



Towamencin Township

Update to Sewer Monetization Exploration

January 13, 2021

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PFM's Typical Asset Exploration Process

1-3 Months

Phase 1: Analysis & Valuation

- Determine range of value for the system
- Research private sector interest and capabilities
- Explore impacts of monetization on ratepayers and Twp. financials

4-6 Months

Phase 2: Exploration and Receive Proposals

- Develop & Release Request for Qualifications ("RFQ")
- Pre-qualify bidding team and initiate due diligence
- Determine transaction structure
- Finalize preferred procurement process
- Finalize transaction documents (Asset Purchase Agreement)
- Develop & Release Request for Bids ("RFB")
- Evaluate proposals and select winner
- Initiate stakeholder outreach and education

1-12 Months

Phase 3: Closing Process and Analysis of Use of Funds

- After winner selected, initiate closing process
- Further due diligence
- Proceed through regulatory process (if required)
- Close transaction(s)

Note: During stages 2 and 3 of the exploration, periodic updates will be provided. Entering Stage 2 does not commit or bind the Township to complete a transaction.



Phase 1 – Analysis & Valuation

- ◆ Work with Administration to gather data to more fully understand the system
 - Data will be used in Phase 2 and 3 to populate the data room which short listed bidders will have access to (if Phase 2 and 3 are applicable)
- ◆ Perform a preliminary utility system valuation to get a rough estimate to help the Board decide whether or not to move forward with additional exploration
- ◆ Assist the Township with other analyses and information needed to make an informed decision.
- ◆ No valuation method will produce an exact conclusion of value for a system
- ◆ Market conditions, investor demand can not be quantified
- ◆ Our study focuses on 3 generally accepted valuation methodologies:





Phase 1 - Cost Approach

- ◆ Prior to Act 12, purchasers of sewer systems generally bid based on depreciated original cost
 - Following Act 12 purchasers are now able to bid based on market value
- ◆ Looks at the underlying assets owned by the Township as part of its sewer operations and attempts to assign a value to them based on age, condition, and other factors
- ◆ Common multiples of Book Value(a.k.a. Depreciated Original Cost) that are applied range but are generally greater than 1.25x

Depreciated Original Cost Calculation (As of December 31, 2020)	
Total Sewer Capital Assets	\$60,400,000
Accumulated Depreciation	\$42,225,000
Depreciated Original Cost	\$18,175,000



Phase 1 - Income Approach

◆ Values the future income generated from system. Many assumptions were made including:

- Future rates
- Future treatment/capital expenses
- Future growth in the Township
- Inflation
- Sewage disposal

◆ The type of buyer matters:

- Regulated by PUC (ex. Aqua/American)
vs. Unregulated (Municipal Authority)
- Different assumptions are used under the two models

FREE CASH FLOW (2020 BUDGET)	
Township: Operating Revenues	\$5,395,463
Authority: Sewage Disposal	\$217,143
Township: Operating Expenses	\$3,658,843
Free Operating Cash Flow (EBITDA)	\$1,953,763

NOTE: the free operating cash flow listed above is does not include the payment of any sewer related debt, interfund transfers, etc. and is meant to represent the cash flow that would be available to a purchaser should a sale occur.



Phase 1 - Market Approach

- ◆ Values are derived from comparing financial metrics to similar transactions
 - Geography
 - Size
 - Collection only vs. collection & treatment
- ◆ Price Per Customer is most common
 - Use number of customers to compare to similar transactions
 - Towamencin Township currently has about **8,346** connections
 - Residential: 7,572
 - Commercial: 494
 - Remaining Upper Gwynedd Connections: 280
- ◆ Common Price Per Customer metrics range depending on type of system but are generally north of \$5,000



Phase 2 – Exploration and Receive Proposals

- ◆ Draft and Distribute a Request for Qualifications to solicit interest from potential bidders
- ◆ Populate and manage data room and bidder requests for information/clarification
- ◆ Draft Management presentation for bidders
- ◆ Work with Legal Team to draft and revise legal documents
- ◆ Prepare and circulate the Request for Bids
- ◆ Summarize results of the Request for Bids
- ◆ If applicable, conduct Best and Final Offer round
- ◆ Update the Township regularly on progress throughout this period



Phase 3 – Closing & Use of Proceeds Analysis

- ◆ Work with Legal Team and winning bidder to coordinate Financial Close
- ◆ Based on winner, may involve PUC process and/or bond financing
 - Act 12 of 2016 has modified the timeline for financial close
 - PUC guidance suggests that the new process will take around 9 to 12 months.
- ◆ There may be additional due diligence at this Phase related to real estate holdings (i.e. deeds & easements)
- ◆ Coordinate with the Township to develop a plan to most effectively deploy the proceeds of the monetization towards long term investments. Example include:
 - Debt Reduction
 - Pension Funding
 - OPEB Fund or Trust
 - Other/Existing Long-Term Capital Projects



Other Considerations (Upper Gwynedd Connections, Rates, Cash on Hand & General Fund Transfers)



Additional Considerations – Upper Gwynedd

- ◆ It is our understanding that Upper Gwynedd Township is in the process of undergoing a significant capital improvement plan with the intention of regaining their wastewater treatment autonomy.
- ◆ It is likely that in the short-term the Township will realize an impact to its financials which may be partly/completely offset by a number of things including but not limited to:
 1. It is possible that the Township may have to raise its sewer rates in the future
 2. The timing of when Upper Gwynedd disconnects from the Township's system
 3. An estimated 1,400+ additional EDUs coming online over the coming 3-5 years
 4. An initial capacity reservation charge to Hatfield Meats
- ◆ The timing/magnitude of additional EDUs coming online is crucial



Current & Future Rates

- ◆ The Township currently bills its customers a flat annual fee of \$375 based on the number of EDU's.
- ◆ If sold it is likely that the Township's rates will be converted to a monthly billing regime and include a volumetric component
- ◆ Eventually, the Township's rates would likely increase in order to match the rate structure of the successful purchaser

Towamencin Township - Current Sewer Rate Comparison				
	Towamencin Township	Bucks County W&S	Aqua	Pennsylvania American [1]
Fixed Fee (per Month)	N/a	\$23.68	\$31.00	\$10.00
Rate per 1,000 gallons	N/a	\$5.88	\$7.60	N/a
Rate per 100 gallons	N/a	N/a	N/a	\$1.5132
Assumed Annual Gallons	48,000	48,000	48,000	48,000
Average Monthly Bill	N/a	\$47.20	\$61.40	\$70.53
Average Quarterly Bill	N/a	N/a	N/a	N/a
Annual Average	\$375.00	\$566.40	\$736.80	\$846.34
Source	Township	BCWSA Website	PA PUC - Aqua Zone 1 Rate	PA PUC - PA American Zone 1 Rate

[1] PAWC's current wastewater tariff. Tariff does not include any reduction as part of the Tax Cuts and Jobs Act.

NOTE: PAWC is currently in for rates that would likely become effective in 2021.



Sample Timeline - For discussion purposes

Sample Timeframe	Event
January 13, 2021	PFM presents limited scope valuation results to Board of Supervisors
If Township decides to move forward after the valuation:	
January 13, 2021	Board considers PFM contract for Phase 2 and 3 of the sewer sale exploration process
Late January, 2021	Release Request for Qualifications (“RFQ”)
Early February, 2021	Receive Intent to Respond, signed Confidentiality Agreement, & open virtual data room
Late February, 2021	Receive RFQ responses
Early March, 2021	Qualify bidders
March – June, 2021	Negotiate transaction documents & Meetings/Tours with bidders
July, 2021	Release Request for Bids (“RFB”)
August, 2021	Receive RFB responses
August, 2021	Best and Final Offer (if applicable)
September, 2021	Board approval of Transaction
TBD	Financial Close – Varies based on type of purchaser



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