05	3.05
Fed Funds Rate - Lower Bound	1.50	1.72	1.92	2.13	2.32	2.52	2.67	2.77	2.77	2.80	2.78
2 Year - 10 Year Spread	0.50	0.51	0.48	0.45	0.41	0.38	0.38	0.38	0.48	0.47	0.44

Source: Bloomberg 4/23/2018

Series	Purpose	Structure	Interest Rate Assumptions
2018	General Purpose	Wrap	Current Rates: 3.70%
2019	Sewer	30 Year Level	Current Rates + 0.75%: 4.38%
2020	Sewer	30 Year Level	Current Rates + 1.00%: 4.63%
2021	Sewer	30 Year Level	Current Rates + 1.25%: 4.88%
2022	Sewer	30 Year Level	Current Rates + 1.50%: 5.13%
2023	Sewer	30 Year Level	Current Rates + 1.75%: 5.36%



Pro Forma Debt Service- \$50 million project size

		1	2	3	4	5	6	7
		2018	2019	2020	2021	2022	2023	Total
<i>Principal</i>		\$10,000,000	\$10,000,000	\$10,000,000	\$10,000,000	\$10,000,000	\$8,600,000	\$58,600,000
8	9	10	11	12	13	14	15	16
Fiscal Year Ending	Existing Debt Service	Proposed Debt Service	Proposed Debt Service	Proposed Debt Service	Proposed Debt Service	Proposed Debt Service	Proposed Debt Service	Proposed Debt Service
12/31/2018	3,924,624							3,924,624
12/31/2019	3,922,538	396,721						4,319,258
12/31/2020	3,924,428	426,168	605,094					4,955,690
12/31/2021	3,922,242	424,704	605,923	627,564				5,580,432
12/31/2022	3,925,537	428,174	605,021	621,400	644,889			6,225,021
12/31/2023	3,920,901	426,426	608,751	620,380	641,947	662,371	574,220	7,454,996
12/31/2024	3,925,369	429,580	606,871	623,990	645,674	662,690	572,886	7,467,058
12/31/2025	3,924,091	427,536	609,512	626,979	648,834	661,189	572,378	7,470,516
12/31/2026	3,925,154	430,422	606,621	624,299	646,348	664,304	576,512	7,473,658
12/31/2027	3,922,570	428,089	608,327	626,263	648,372	666,762	570,062	7,470,444
12/31/2028	3,921,019	430,689	609,449	627,620	644,824	663,516	573,402	7,470,517
12/31/2029	3,923,196	438,073	604,969	628,373	645,857	664,897	576,058	7,481,421
12/31/2030	3,924,485	440,085	605,120	628,503	646,265	665,631	573,119	7,483,206
12/31/2031	3,921,888	436,884	609,742	628,041	641,030	665,719	574,771	7,478,073
12/31/2032	3,925,356	438,635	608,618	632,025	640,408	665,144	570,780	7,480,965
12/31/2033	3,923,919	440,165	606,942	625,226	644,211	663,935	571,375	7,475,771
12/31/2034	3,924,319	441,469	609,704	628,071	642,199	662,126	571,335	7,479,221
12/31/2035	844,544	812,553	606,680	630,108	644,590	664,707	570,688	4,773,869
12/31/2036	843,794	815,093	608,104	626,322	646,138	666,423	574,424	4,780,297
12/31/2037	842,650	816,761	608,749	626,958	641,828	667,259	572,275	4,776,479
12/31/2038	845,325	812,546	608,638	626,778	641,917	662,199	574,486	4,771,888
12/31/2039	842,450	817,674	607,762	625,805	646,155	661,513	570,784	4,772,141
12/31/2040	842,500	816,769	606,149	624,029	644,319	664,938	571,447	4,770,149
12/31/2041	841,950	820,007	608,794	621,479	641,643	662,239	571,199	4,767,310
12/31/2042	840,800	817,254	605,467	623,149	643,155	658,663	575,059	4,763,547
12/31/2043	844,050	818,692	606,427	623,797	643,603	659,238	572,747	4,768,553
12/31/2044	841,550	819,130	606,447	623,458	642,977	658,698	574,557	4,766,815
12/31/2045	843,450	828,562	605,522	622,128	641,314	657,035	575,209	4,773,219
12/31/2046	844,600	826,606	608,648	624,803	643,610	659,285	574,697	4,782,247
12/31/2047		818,634	605,596	621,241	639,610	660,181	573,051	3,918,311
12/31/2048		814,830	606,587	621,675	644,560	659,718	575,267	3,922,637
12/31/2049			606,390	625,863	642,954	657,892	571,067	3,104,166
12/31/2050				623,560	640,037	659,698	570,721	2,494,016
12/31/2051					640,805	659,866	578,949	1,879,620
12/31/2052						663,390	575,193	1,238,583
TOTAL	76,819,296	18,338,925	18,216,618	18,759,881	19,310,065	19,871,218	17,198,711	188,514,714



Pro Forma Debt Service- \$80 million project size

		1	2	3	4	5	6	7
		2018	2019	2020	2021	2022	2023	Total
<i>Principal</i>		\$10,000,000	\$10,000,000	\$10,000,000	\$20,000,000	\$20,000,000	\$18,600,000	\$88,600,000
8	9	10	11	12	13	14	15	16
Fiscal Year Ending	Existing Debt Service	Proposed Debt Service	Proposed Debt Service	Proposed Debt Service	Proposed Debt Service	Proposed Debt Service	Proposed Debt Service	Proposed Debt Service
12/31/2018	3,924,624							3,924,624
12/31/2019	3,922,538	396,721						4,319,258
12/31/2020	3,924,428	426,168	605,094					4,955,690
12/31/2021	3,922,242	424,704	605,923	627,564				5,580,432
12/31/2022	3,925,537	428,174	605,021	621,400	1,289,993			6,870,125
12/31/2023	3,920,901	426,426	608,751	620,380	1,284,094	1,324,852	1,237,132	9,422,535
12/31/2024	3,925,369	429,580	606,871	623,990	1,286,548	1,325,481	1,242,216	9,440,054
12/31/2025	3,924,091	427,536	609,512	626,979	1,293,058	1,322,479	1,240,180	9,443,834
12/31/2026	3,925,154	430,422	606,621	624,299	1,288,283	1,328,709	1,242,401	9,445,888
12/31/2027	3,922,570	428,089	608,327	626,263	1,292,537	1,328,625	1,238,641	9,445,051
12/31/2028	3,921,019	430,689	609,449	627,620	1,290,648	1,327,350	1,238,989	9,445,763
12/31/2029	3,923,196	438,073	604,969	628,373	1,292,714	1,330,112	1,248,153	9,465,590
12/31/2030	3,924,485	440,085	605,120	628,503	1,293,530	1,331,580	1,240,874	9,464,177
12/31/2031	3,921,888	436,884	609,742	628,041	1,283,060	1,326,757	1,237,748	9,444,119
12/31/2032	3,925,356	438,635	608,618	632,025	1,281,816	1,330,842	1,238,551	9,455,842
12/31/2033	3,923,919	440,165	606,942	625,226	1,289,423	1,328,423	1,238,009	9,452,105
12/31/2034	3,924,319	441,469	609,704	628,071	1,285,399	1,324,805	1,236,172	9,449,937
12/31/2035	844,544	812,553	606,680	630,108	1,285,181	1,329,968	1,238,103	6,747,136
12/31/2036	843,794	815,093	608,104	626,322	1,293,513	1,328,400	1,238,527	6,753,752
12/31/2037	842,650	816,761	608,749	626,958	1,289,893	1,330,320	1,237,419	6,752,749
12/31/2038	845,325	812,546	608,638	626,778	1,289,831	1,325,451	1,234,753	6,743,320
12/31/2039	842,450	817,674	607,762	625,805	1,293,063	1,324,079	1,235,504	6,746,336
12/31/2040	842,500	816,769	606,149	624,029	1,289,391	1,330,929	1,239,441	6,749,207
12/31/2041	841,950	820,007	608,794	621,479	1,284,039	1,325,532	1,241,271	6,743,071
12/31/2042	840,800	817,254	605,467	623,149	1,287,064	1,318,380	1,241,032	6,733,145
12/31/2043	844,050	818,692	606,427	623,797	1,287,959	1,319,530	1,238,703	6,739,157
12/31/2044	841,550	819,130	606,447	623,458	1,286,708	1,318,450	1,239,335	6,735,076
12/31/2045	843,450	828,562	605,522	622,128	1,288,382	1,320,124	1,237,643	6,745,809
12/31/2046	844,600	826,606	608,648	624,803	1,287,724	1,319,361	1,238,609	6,750,350
12/31/2047		818,634	605,596	621,241	1,279,724	1,321,153	1,237,029	5,883,376
12/31/2048		814,830	606,587	621,675	1,289,624	1,320,228	1,242,894	5,895,837
12/31/2049			606,390	625,863	1,286,412	1,321,576	1,240,644	5,080,884
12/31/2050				623,560	1,285,579	1,324,924	1,245,544	4,479,606
12/31/2051					1,286,863	1,324,996	1,242,032	3,853,890
12/31/2052						1,326,780	1,245,372	2,572,152
TOTAL	76,819,296	18,338,925	18,216,618	18,759,881	38,642,049	39,760,190	37,192,913	247,729,872