

Update on Negotiations

(To Purchase the Milford Water Company by
the Town of Milford)

Prepared for the Milford's Board of Selectmen
Meeting – December 19, 2016

Presentation Outline

- ▶ Purchase Price and Contingencies
- ▶ Affordability Evaluation
- ▶ Financing Plan
- ▶ Risks and Sensitivity Analysis
- ▶ Ratepayer Impacts
- ▶ Next Steps/Timeline

Purchase Price & Contingencies (1)

▶ Purchase Price

- Negotiated Purchase Price – \$63,000,000
- 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
- Excludes any liabilities associated with Court Cases involving the Milford Water Company prior to closing.
- Subject to Final Term Sheet and P&S Agreement
- In line with Updated Feasibility Analysis

Purchase Price & Contingencies (2)

▶ **Contingencies**

- Structure of the Transaction
- Use of RH White Construction Company for Emergency Repairs and small projects
- Transition Contract with Whitewater Inc.
- Tax Implications for the Town
- Excluded Properties

Affordability Evaluation (1)

- ▶ **Total System Costs and Revenues with Town Ownership (See the attached Schedule A)**
 - Estimates 1st 10 years (conservative – Town’s POV)
 - Total Costs – Lines 1 through 5 (FY2018 – \$3.44 million)
 - Total Revenues – Line 6 (FY2018 – \$7.01 million with no rate increase)
 - Net Return/Income – Line 7 (FY2018 – \$3.57 million)
 - Total 1st 10 years – \$35.5 million (Avg. about \$3.6 million/year)

Affordability Evaluation (2)

- ▶ This level of Income is sufficient to pay the annual Debt Service on a \$65 million Bond Issue –See Lines 10 & 11.
- ▶ Thus, 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 definitely expect at least a 15% to 20% rate increase in 2017 or 2018.

Financing Plan

- ▶ Funds for the Purchase Price (\$63 million)
 - Standard Revenue Bonds (Also considered to be G.O. Bonds)
 - 30 year Term
 - Interest Rate – 3.5%
 - Debt Service – \$3.5 million (paid from savings of Municipal Ownership & Operation)

- ▶ Funds for future Capital Improvements (Est. Approx. \$14 million during the first 10 years)
 - Two Revenue Bonds (\$7 million each)
 - One Issued in FY2019 – 30 year term, 4.0%, DS – \$0.4 mil.)
 - One Issued in FY2024 – 30 year term, 4.5%, DS – \$0.43 mil.)

- ▶ Renewal & Replacement Reserve – Avg. Approx. – \$280,000/year

Risks and Sensitivity Analysis

- ▶ **Bond Interest Rates**
 - 3.5% to about 4.25% affordable, Greater than 4.5% may not be affordable
 - Therefore, put an upper limit (contingency) in the P&S Agreement
- ▶ **Cost of Operation and Maintenance**
 - Conservative assumption = to Private O&M
 - Could be 10% to 20% lower
 - Affordable up to about 20% higher
- ▶ **Major Breakdowns /Catastrophies**
 - If Relatively Minor – Handled by R&R Funding
 - If Major – Handled by Insurance Proceeds, Federal and State Aid and/or Increased Rates (same as Private Water Co.)
- ▶ **New Expensive Regulations**
 - Similar to Major Breakdowns/Catastrophies

Ratepayer Impacts

- ▶ Likely impacts to Ratepayers if the Base Case Assumptions are fairly close (and all/most of the Savings are used to fund the purchase)
 - First year or two – 15% to 20% lower Rates than they would have been 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 significantly exceeded 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)

Next Steps/Timeline

- ▶ Negotiations of a Term Sheet
- ▶ Approval by Selectmen
- ▶ Presentation to the Finance Committee (Feb. 2017)
- ▶ Presentation to Town Meeting (March 2017)
- ▶ Establish a Transition Team and Begin Work (March 2017)
- ▶ Finalize Purchase and Sale Agreement (April 2017)
- ▶ Obtain Financing (May 2017)
- ▶ Close the Purchase (on or about 1/30/17)
- ▶ Begin Municipal Ownership and Operation of the Water Utility (7/1/17)

TOWN OF MILFORD - MUNICIPAL WATER SYSTEM											
Estimated Bond Size Funded from Savings of Municipal Ownership and Operation											
Schedule A - Base Case (with full bonding in the first year)											
Public Ownership (with no rate increase in 2017 (normal inflationary increases thereafter - 2.5% per year)											
Estimated Revenue Requirements											
Line No.		2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
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	\$262,856	\$269,223	\$275,953	\$282,852	\$289,923	\$297,171	\$304,601	\$312,216
3.)	CIP - Debt Service (Planned Imprvs.)										
3a.)	2019 Capital Improvement Bond (\$7.0M) (BANs in 2017 and 2018, 2019 Bond)	\$15,000	\$40,000	\$ 404,811	\$ 404,811	\$ 404,811	\$ 404,811	\$ 404,811	\$ 404,811	\$ 404,811	\$ 404,811
3b.)	2024 Capital Improvement Bond (\$7.0M) (BANs in 2022 and 2023, 2024 Bond)						\$20,000	\$50,000	\$429,741	\$429,741	\$429,741
	Annual Total	\$15,000	\$40,000	\$404,811	\$404,811	\$404,811	\$424,811	\$454,811	\$834,551	\$834,551	\$834,551
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.)	Total Revenue Requirement Sum (L.1 thru L.4)	\$3,442,438	\$3,553,124	\$4,005,763	\$4,095,787	\$4,188,061	\$4,302,643	\$4,429,588	\$4,908,699	\$5,010,552	\$5,114,952
6.)	Rate Revenue	\$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
7.)	Available for Debt Service on Purchase (L.6 - L.5) (total 1st 10 years)	\$3,565,730	\$3,830,248	\$3,357,193	\$3,451,243	\$3,547,645	\$3,626,456	\$3,697,738	\$3,421,811	\$3,528,220	\$3,637,289
8.)	Bond Size (Principal Amount) (Funded from Savings - L.7)	\$65,000,000									
9.)	Portion Available for the Purchase	\$64,500,000									
						Portion to be retained for the Debt Service Reserve Fund	\$500,000				
10.)	Debt Service on Acquisition Bond (P&I on Acq. Bond - L.8)	\$3,534,137	\$3,534,137	\$3,534,137	\$3,534,137	\$3,534,137	\$3,534,137	\$3,534,137	\$3,534,137	\$3,534,137	\$3,534,137
11.)	Excess/(Deficit) (Net Income) (L.7 - L.10) Cumulative	\$31,593	\$96,111	(\$176,943)	(\$82,893)	\$13,508	\$92,320	\$163,601	(\$112,326)	(\$5,917)	\$103,153
12.)	Average E/D first 10 years (L.11) (total 1st 10 years)	\$12,221	\$122,207								
13.)	Bond Funded Capital Improvements (1st 10 years)	\$14,000,000									
Major Assumptions											
14.)	R&R Reserve Funds Available for Additional Cap Improvements	\$2,800,845					O&M Escalation Rate (L.1) R&R Escalation Rate (L.2)	2.5% 2.5%			
15.)	Total 1st 10 years (L.14 + L.15)	\$16,800,845					Interest on CIP Bonds (L.3a) Interest on BANS ('17 and '18) PILOT Escalation Rate (L.4) Rate Rev. Escalation Rate (L.6)	2019 - 4.0% 2024 - 4.5% 1.5% - 2% 2.5% 2.5%		Interest Rate on Acq. Bond BANS ('22 and '23)	3.50% 2.0% - 2.5%