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- [About New Garden](#)
- [Maps & Resources](#)
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SALE OF SANITARY SEWER SYSTEM FREQUENTLY ASKED QUESTIONS

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**NEW GARDEN TOWNSHIP
NEW GARDEN TOWNSHIP SEWER AUTHORITY
SALE OF SANITARY SEWER SYSTEM
FREQUENTLY ASKED QUESTIONS**

RELATED TO THE PUBLIC NOTICE CONCERNING SALE OF THE SEWER SYSTEM RECENTLY MAILED TO NEW GARDEN SEWER CUSTOMERS

Why am I receiving this notice?

One of the required steps in the process of selling the Sewer System is to provide formal notice to all current New Garden rate payers of the sale and the Settlement Agreement pending before the Pennsylvania Public Utility Commission. The Township and Township Sewer Authority have extensively communicated to the rate payers of New Garden concerning the concept of selling the System, negotiating a contract to sell the System, the steps while dealing with the Pennsylvania Public Utility Commission, the decision of Commonwealth Court and the proposed Settlement Agreement. These communications have been in printed form, on the web site, verbally at public meetings on a routine basis and at special meetings devoted to discussion of the details of the sale.

This notice is another attempt to keep the New Garden rate payers informed and provide an opportunity to provide input.

What does the notice say?

The notice provides a brief summary of some of the points contained in the Settlement. The notice also provides a computer link to Aqua's website where details of the Settlement may be viewed. The notice also provides a non-binding estimated incremental rate effect associated with acquisition of the New Garden System. It is important to note no increase has been applied for nor has the Pennsylvania Public Utility Commission ruled on any increase. Aqua anticipates filing a rate case with the Pennsylvania Public Utility Commission sometime in 2021. The details of the request will be made available to the public and an opportunity to provide comments to the Pennsylvania Public Utility Commission will be part of the rate making process at that time based on the facts submitted with the application.

The rates established by the New Garden Township ordinance adopted in 2018 will be in effect until the Pennsylvania Public Utility Commission approves any change in rates as noted above.

Why are the Township and Sewer Authority selling the System?

The sale has been under consideration for well over five 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: complete replacement of the Route 41 force main; modifications to some of the pump stations connected to the Route 41 force main; acquisition of additional spray fields for the South End system; 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 65% to 80% in the next three years. Thereafter, rates will not change until 2025 when another 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 \$207 per quarter. At the end of 10 years the anticipated user charge will be \$358 per quarter. A 10-year period was selected in anticipation of new borrowings to pay for the current infrastructure improvements that are needed plus anticipated improvements that will be need in the five to ten-year time horizon.

The Board of Supervisors adopted an ordinance in 2018 that increased residential rates by 10% in 2018 and 9.56% in 2019, and will increase rates by 8.76% in 2020.

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

The 2019 and 2020 rates are set by the ordinance and those rates will remain in place after the sale of the System. It is anticipated that Aqua will file with the PUC a rate case sometime in 2021, however the amount of the requested increase is unknown at this time. It is anticipated the next rate case will not result in the full cost of acquiring the System having to be absorbed by the New Garden rate payers which equates to approximately \$315 per quarter. A cost of service study is required to be submitted with the next rate case that will clearly document the cost of the acquisition, operations, capital improvements and the like and the impact of those costs on the New Garden rate payers. The PUC will then decide how much of an increase is supported by the facts.

The Settlement Agreement among the parties places a cap on the increase to New Garden rate payers at no more than two times the system average for Aqua wastewater customers across Pennsylvania.

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, such as:

Replenish the general fund funds used for construction of the new police building

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 and complete ongoing expansion of the park.

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

As residents and taxpayers of New Garden, existing user will realize the benefits noted above.

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 pub-

lic 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.

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