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**Presentation Prepared
for the:**

**Town of Rising Sun,
Maryland**

*Water and Sewer
Capital Funding Update*

October 12, 2010

Background

- In the Spring of 2009, the Town Retained Davenport & Company LLC, as the Town’s Financial Advisor to Assist the Town in Preparing a Capital Funding Plan for an Upgrade to the Town’s Existing Wastewater Treatment Plant (“WWTP”) or the Construction of a new 275,000 gallon per day WWTP.
 - The WWTP Project is Required as a Result of a Maryland Department of Environmental Quality (“MDE”) Consent Order.

- More Specifically, Davenport was Tasked with;
 - Analyzing the Financial Impact of Funding the Potential Projects on the Town’s Wastewater Utility Fund (*i.e. Required Rate Increases*); and,
 - Providing a Strategic Plan of Finance for the Project(s) .

- The Initial Estimated Cost of the 275,000 gallon per day (“gpd”) WWTP Project was \$6 million.

- On September 22, 2009, Davenport Presented the Town with a Capital Funding Plan for the WWTP Project and Identified the Multi-Year Rate Increases Required to Allow the Sewer Fund to Responsibly Finance the Estimated \$6 million WWTP Project.

Background (cont.)

- In December of 2009, the Town of Rising Adopted the Multi-Year Rate Increase Plan for the Sewer Fund, as was Presented on September 22, 2009, and also Pro-Actively Raised Water Rates at the Same Level under the Assumption that Future Water Capital Projects would be Required in the Near Term.

- In Fiscal Year 2010 and 2011, Operating Costs of the Town were Re-Allocated from the General Fund to the Water and Sewer Funds in an Effort to More Accurately Distribute Operational Costs Between the General Fund and the Enterprise Funds.
 - This Re-Allocation has Increased the Operating Budgets of the Water and Sewer Fund Significantly from Fiscal Year 2009 to 2011.

- In the Spring of 2010, the Capacity of the WWTP Project was Increased from 275,000 gpd to 500,000 gpd as a Result of Lawsuit Against the Town Related to Potential New Residential Development.
 - The Estimated Cost of the 500,000 gpd Plant is Roughly \$13 million.

- Finally, the Town has Received an Initial offer from the Chester Water Authority (“CWA”) to Provide Additional Treated Water Capacity to the Town.

Goals and Objectives

- **First,** Provide the Town with an Update on the Financial Impact of Purchasing Additional Water Capacity from CWA in Addition to the new 500,000 gpd WWTP, Using Conservative Assumptions.
- **Second,** Provide the Town with an Updated Projection of Future Water and Sewer Rates that Incorporates Purchasing Additional Water Capacity from CWA in Addition to the new 500,000 gpd WWTP, Using Conservative Assumptions.
- **Third,** Provide the Town with an Update on the Procurement of Interim Financing for the WWTP Project.
- **Fourth,** Request that the Town's Commissioners Approve the Legal Documents Necessary to Enact the Interim Financing.

Updated Multi-Year Financial Projections

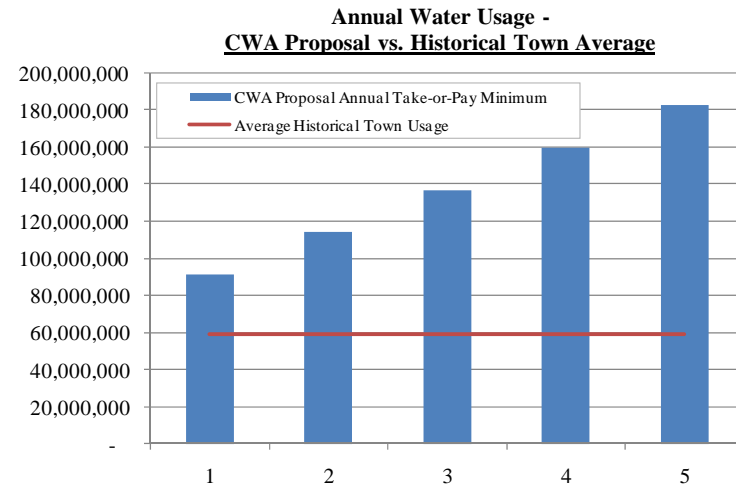
Initial CWA Proposal

- CWA's Initial Proposal would Provide the Town with a "Take-or-Pay" Commitment that Begins in Year One with a Commitment to Purchase 250,000 gpd (*91.25 million gallons per year*) and Ramps up over a Five Year Period to a 500,000 gpd (*182.5 million gallons per year*).
 - The Town's Historical Water Demand, Based on Data Provided by Town Staff, Indicates that the Town's Five Year Historical Average Daily Usage has been Roughly 165,000 gpd (*60 million gallons per year*). (*see following page*)

- The Town's Share of the Estimated Capital Cost of Connecting to CWA's Water System is \$5 million to \$7 million.
 - The Analysis Contained Herein Assumes a \$7 million Capital Cost to the Town with no other Outside Assistance.

Background: Historical Town Water Usage vs. CWA Proposal

- Over the Past Five Years, the Town has Pumped, on Average, Roughly 60 million gallons of Water per Year.
- The First Year of the CWA Take-or-Pay Proposal would Provide Roughly 90 million gallons per year to Accommodate Potential New Growth.



Historical Gallons of Water Pumped (Annual Basis)						
	2005	2006	2007	2008	2009	Average
Historical Gallons of Water Pumped	51,854,028	54,990,504	60,004,210	64,607,910	65,208,226	59,332,976

Source: Town Staff.

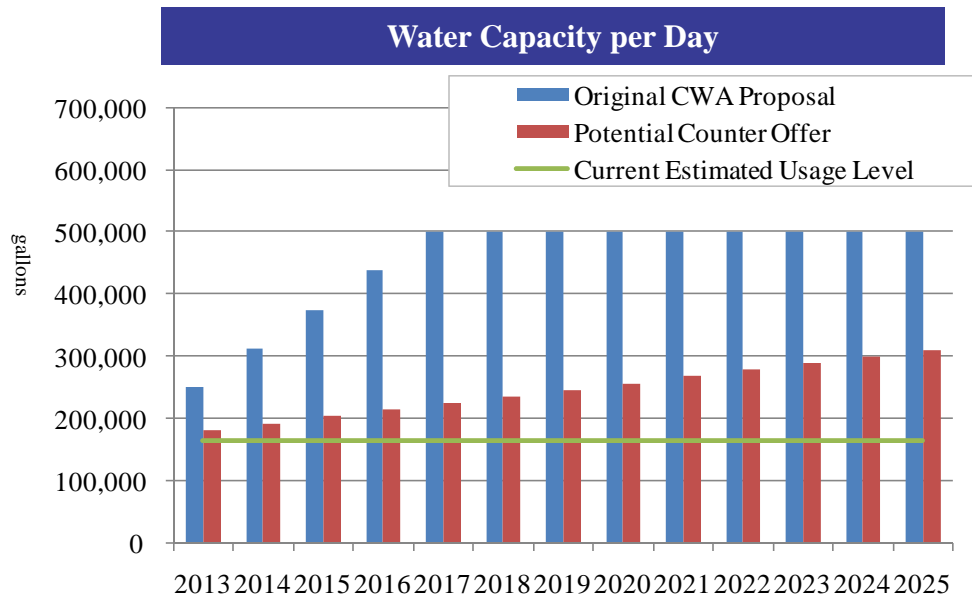
versus

CWA Water Proposal - Minimum Take-or-Pay Gallons per Year					
	Year 1	Year 2	Year 3	Year 4	Year 5
CWA Proposal Take-or-Pay Gallons	91,250,000	114,062,500	136,875,000	159,687,500	182,500,000

Source: July 9, 2010 CWA Letter

Background: Potential Water Counter Proposal

- The Town Currently has Roughly 1,200 Water and Sewer Connections.
- Assume that the Potential for Infill within the Current Town Limits Equates to Roughly Additional 750 Connections.
- Going from 1,200 Connections to 1,950 Connections would Represent an Increase of Roughly 65% in the Number of Connections.
- The Timing of these Potential New Connections is Uncertain.
- Consider Phasing-in a Limited Ramp up of the CWA “Take or Pay” Proposal that Begins at the Town’s Historical Average Usage Plus 10 % (180,000 gallons per day) and Ramps up 65% over a Period of 12 Years to Roughly 300,000 gallons per day.



Updated Financial Projections

- Davenport has Updated its Multi-Year Financial Projections for the Water and Sewer Funds Utilizing the Following Key Assumptions...
- **Sewer Fund Key Assumptions:**
 1. New 500,000 gpd WWTP Funded with \$800,000 from an MDE Grant and \$12.5 million of Debt.
 2. \$12.5 million of New Debt for the 500,000 WWTP Structured with:
 - Interest Only Interim Financing through fiscal year 2013 at an Estimated 4% Interest Rate (*fiscal year 2011 and 2012 Interest Payments Capitalized*); Followed by,
 - 40 year Permanent Financing Beginning in fiscal year 2014 from USDA (*2 year Interest Only + 38 year of Level Debt Service at 2.375%*).
 3. No New Connections to the Sewer Fund are Incorporated (*i.e. Worst Case...No New Connections and no Connection Fee Revenue*).
 4. \$220,000 of New Operating Expenditures Related to new WWTP are Included beginning in fiscal year 2013.
 5. All Other Operating Expenditures are Assumed to Grow at an Average of 4.0% per Year.

Updated Financial Projections (cont.)

- **Water Fund Key Assumptions:**
 1. **Connect to CWA with More Gradual Ramp-Up to Take-or-Pay Commitment as Shown Previously on Page 7.**
 2. \$7 million of New Debt for the Associated with the Purchase of Capacity from CWA Conservatively Structured with 20 year Permanent Financing Issued in fiscal year 2012 (*20 year of Level Debt Service at 5.0%*).
 3. No New Connections to the Water Fund are Incorporated (*i.e. Worst Case...No New Connections and no Connection Fee Revenue*).
 4. Roughly \$30,000 of Water Operating Expenditure Savings that Arise from Connecting to CWA are Incorporated in fiscal year 2013.
 5. All Other Operating Expenditures are Assumed to Grow at an Average of 4.0% per Year.
- User Rates are Increased with the Goal of Breaking Even in the Combined Water and Sewer Fund by fiscal year 2016 and Maintaining Reserves at Least Equal to 30% of Total Expenditures.

Projected Financial Results

➤ Projected Financial Results for the Combined Water and Sewer Fund are as Follows:

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
1 Operating Revenue	\$732,094	\$928,484	\$1,220,509	\$1,623,502	\$2,179,633	\$2,426,546	\$2,562,539	\$2,706,691	\$2,859,493	\$3,021,463
2 Operating Expenditures <i>(Based on Current Town Budget)</i>	(609,000)	(633,360)	(847,812)	(881,725)	(916,994)	(953,674)	(991,821)	(1,031,493)	(1,072,753)	(1,115,663)
3 Operating Expenditures <i>(CWA Purchased Water)</i>	0	0	(243,630)	(256,901)	(270,171)	(283,442)	(296,713)	(309,983)	(323,254)	(336,524)
4 Net Non-Operating Revenues / (Expenditures)	11,105	10,804	28,666	19,973	12,681	14,386	21,931	24,056	28,979	37,000
5 Debt Service	(164,313)	(125,012)	(982,613)	(747,935)	(948,310)	(952,310)	(1,225,119)	(1,225,139)	(1,225,119)	(1,225,119)
6 Net Income After Debt Service	(30,114)	180,916	(824,881)	(243,086)	56,838	251,507	70,818	164,131	267,346	381,156
7 Ending Reserves	\$1,424,406	\$1,605,322	\$780,442	\$537,356	\$594,194	\$845,701	\$916,519	\$1,080,650	\$1,347,996	\$1,729,152
8 Debt Service Coverage Ratio	0.82	2.45	0.16	0.67	1.06	1.26	1.06	1.13	1.22	1.31

Projected Rate Increases

➤ The Projected Rate Increases that will be Required Under this Scenario are as Follows:

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Sewer Usage Rate (Per 1,000 gallons)	\$5.26	\$7.26	\$10.01	\$13.82	\$19.07	\$20.22	\$21.43	\$22.71	\$24.08	\$25.52
<i>Increase vs. Prior Year</i>	21%	38%	38%	38%	38%	6%	6%	6%	6%	6%
Water Usage Rate (Per 1,000 gallons)	\$4.68	\$6.46	\$8.92	\$12.30	\$16.98	\$18.00	\$19.08	\$20.22	\$21.44	\$22.72
<i>Increase vs. Prior Year</i>	21%	38%	38%	38%	38%	6%	6%	6%	6%	6%
Base Charge - Sewer	\$6.33	\$6.33	\$6.33	\$6.33	\$6.33	\$6.33	\$6.33	\$6.33	\$6.33	\$6.33
Base Charge - Water	\$4.33	\$4.33	\$4.33	\$4.33	\$4.33	\$4.33	\$4.33	\$4.33	\$4.33	\$4.33

(Shown on Monthly Basis)

Notes:

No increase in base charge is assumed.

Usage rates are assumed to increase at 6% per year in 2021 and after to compensate for natural growth in expenditures.

Projected Monthly Cost for Residential Users

➤ The Impact to a Typical Residential Bill is as Follows:

Change in Monthly Cost for Typical Residential User (Assumes Usage of 5,500 gallons per month)

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Sewer Monthly Cost	\$35.26	\$46.25	\$61.41	\$82.34	\$111.23	\$117.52	\$124.19	\$131.26	\$138.76	\$146.71
<i>Percentage Increase</i>	17%	31%	33%	34%	35%	6%	6%	6%	6%	6%
Water Monthly Cost	30.08	39.87	53.37	72.00	97.72	103.32	109.26	115.55	122.23	129.30
<i>Percentage Increase</i>	17%	33%	34%	35%	36%	6%	6%	6%	6%	6%
Total Monthly Cost	\$65.34	\$86.11	\$114.78	\$154.35	\$208.94	\$220.84	\$233.45	\$246.82	\$260.99	\$276.01
<i>Change in Monthly Cost (\$)</i>	\$9.49	\$20.77	\$28.67	\$39.56	\$54.60	\$11.90	\$12.61	\$13.37	\$14.17	\$15.02

WWTP Interim Financing

Interim Financing

- Davenport bid out Interim Financing for the WWTP Project to Local/Regional/National Banking Institutions.

- Interim Financing is Required during Construction of the WTPP because the USDA does not provide Permanent Funding until Project Completion.

- Davenport received Favorable Responses from Two Banking Institutions:
 - 1) *PNC Bank; and,*

 - 2) M&T Bank.

Summary of Bids Received

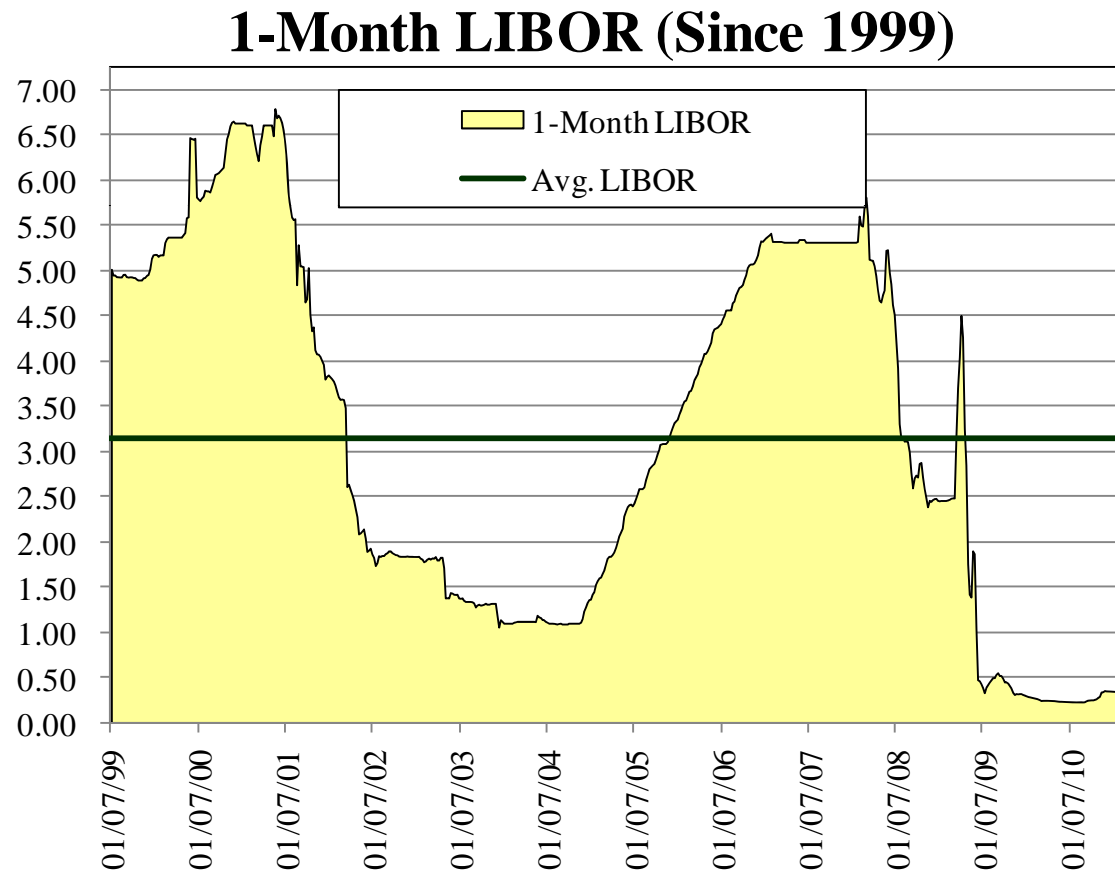
➤ A Summary of the Key Terms and Conditions of the PNC and M&T Bids is as follows:

	M&T	PNC
Option A: Draw-Down Line of Credit	N/A	65% of One-Month LIBOR plus 163 basis points, not to exceed 10% on a tax exempt bank qualified basis. Rate resets on First Business Day of each Month. *Currently equal to 1.80%
Option B: Term Note	Floating rate equal to 30-Day LIBOR + 3.50% *Currently equal to 3.76%	36 Month Term: 65% of Bank's 3-year Cost of Funds + 181 basis points (2.23%). 48 Month Term: 65% of Bank's 4-year Cost of Funds + 197 basis points (2.43%)
Term:	Earlier of 36 Months from closing or 6 Months after completion of construction.	36 or 48 Months.
Optional Redemption:	No prepayment permitted for first 18 months. Prepayment then subject to LIBOR Breakage Fees.	<u>Option A:</u> No prepayment penalty if payment is made on a LIBOR reprice date. <u>Option B:</u> 36 Month Term: 102% premium through 10/31/2012, 101% premium thereafter; 48 Month Term: 102% premium through 10/31/2013, 101% premium thereafter.
Security:	General Obligation Pledge of the Town and a pledge of the Proceeds of the USDA Permanent Financing.	General Obligation Pledge of the Town.
Notify Bank by:	N/A	10/25/2010
Accept Proposal by:	N/A	N/A
Close by:	N/A	N/A
Other Terms and Conditions:	Town will establish its Primary Operating Account with the Bank. *Bank requires additional information about past financial irregularities, the Mayor's recent indictment, the project budget and USDA permanent financing before moving forward.	Bank requires confirmation of fund balances and written estimation of misappropriated funds prior to closing.
Additional Bank Fees:	Upfront fee of 10 basis points (\$14,000).	Legal Fees not to exceed \$3,500.

All proposals are subject to the negotiation to mutually satisfactory documentation and final terms between the Town and the Bank.

Historical 1-Month LIBOR

- The Index by which PNC's Variable Rate will Periodically Reset has been Highly Volatile During the Past Ten Years. **As such, Consider Locking in a Fixed Rate for the Interim Financing with PNC's Option B.**



Source: Bloomberg

Next Steps

- **Tuesday, October 12, 2010
(Tonight)**
- Davenport Presents Updated Multi-Year Financial Planning.
- Town Commissioners Approve Recommended Interim Financing Provider.
- **Post October 12, 2010**
- Prepare Final Legal Documents / Work with Bank to Satisfy Terms / Conditions.
- **On/About
Friday, November 5, 2010**
- Close on Interim Financing.