NEW GARDEN TOWNSHIP

NEW GARDEN TOWNSHIP SEWER AUTHORITY

PROPOSED SALE OF SANITARY SEWER SYSTEM

FREQUENTLY ASKED QUESTIONS

Why are the Township and Sewer Authority selling the System?

The sale has been under consideration for well over two years (since early 2014), with the formal, competitive process initiated in June of 2014. The motivation includes:

Tapping the maximized value of the assets to remove debt, reduce budgetary constraints and reduce unfunded obligations.

Avoiding needed short-term and long-term capital upgrades and replacements to the system which will result in additional debt and higher user fees.

Reducing the risk of unfunded, ever increasing federal and state regulatory mandates in a very heavily regulated industry.

Reducing the risk of liability due to regulatory noncompliance.

Recognizing that this type of utility can be more efficiently and economically operated by the private sector rather than government.

Reducing the size of local government.

What are the unfunded, federal and state regulatory mandates facing the System?

There are numerous regulatory changes which have impacted the System in the past, and will likely impact the System in the future. For example, the state has questioned the capacity of two of the spray fields at the South End system based in part on soil classifications and application rates that are used today, which are more stringent than those in place when the spray fields were originally permitted. When the South End system was originally permitted, the state required only 60 days of storage, while today the state requires 90 days of storage, and the storage requirements are likely to increase in the future. The state continues to impose more stringent monitoring of flows in the collection and conveyance portions of the System, with a focus on peak flows which can be more difficult to control during large rainfall events absent upgraded or expanded infrastructure. The state now requires that the water quality management permits issued for the System be renewed every 5 years, which affords the opportunity to impose more stringent requirements on an ongoing basis. In the past, water quality management permits had no expiration.

On the federal level, the Delaware River Basin Commission now requires its own approval of these types of systems when the flow is over 50,000 gallons per day. The DRBC has been considering imposing limitations on land application systems, particularly with respect to phosphorus requirements.

What upgrades and replacements are needed to the System and what is the anticipated cost?

The following upgrades and improvements are among those anticipated to the System: Route 41 force main upgrades and modifications; acquisition of additional spray fields for the South End system for short term; construction of a mechanical treatment plant for the South End system as a long term solution; increased operational costs for the new South End treatment system; and upgrades to the System due to anticipated more stringent permit requirements.

The potential buyer has committed to invest approximately $7,000,000 in the next few years to address pressing infrastructure needs and regulatory compliance matters. The New Garden Sewer Authority 5 year capital plan requires spending approximately $12,000,000 to address the same infrastructure needs plus several other projects. One significant reason for the difference in cost to complete similar projects is that governmental agencies must pay prevailing wages while private companies do not. The difference is approximately 25% to 35% higher for municipal projects.

What would my sewer rates likely be if the sale does not take place?

Given the necessary upgrades and improvements, financing costs, and increased operational costs, it is predicted that rates will likely increase to the rates predicted if there is a sale, if not more.

Rates will increase approximately 40% in 2017 and an additional 27.5% in 2018. Thereafter, rates will not change until 2025 when a 3% increase is anticipated unless there are further capital projects that must be addressed sooner or operating costs increase unexpectedly to address such things as maintenance, repair and replacement of infrastructure, energy cost increases, personnel costs and similar line items.

The typical residential user now pays approximately $189 per quarter. At the end of 10 years the anticipated user charge will be $349 per quarter. A 10 year period was selected to fairly compare the System's predicted rates to the rate proposal negotiated with the potential buyer of the System.

What would my sewer rates likely be if the sale does take place?

Present rates will be frozen during the first two years following the sale of the System. Thereafter, rates are capped at a compounded annual growth rate of 4% over the ten year period following the sale of the System. The typical residential user now pays approximately $189 per quarter. At the end of ten years, the anticipated typical residential user charge will be $263 per quarter. Rates will be billed on quarterly basis in the near future, but this may change to a monthly basis.

What is the selling price?

$29,500,000 in cash, based on a vibrant, dynamic and competitive process.

What will the Township do with the proceeds from the sale?

First, pay off the debt of the System.

Second, reserve funds to satisfy pre-existing obligations of the System and to financially secure the contractually capped rates.

Third, invest in the following capital improvement and maintenance programs:

- Pursue a P3 option for a new police building facility
- Bridge and/or road construction capital improvements
    - Replace box culverts on Chambers, Ellicott, Bancroft, and Egypt Run Roads
    - Provide local match for the Newark Road and Baltimore Pike Intersection
    - Increase the annual road resurfacing program per the Arro Road Study
- Establish a capital fund for the maintenance of Township facilities
- Establish a capital fund for vehicle and equipment purchases

Fourth, invest a minimum of 50% of the proceeds in long term, laddered securities with a minimum 10 to 50 year maturity.

Fifth, establish a tax stabilization fund to offset future real estate tax increases.

Sixth, provide funding to the Park Fund.

Will existing users of the sewer system receive any of the proceeds?

A reserve fund will be established out of the proceeds of the sale to financially secure the contractually capped rates. The fund will be used to reimburse existing users should the contractually capped rates be exceeded.

Will the Township maintain control of future sewer extensions?

Yes. The Township will retain control of sewer extensions under the Act 537 sewage facilities planning program and the prior written approval of the Township will be a contractual requirement for any new sewer extension outside of the existing service area. In addition to availability of public sewer, many other factors influence growth and development within a community, for example: water, zoning, natural resource protection, comprehensive long-term planning, road network, work force, etc.

Will the new owner require properties on septic systems to connect to future sewer extensions?

No. Only the Township and PaDEP will have the legal right to mandate connections of existing properties with on-lot septic systems to future sewer extensions.

What advantage does selling the System have over a long-term lease of the System to an outside entity?

While a long term lease has the distinct advantage that ownership of the System would be retained, only selling achieves the goals of tapping the maximized value of the System, avoiding the future costs and impact on ratepayers of necessary future upgrades and improvements, avoiding the potential liabilities associated with this type of operation, and reducing the size of local government. Leasing arrangements require unavoidable and substantial administrative oversight of the operation and maintenance of the system in order to ensure the preservation of the assets, and avoid regulatory noncompliance and liability. Leasing requires a reserve of substantial funds to avoid unfunded obligations and rate shock when the lease terminates.