

Informational Report to Citizens of Milford on the Potential Purchase of the Water System Owned by the Milford Water Company

Public Meeting – June 28, 2017



FORWARD LOOKING STATEMENT

From time to time, the Town of Milford (the "Town") or its representatives may have made or may make forward-looking statements, orally or in writing, including in this presentation. Such forward-looking statements may be included in press releases, oral statements, websites, oral or written presentations, FAQs or other documents and communications. All statements that do not relate to matters of historical fact should be considered forward-looking statements, and are generally identified by words such as: "expect," "will," "could," "likely result," "plan," "continue," "anticipate," "estimate," "project," "schedule," "could have," "intend," "believe," "consider," "may be," "assessed," "contingent," "objective," or similar expressions. You should not place undue reliance on forward-looking statements made by the Town or its representatives. Such statements are based on the Town's or its representative's beliefs and assumptions and on information currently available to the Town or its representatives and are subject to risks, uncertainties and changes in condition, significance, value and effect. Such statements are qualified in their entirety by reference to and are accompanied by the following discussion of certain important factors that could cause actual results to differ materially from such forward-looking statements.

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FORWARD LOOKING STATEMENT (CONT.)

These forward-looking statements are subject to known and unknown risks and uncertainties that could cause actual results to differ materially from the results described in or anticipated by the Town's forward-looking statements. Potential risks and uncertainties include, among other things: latent or other unknown risks to the town associated with the purchase of MWC, risks relating to any change or delay in timing of completion of the purchase of MWC, including the impact the purchase by the Town may have on the pending rate case filed by MWC on June 15, 2017; the ongoing needs for capital improvements and expenditures related to MWC assets and any changes from the Town's estimates related thereto; degradation of MWC assets caused by factors such as age, intense traffic, population density, and commercial and industrial development; the implementation, integration with other systems or ongoing management of the water-system assets; the sufficiency of the Town's liquidity and capital resources, including long-term capital needs; any change in the credit rating of any Town bonds, which may also impact the Town's ability to raise funds in the future; risks related to the Town's indebtedness and compliance with covenants contained in the Town's current and future financing arrangements; the impact of any economic downturn, adverse market conditions or restriction in the credit markets; the impact, costs and expenses of any litigation the Town may be subject to now or in the future; the risks associated with the Town's ongoing compliance with environmental, health, safety, and regulatory laws and regulations, which may be subject to change; changes in water consumption by the Town's residents and businesses; and any weather conditions or natural occurrences that impact availability, safety or utility of water. The Town expressly disclaims any duty to provide updates to any forward-looking statements made in this presentation, whether as a result of new information, future events or otherwise.

Presentation Outline

- ▶ Background (Feasibility & Affordability)
- ▶ Feasibility Study
- ▶ Negotiated Purchase Price
- ▶ Financing Plan
- ▶ Affordability Evaluation
- ▶ Ratepayer Impacts

Background (Feasibility Study)

- ▶ Feasibility of What?
- ▶ Why Consider it Now?
 - Water Quality
 - Very High Rates
 - Management & Operations
 - What are other Towns in MA Doing?
- ▶ Would Town & Ratepayers be better off with Municipal Ownership and Operation?
- ▶ Lets take a look at it – Feasibility Study



The Feasibility Study (June 2014)

- ▶ Legal Authority
- ▶ Advantages/Benefits
- ▶ Disadvantages
- ▶ Cost
- ▶ Can the Town Finance the Purchase
- ▶ Is it Affordable
- ▶ Customer Impacts



Major Findings And Conclusions

- ▶ Legal Authority
 - YES (Legislation)
- ▶ Advantages/Benefits
 - Control & Potential Savings/Lower Rates
- ▶ Disadvantages
 - With Control Comes Responsibility & Potential Loss/ Higher Rates
- ▶ Cost
 - Est. Range \$45 to \$86 Million, Negotiated or MADPU Comm.
- ▶ Can the Town Finance the Purchase
 - YES
- ▶ Is it Affordable
 - YES
- ▶ Customer Impacts
 - Potentially Lower Rates Over Time

Negotiated Purchase Price

- ▶ Several Meetings with Company & Town Team.
- ▶ Professional Mediator (Paul Levy) Brought in to Facilitate.
- ▶ Last Dec. Reached a Mutually Agreed to Price – \$63 Million.
- ▶ Includes all Water System Assets; including all Good Will and Franchise Rights, Real Estate (except parcels listed as contingencies), Inventories and accounts receivable.
- ▶ MWC is responsible for all outstanding Debt and all other MWC liabilities.
- ▶ Subject to Final Term Sheet and P&S Agreement (In Progress).

Financing Plan

- ▶ Funds for the Purchase Price - \$63 million
 - Standard Revenue Bonds - 30 year Term
 - Interest Rate – 3.5% to 4.25%, Debt Service - \$3.4 million
- ▶ Estimated Capital Improvements Expenses - \$14 million during the first 10 years
 - Renewal & Replacement Reserve
 - Pay-as-you-go (Surplus)
 - Additional Short Term Borrowing \$10 Million (as needed)
- ▶ Renewal & Replacement Reserve – Avg. Approx. - \$280,000/year, Avg. Surplus - \$292,000/year
- ▶ Total available Capital Improvement Funds - \$15.7 million during the first 10 years

Affordability Evaluation

- ▶ Total System Costs and Revenues with Town Ownership (See the attached Schedule A)
 - Estimates 1st 10 years
 - Total Costs – Lines 1 through 5 (FY2018 - \$6.84 million)
 - Total Revenues – Line 7 (FY2018 - \$7.01 million with no rate increase)
 - Net Income/Surplus – Line 8 (FY2018 - \$171,000)
 - Total Surplus 1st 10 years - \$2.92 million (Avg. about \$292,000 per year)

Affordability Evaluation (cont.)

- ▶ This level of Income is sufficient to pay the annual Debt Service on a \$63 million Bond Issue plus all operating costs and up to \$15.7 million in Capital Improvements in the 1st 10 Years .
- ▶ With no rate increase during the 1st year of Town ownership and only minor inflationary increases thereafter, the Town can afford to purchase the Water Company without adding additional impacts to ratepayers or the Town's financial wellbeing.
- ▶ If the Town does not purchase the water utility, it can expect at least a 15% to 20% rate increase in 2018. (MWC has filed for a 29% increase).

Ratepayer Impacts

- ▶ First year or two – 15% to 20% lower Rates than they would be if the purchase/acquisition does not happen.
- ▶ Thereafter – On average - normal inflationary increases only – estimated to be about 2.5% per year (historically MWC's rates have much higher than inflationary increases).
- ▶ The Town would have complete control over the Rate Structure, Customer Classes and Distribution of Costs within each Class.
 - For Example - Essential (or non-discretionary) use by Residential Customers could be charged at a much lower rate (first 15,000 to 30,000 gallons per year)

TOWN OF MILFORD - MUNICIPAL WATER SYSTEM											
Estimated Total Annual Costs and Revenues											
Schedule A - Base Case (with full bonding in the first year)											
Public Ownership (with no rate increase in 2018 (normal inflationary increases thereafter - 2.5% per year)											
Estimated Revenue Requirements											
Line No.		2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
	Municipal Department										
	Component Costs of Ownership and Operations										
1.)	Operation & Maintenance	\$2,531,302	\$2,594,585	\$2,659,449	\$2,725,935	\$2,794,084	\$2,863,936	\$2,935,534	\$3,008,923	\$3,084,146	\$3,161,249
2.)	Renewal & Replacement	\$250,000	\$256,250	\$262,656	\$269,223	\$275,953	\$282,852	\$289,923	\$297,171	\$304,601	\$312,216
3.)	CIP - Debt Service (Planned Imprvs.)										
3a.)	2021 Capital Improvement Bond (\$5.0M) (BANs in 2019 and 2020, 2020 Bond)		\$15,000	\$50,000	\$ 289,150	\$ 289,150	\$ 289,150	\$ 289,150	\$ 289,150	\$ 289,150	\$ 289,150
3.b)	2025 Capital Improvement Bond (\$5.0M) (BANs in 2023 and 2024, 2025 Bond)						\$20,000	\$62,500	\$306,958	\$306,958	\$306,958
	Annual Total (L.3a. + L.3b.)		\$15,000	\$50,000	\$289,150	\$289,150	\$309,150	\$351,650	\$596,108	\$596,108	\$596,108
4.)	Payment-In-Lieu-Of-Taxes (PILOT)	\$646,136	\$662,290	\$678,847	\$695,818	\$713,214	\$731,044	\$749,320	\$768,053	\$787,254	\$806,936
5.)	Debt Service on Acquisition Bond	\$3,410,000	\$3,410,000	\$3,410,000	\$3,410,000	\$3,410,000	\$3,410,000	\$3,410,000	\$3,410,000	\$3,410,000	\$3,410,000
6.)	Total Revenue Requirement Sum (L.1 thru L.5)	\$6,837,438	\$6,938,124	\$7,060,952	\$7,390,127	\$7,482,401	\$7,596,982	\$7,736,428	\$8,080,255	\$8,182,109	\$8,286,509
7.)	Total Revenues	\$7,008,168	\$7,183,372	\$7,362,957	\$7,547,030	\$7,735,706	\$7,929,099	\$8,127,326	\$8,330,509	\$8,538,772	\$8,752,242
8.)	Surplus/Deficit (L.7 - L.6)	\$170,730	\$245,248	\$302,004	\$156,904	\$253,305	\$332,116	\$390,898	\$250,254	\$356,663	\$465,732
9.)	Cumulative (S/D) (L.8)		\$415,977	\$717,981	\$874,885	\$1,128,190	\$1,460,306	\$1,851,204	\$2,101,458	\$2,458,121	\$2,923,854
10.)	Total Cumulative Surplus 1st 10 years	\$2,923,854									
11.)	Bond Funded Capital Improvements (1st 10 years)	\$10,000,000									
12.)	R&R Reserve Funds Available for Additional Cap Improvements	\$2,800,845									
13.)	Total Cap. Imprv. Funds 1st 10 years (L.14 + L.15)	\$15,724,699									
Major Assumptions											
	O&M Escalation Rate (L.1)						2.5%				
	R&R Escalation Rate (L.2)						2.5%				
	Interest on CIP Bonds (L.3a)						2021 - 4.0%	2025 - 4.5%			
	Interest on BANS ('19 and '20)						1.5% - 2%			BANS ('23 and '24)	2.0% - 2.5%
	PILOT Escalation Rate (L.4)						2.5%				
	Rate Rev. Escalation Rate (L.6)						2.5%				