

Q: Will American Water still be the local water provider for Norristown and West Norriton?

A: Yes

Q: Are there situations where other communities have accessed the expertise of corporations like Aqua as a contractor instead of outright purchaser?

A: Yes. These would be called Operations and Maintenance (O&M) Agreements. An O&M agreement would not meet the goals and needs of the Municipality.

Q: What else was considered before concluding privatization was the remedy? What have other communities done to retain and properly maintain their infrastructure? What examples were presented to Council of communities pooling their resources to create a consortium of a size to be efficient in meeting ongoing needs?

A: Each community is different and has its own unique circumstances relating to their utility infrastructure. There is no one size fits all.

At the beginning of this process when the Municipality issued the Request for Qualifications, it was sent to over 100 potential interested parties that included many surrounding municipal authorities. Responses to the RFQ were received from only two companies, both of which are private regulated companies. While the Municipality would certainly have considered selling (regionalizing) to a municipal authority, none were interested.



Q: Would it actually be likely Aqua wouldn't receive approval to implement Act 11 provisions with all their corporate experience? Has there been any report or study made that would show what a publicly run system could accomplish with a doubled rate? A tripled rate?

A: Yes, Aqua anticipates that it will receive approval to utilize Act 11 in future rate cases. To what extent Act 11 can be utilized is not known or measurable at this time, and ultimate ratemaking authority lies with the Pennsylvania Public Utility Commission.

Q: What type of insurance will customers have to pay toward with Aqua (sewer line insurance, or any others affiliated with the infrastructure)?

A: Customers will soon have the option to purchase sewer line insurance through the National League of Cities Service Line Warranty Program. If the sale to Aqua is approved, customers will also have the option to purchase sewer line insurance through Aqua. Customers are not mandated to purchase any insurance if they do not wish to.

Q: Did council vote to abolish the sewer authority at their Aug. 18 work session?

A: No. Council approved to advertise ordinance 20-13 which would dissolve the NWMA. It was not a vote to approve the ordinance itself.

Q: Are any of the proceeds from the sale of the sewer system planned to pay for the municipal hall renovation?

A: The \$13 million municipal hall renovation project is being funded by a bond issuance council approved in May 2020 (the funds are already on hand), not from sale proceeds. One of the potential uses of the sale proceeds that the Council has said it will consider is to reduce or eliminate that \$13 bond debt, either of which would benefit tax payers by not having the debt as a part of property taxes.



Q: I remember discussing some larger regional public sewer authorities and the potential for them to be interested in purchasing our sewer system. Did we ever approach Plymouth, Bridgeport, and Upper Merion about forming a new regional authority?

A: The Request for Qualification was sent to neighboring municipal authorities and, unfortunately, none responded. In 2008-2009, there were discussions and a study commissioned that included Bridgeport, East Norriton, Plymouth-Whitpain and Norristown systems and, for a number of reasons, including the cost of covering (\$200M) or relocating (\$180M) the existing plant, the discussion was abandoned.

Regionalization of utilities is a slow process—usually 10–15 years. The quickest way for it to happen usually is related to a dire need and/or a regional/EPA mandate that forces collaboration between the entities. Successful regionalization is primarily driven by political will of the participating entities, rather than administratively, and it takes so long because of changing political actors and the legal/logistic activities post agreement in the process. It also requires a champion, who is neither political or staff, who can be the constant advocate, as politicians/staff come and go during the process. This option does not meet the goals of the Council in providing upfront monies to be able to execute and deliver on transformational initiatives that will positively impact the residents of Norristown.

Q: 4. Do we have any actual materials to be able to see or read about the state of the sewer system? When we have our meetings we hear that it's in very bad shape, but every time we hear from the Sewer Authority they say this is not true.

A: Without having a separate evaluation from an engineer at this time, there is no document that shows the state of the sewer system; however, during the due diligence process, both bidders expressed on numerous occasions that they saw the need for significant upgrades to the system.

During the due diligence process, the bidders asked the Authority to provide a detailed future capital {improvement} plan; however none, was available. In order to project what they would need to run the system safely, the high bidder, Aqua along with their outside consulting engineer, put *(Cont'd on nex page)*



together a plan that requires \$20 and \$30 million, respectively, of necessary capital projects in the near term related to the treatment plant, as well as the collection and conveyance system. In addition to the \$82 million purchase price, Aqua also committed to an additional \$10 million in infrastructure improvements over the first 10 years of their acquisition of the system.

While the scope of projects are wide, given that parts of the system are over 90 years old, some of the highlights of the plan are that Aqua will install a new electrical system and backup system, as they have determined that the current system is not sufficient in addition to other safety related issues. Also, Aqua plans to spend over \$1 million per year over 10 years on the collection system alone, as they have determined that over the recent past there has not been sufficient funding put into the underground sewer pipes. For a system of this age, a prescribed long-term replacement plan is paramount in providing good service to the residents.

Q: What are the going rates for a municipal bond these days? From a report about trends in water privatization: "The funding that a city receives by selling or leasing its water system is effectively a loan that a water company will recover from consumers through water bills. This is 56 percent more expensive than public financing through a typical municipal revenue bond. So in theory, borrowing/raising taxes to accomplish what we would do with \$82M is cheaper for residents than selling.

A: It's important to remember that every situation is different when it comes to selling utility assets. It is not a one size fits all analysis because each potential transaction (utility sale) is different and has its own unique attributes. There are many assumptions that go into this kind of analysis. The statistics that you reference in your question may have been accurate in another instance, but for Norristown. The analysis shows that selling the system will cost residents significantly less than if the Municipality decided to issue municipal bonds instead.

If Norristown were to borrow \$58,700,000 with a 25 year term at a 3.00% interest rate, the annual debt service would be about \$3.3 million. Based on the collected value of a real estate tax mill for the Municipality of \$880,000, real estate taxes would have to be raised by around 3.75 mills to cover the annual debt service. Based on an average assessed home value home of \$150,000, the annual real estate tax increase to the homeowner would be \$563. (Cont'd on next page)



Over 10 years that would equate to a total cost to the homeowner of \$5,625.

The total cost to the homeowner under the scenario where the Municipality issues bonds instead of selling the system should then be compared to the total cost to the homeowner if the system were, in fact, sold. Based on Aqua's indicative sewer rates provided compared to the current sewer rates paid by residents, the total additional cost to the average homeowner over a 10 year span would be \$2,753. To be conservative, this number assumes no rate growth in the current Norristown sewer rate, which we know is highly unlikely over a 10 year period. The conclusion of the analysis is that the net savings to the homeowner of selling the sewer system instead of issuing municipal bonds is \$2,872.

Q: Will current Authority employees be fired as a result of the sale?

A: No. All employees, will be retained under the terms of their existing bargaining agreement. This was a pre-requisite for Council to consider the sale and something Aqua and other utility providers do when they acquire a system. Authority employees will also have broader opportunities for promotion/advancement, if desired, for other jobs within Aqua's network of plants.

Q: Why is the Council doing this during the Covid-19 crisis?

A: This process actually began in 2017 as a part of Council discussions that arose from two grants:

- 1) A grant from the Institute for Building Technology and Safety (IBTS) that the Municipality won to examine the Municipality's ability to respond to extreme economic challenges and consider riverfront redevelopment as a catalyst for innovation and change;
- 2) A second grant from the National Resource Network (NRN) to assist the Municipality in developing a long-term financial plan for addressing declining revenues and diminishing sustainability.

After 2 ½ years of discussions with business leaders, community leaders, financial advisors, economic, and climate professionals and the Authority, the Council authorized the issuance of an RFP to consider sale in January 2020. The bids were received in Feb.2020, before the Covid-19 pandemic arose. *(Cont'd on next page)*



With the process already underway, Council proceeded, as they have do with other Municipal business. There is a time limit as to when the Council has to act on the bids.

