



West Vincent Township

Introduction to PFM

August 15, 2016

Prepared by :
Scott Shearer, *Managing Director*
John Frey, *Director*
Benjamin Kapenstein, *Analyst*

Public Financial Management, Inc.
One Keystone Plaza, Suite 300
North Front & Market Streets
Harrisburg, PA 17101
717-232-2723



Public Financial Management, Inc. Overview

PFM's #1 Rankings for 2015

Type

- Overall
- Negotiated
- Tax-exempt
- Taxable
- Revenue
- Bank Qualified
- New Money
- Refunding

Sector

- Primary/ Secondary Education
- Higher Education
- Combined Utilities
- Transportation
- Public Power
- Water, Sewer & Gas

Region

- Pennsylvania
- Northeast, Mideast, Midwest, Southeast, West
- Florida, Illinois, Iowa, Massachusetts, Ohio, Tennessee



- Nation's number one ranked Independent Financial Advisor
- Over 500 professionals nationwide
 - Over 70 dedicated to Pennsylvania
- Advised nationally on over \$62.1 billion of debt issuance in 2015
 - Advised over **\$6.8** billion in Pennsylvania for 2015

Approximately 39 Offices Nationwide



PFM's First Place Ranking Overall Long Term 1998 - 2015

	Per Amount (millions)	# of Transactions
2015	62,139.9	1,014
2014	48,570.2	783
2013	46,071.0	768
2012	56,923.5	902
2011	39,632.1	758
2010	63,542.1	1,055
2009	56,290.0	882
2008	49,102.0	814
2007	46,477.5	686
2006	38,165.9	741
2005	41,527.1	897
2004	34,862.9	814
2003	39,226.5	898
2002	36,706.3	861
2001	31,593.7	811
2000	18,743.7	511
1999	19,220.7	626
1998	27,146.8	841

"We are what we repeatedly do. Excellence then, is not an act, but a habit."

- Aristotle

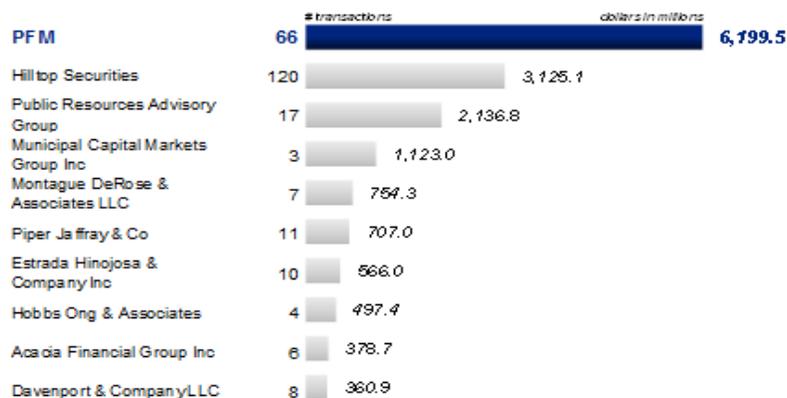
PFM National P3 & Utility Practices

- As the leading financial advisor in the Nation, PFM also has a national P3 practice integrating our public finance experience with expertise in public private partnerships.
- PFM is an independent and impartial P3 advisor across a wide range of industries including utilities, transportation, public parking, and higher education.
 - Water and Sewer systems
 - State-level P3 departments
 - State Departments of Transportation
 - College Student Housing
- From local water/sewer systems to large complex transactions, **PFM uses this experience and knowledge** to add value to our client's evaluation and overall process for the potential monetization of their assets.

2016 First Half - National

WATER SEWER & GAS

2016 First Half Water Sewer & Gas Long Term Municipal New Issues
Municipal Financial Advisory Ranking - Equal to Each Financial Advisor
Source: Thomson Reuters



2015 Full Year - Pennsylvania

WATER SEWER & GAS

2015 Full Year Water Sewer & Gas Long Term Municipal New Issues
Municipal Financial Advisory Ranking - Equal to Each Financial Advisor
Source: Thomson Reuters



Bond Buyer Deal of the Year

City of Allentown

The Bond Buyer's 12th Annual

Deal of the Year

Awards

DECEMBER 5, 2013 | THE WALDORF ASTORIA | NEW YORK, NY

2013 WINNERS

THE DEAL OF THE YEAR WINNER:

INDIANA FINANCE AUTHORITY

NORTHEAST CO-WINNERS:

ALLENTOWN NEIGHBORHOOD IMPROVEMENT ZONE

DEVELOPMENT AUTHORITY

CITY OF ALLENTOWN CONCESSION LEASE

SOUTHWEST WINNER:

CITIES OF DALLAS AND FORT WORTH, TEXAS

MIDWEST WINNER:

INDIANA FINANCE AUTHORITY

SOUTHEAST WINNER:

HARNETT COUNTY, NORTH CAROLINA

FAR WEST WINNER:

CALIFORNIA POLLUTION CONTROL FINANCING AUTHORITY

SMALL ISSUER WINNER:

NEW YORK STATE ENERGY RESEARCH AND DEVELOPMENT AUTHORITY

HEALTHCARE WINNER:

RUTGERS UNIVERSITY; CAMDEN COUNTY IMPROVEMENT AUTHORITY &

NEW JERSEY HEALTH CARE FACILITIES FINANCING AUTHORITY

NON-TRADITIONAL WINNER:

METROCAT RE LTD.

- PFM served as financial advisor to the City of Allentown, who leased their water/sewer systems to a County Authority for a 50 year term.
- The Deal was named the 2013 Bond Buyer Deal of the Year for the Northeast Region.
- City received \$220 million up-front + \$500K annually
 - Money was used to stabilize the city's rapidly growing unfunded pension liability and provide a foundation and path for fiscal stability.
- “Nearly two years after Allentown approved a lease of its water and sewer systems, ratings agency Standard & Poors has further increased the city's bond rating. On Wednesday, Standards & Poors announced that Allentown will now be rated A+ with a stable outlook. That's a three notch increase from the previous BBB+ rating. The upgrade reflects the city's "improved budgetary flexibility" due to the lease, according to a news release from the company.”
 - February 18, 2015 news article from “The Morning Call”

A Spectrum of Possibilities

Structure	Control/Risk	Description
	<p><i>Public</i> <i>Private</i></p> 	
Public Ownership		Traditional revenue stream – design, construction, O&M, governance, etc. remains with government
Public Ownership / Private Management		Certain O&M contracted to private operator
Concessions		Public owns asset and maintains governance. Private entity responsible for O&M, construction and cost risk. Private entity entitled to revenue.
Private Ownership		All activities controlled by private entity, including rates (PUC maybe involved in certain scenarios).

Why someone might consider a monetization

- Up-front payment
 - Remaining portion after all system debt is paid off can be treated as fungible cash.
 - Reduce other outstanding debt
 - Potentially increase credit rating
 - Fund pension & OPEB obligations
- Annual payment stream
 - Transaction may include a revenue sharing agreement
- Private, professional management
 - Customers get high quality service
 - Leaves more resources to focus on core services
 - Municipality eliminates burden of compliance with changing regulatory landscape
- Entity can no longer defer maintenance on system
- Consent decree forcing large capital needs (rate increases) that the municipality doesn't want to do.

Use of Proceeds

- Generally speaking, proceeds from an asset monetization should be utilized in a way which provide **long term benefit** to the Township and its citizens (Asset/Liability matching)
 - Municipal Building Projects
 - Pension Funding
 - Restricted General Purpose Trust
 - OPEB Fund or Trust
 - Other/Existing Long Term Township Capital Projects
 - Economic Development Initiatives
 - Pay down other existing debt
- Township may want to consider a “phase-in” approach to utilize these proceeds.



How can PFM add value?

- Managing a clear, transparent, and competitive process is key
 - Competition may result in higher payment for asset
 - In these cases, by conducting a Best and Final Offer (BAFO) process, our clients were able to substantially improve the value they received for their system. (BAFO triggered because initial proposals were within 10% of each other).

Allentown Water & Sewer BAFO Process (Concession)

	American Water	Lehigh County Authority
Upfront Payment	\$ 192,500,000	\$ 205,000,000
PV Annual City Payment	\$ 10,322,618	\$ 6,881,745
Total Initial Proposal	\$ 202,822,618	\$ 211,881,745
Upfront Payment	\$ 205,000,000	\$ 220,000,000
PV Annual City Payment	\$ 10,322,618	\$ 6,881,745
Total BAFO Proposal	\$ 215,322,618	\$ 226,881,745
BAFO Improvement \$	\$ 12,500,000	\$ 15,000,000
BAFO Improvement %	6.16%	7.08%

Springfield Township Sewer BAFO Process (Sale)

	Aqua America	Bucks County Water & Sewer Authority
Total Initial Proposal	\$ 12,200,000	\$ 12,500,000
Total BAFO Proposal	\$ 14,650,000	\$ 16,500,100
BAFO Improvement \$	\$ 2,450,000	\$ 4,000,100
BAFO Improvement %	20.08%	32.00%

Public Private Partnerships (P3)

- By following a predetermined competitive process, we keep all eyes focused on the ultimate goal of a successful transaction close.

Analysis & Valuation

- Define project objectives and establish financial framework
- Determine baseline asset value
- Research private sector interest and capabilities
- Seek investor/operator feedback and level of interest

Transaction Development

- Manage transaction structure (lease/concession, sale)
- Finalize preferred procurement process via large spectrum of processes
- Initiate stakeholder outreach and education
- Establish RFQ/RFP timeline

Transaction Execution

- Draft, distribute and manage entire RFQ/RFP process
- Pre-qualify bidding team and initiate due diligence
- Advise on and help draft related transaction documents
- Evaluate proposal responses and manage transaction through award and closing.

The Team

- Township Administration & Legal Counsel
- P3 Advisor
- Special Transaction Counsel
- Sewer Consultant
- Valuation Agent (for Act 12 purposes)
- Engineer (for Act 12 purposes)

Stage 1

- Work with Administration to gather data to more fully understand the Sewer System and any interplay it has with the General Fund.
 - Will be used in Stage 2 to populate the data room which Bidders will have access to
- Perform a preliminary utility system valuation to get a rough estimate to help the Board decide whether to move forward or not (this analysis is separate from any work done in relation to Act 12)
- Begin developing a list of real estate assets that will be conveyed to the winning bidder should the deal close (ie. deeds, easements, etc.)

Stage 2

- Draft and Distribute a Request for Qualifications to solicit interest from potential bidders
- Populate and manage data room and Bidder requests for information/clarification
- Draft Management presentation for Bidders (if needed)
- Work with Legal Team to draft and revise Sale or Lease/Concession documents
- Prepare and circulate the Request for Proposal/Bids
- Summarize results of the Request for Proposal/Bids
- If applicable, conduct Best and Final Offer round
- Update Township regularly on progress throughout this period

Stage 3

- Work with Legal Team and winning bidder to coordinate Financial Close
- Based on winner, may involve PUC process and/or bond financing
 - Act 12 has modified the timeline for financial close
 - PUC guidance suggests that the new process will take up to 9 months.
 - PFM is in the process of signing the first monetization which will be subject to the new law. As more details become known, we will update the Township
- There may be additional due diligence at this stage related to real estate holdings (ie deeds and easements)
- Coordinate with Township to develop a plan to most effectively deploy the proceeds of the monetization towards long term investments
 - Municipal Building Projects
 - Pension Funding
 - Restricted General Purpose Trust
 - OPEB Fund or Trust
 - Other/Existing Long Term Township Capital Projects

Draft Timeline

Timeframe	Event
<u>2016</u>	
August 15 or later	Engage P3 Advisor
August 15 - August 31	P3 advisor gathers data from Township
September 1 - September 15	P3 advisor performs utility system valuation
Mid to late September	P3 advisor present valuation to Board
If Township decides to move forward:	
Mid October	RFQ development & release
Early November	Receive RFQ responses
Mid November	Qualify bidders, sign Confidentiality Agreements, open data room
November - January	Negotiate transaction documents with bidders
<u>2017</u>	
Mid January or later	Release final Transaction Documents with RFB
Mid February or later	Receive RFB responses
Mid/Late February	BAFO submission (if applicable) and award
March	Board Approval of Transaction
TBD	Financial Close- Varies based on type of transaction and winning bidder