

SEWAR SALE EVALUATION UPDATE

April 8, 2016

By way of a brief update, following is a narrative that highlights what has been going on since receipt of the proposals to purchase the New Garden Township Sewer Authority sewer system.

The three proposals received were first reviewed by the Sewer Authority's Solicitor and Director of Planning and Projects for compliance with the specific provisions of the Request for Proposals ("RFP") that was issued and their overall responsiveness to the general content of the RFP. Upon review, it became clear that each of the three proposals contained certain unique provisions and approaches to the structure of a deal; which was not totally unexpected. It also became clear that in order to fairly and accurately assess and compare the three proposals, additional expertise was needed related to valuing the infrastructure and rate making with the PUC, which are critical components of the deal. The monetary offer contained in the proposals is certainly important but there are other aspects of the sale that are equally important, if not more so; i.e. capital improvements, future rate increases, expanded infrastructure, etc.

Consequently, a committee was formed comprised of two members of the Sewer Authority, two members of the Board of Supervisors, the Township Manager, the Solicitor and the Director of Planning and Project to determine the path forward and evaluate the proposals in detail and craft the content and structure of a sale. In addition, the Committee will deliberate the use of the proceeds from the sale. One of the main goals is to prepare an updated and refined addendum to the RFP that will require responses to a series of very specific requirements from each of the respondents to the RFP. The goal is to reduce the number of variables among the proposals in order to arrive at a credible "apples-to-apple" comparison of the proposals.

The Committee recommended and the Sewer Authority members voted, as did the Board of Supervisors, to engage the services of two subject matter experts to assist the Committee as needed. The firm of AUS Consultants was engaged to prepare an original cost study and determine the depreciated value of the infrastructure in order for the Committee to have a firm foundation when considering the worth of the assts. AUS will also provide expertise related to the impact of the sale on the New Garden Township rate payers. In addition, Steven Goldfield, Esquire was engaged to assist the Committee with structuring the transaction and understanding the nuances related to the different forms such a transaction could take. Both AUS and Mr. Goldfield have extensive experience in these matters and bring a wealth of information and knowledge to the Committee.

The Committee is also considering ways to allocate and leverage the purchase price in order to achieve the best return. One way to do that is to work cooperatively with the buyer in a "public – private partnership" (referred to as a P3 arrangement) to undertake selected public works capital projects. In this scenario, the buyer would complete certain agreed upon projects and the value of the projects would be a credit toward the purchase price. The rationale is the buyer would be able to complete such projects faster and at a lower cost than could the Township. Another example is that some of the proceeds could be used to "buy Down" future long-term rate increases; a number of other options are being discussed.

The goal of the Committee is to investigate and deliberate as many reasonable and viable options related to the sale as practical during this due diligence period.

A lot of the groundwork has been completed, a lot is in process but there is much more to do. In addition to dozens of emails, copies of data and pertinent information and plan sheets that have been provided to AUS Consultant, a full day meeting was held to review the material that had been provided to date, a full day meeting to review additional material and identify new information that is needed and a full day going throughout the entire sewer system to look at the condition of and inventory above ground sewer infrastructure.

After several month of providing data, plans, historical cost information and other baseline information to AUS Consultants, the final Original Cost Study was issued by AUS on September 9, 2015. This document is foundational in that it presents an independent determination of the cost of the sewer system which is currently in place (the assets considered for sale) and therefore provides a credible basis for comparison of the purchase price offered by interested buyers.

In further support of determining the value of the assets, AUS Consultants was engaged to prepare a Business Enterprise Valuation report. This report uses the Original Cost Study information and valuation methodologies used in the utility industry to determine the value of the enterprise as an ongoing concern. The report analyzed the value using the Cost Approach, the Income Approach and the Market Approach. The report was issued in draft form on November 9, 2015 and final form December 2, 2015.

In the meanwhile, the Committee has been discussing various uses, both long-term and short-term, of the proceeds from the sale of the sewer systems. Any number of ideas have been discussed and considered. Some of the topics include: paying down existing debt, programs to stimulate economic development and investment in the Township, sewer rate stabilization, public safety improvements, open space preservation, airport improvements, capital renewal and replacement, establishing a capital reserve fund and making immediate capital improvements such as addressing road, bridge, culvert and storm water infrastructure, park improvements, historical preservation opportunities and similar priorities.

The next step was to issue Addendum No. 2 to the original RFP that reflect information and priorities obtained through the efforts of AUS Consultants and internal discussions involving the Committee, Board of Supervisors and Sewer Authority. Addendum No. 2 was issued on December 21, 2015 followed by Addendum No. 3 on January 12, 2016 and Addendum No. 4. On February 2, 2016. Responses to the Addendums were received on March 18, 2016. Subsequent to receipt of the responses the Committee met to review the information and consider the next steps. It can be said, the work of the Committee, AUS and others has produced a positive result.

Looking ahead, there will be a joint meeting of the Sewer Authority members and Board of Supervisors on April 14, 2016 at 7:00 pm to discuss the responses received and the next steps in the process. We anticipate that in the next two or three months, while the Committee continues its work, additional details will be made available to the public. The goal is to keep the public informed as the process continues and, in the near future, to initiate public participation focused on a definitive agreement of sale and related considerations.