



# **Town of Milford**

## *Public Information Meeting*

Milford Water Company Potential Acquisition

July 19, 2021



# SHOULD MILFORD BUY THE WATER COMPANY?

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- Previous and Current Select Boards have voted UNANIMOUSLY to buy!
- Tonight we will show you how we reached this conclusion
- We want to hear your concerns and answer your questions
- Share years of review and recent deep dive on due diligence
- There are many compelling reasons to buy
- Most important: control the future of our water asset and quality



# PRESENTATION OUTLINE

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- Background
- Review of Feasibility
- Valuation and Purchase Price
- Financing Plan
- Affordability Evaluation
- Ratepayer Impacts



# PRELUDE – HISTORICAL OVERVIEW

**2009**

**Summer** – Water contamination crisis breaks, Boil Water Order issued

**Sept.** – DPU Investigation Initiated

**Nov.** – DEP issues Administrative Consent Order against MWC

**2011**

**Feb.** – MWC receives approval for 33% rate increase

**2013**

**Aug.** – 50% rate increase approved by DPU

**2010**

**July** – 49.6% rate increase sought by MWC

**2012**

**Oct.** – 83.4% rate increase sought by MWC



# DUE DILIGENCE AND NEGOTIATIONS

## 2013

**Sept.** – Unanimous vote to begin process to explore MWC acquisition

**Oct.** – Town Meeting unanimously voted to appropriate \$400,000 to explore acquisition. Russell Consulting LLC retained.

## 2014

**Summer** – Board of Selectmen propose amendment to Legislative Charter of MWC protecting the town

## 2015

**Jan**– Legislature approves change to charter

**Spring** – Brown Rudnick LLP retained as special counsel re: acquisition issues

**May** – Negotiation with MWC over acquisition commences; review of MWC valuation and facilities continues; Town Meeting unanimously votes to appropriate \$60,000 to continue acquisition exploration

## 2016

**Summer**– Board of Selectmen and MWC vote to retain Paul Levy, professional mediator to negotiate a purchase price

**June – Dec** – Mediation ongoing  
**Dec. 19** - \$63 million dollar purchase price established

## 2017

**Dec. 2016 - May** – Negotiations continue over assets, acquisition, and P&S terms

**May** – Town Meeting voted to appropriate an additional \$400,000 towards acquisitions exploration; LOI with MWC executed

**June** – 29.6% rate increase sought by MWC

**Sept.** – Special Town Meeting approves purchase price



# LITIGATION AND DUE DILIGENCE

## 2018

**Jan.** – Negotiation fails. Petition for valuation of MWC assets filed with Supreme Judicial Court

**May** – Case referred to DPU for hearing

**Aug.** – DPU approves 17% rate increase

## 2019

**May** – DPU holds evidentiary hearings on valuation of MWC

## 2020

No activity

## 2021

**Feb. 2021** – DPU issues report valuing MWC assets at \$66,395,908, excluding capital additions

**April** – Womble Bond Dickinson retained to negotiate purchase of MWC assets. Negotiation commences.

**June** – Town and MWC execute letter of intent to close transaction by December 1, 2021 if Special Town Meeting approves. Due diligence begins

# Professional Consultants



A transatlantic law firm with offices throughout the U.S. and U.K. with experience in complex business transactions. The Boston office of Womble Bond Dickinson (US) LLP serves as outside regulatory and transactional counsel.

- Jed M. Nosal, Esq.
- Jesse S. Reyes, Esq.
- Gordon R. Penman, Esq.
- Sarah J. Wilk, Esq.



An engineering and consulting firm with experience in development, design, and construction of municipal water supply, distribution, and treatment infrastructure. Tata & Howard is providing a report on the status of MWC capital improvements recommended since 2010 and potential future improvements.

- Karen L. Gracey, P.E.



An environmental consulting firm providing geotechnical, environmental, ecological, water, and construction management services. GZA GeoEnvironmental, Inc. is providing an Phase I Environmental Assessment of MWC real estate parcels.

- Matthew L. Steele, Senior Project Manager
- Lawrence Feldman, Consultant Reviewer
- David E. Leone, Associate Principal



# TRANSACTION SUMMARY AND TIMELINE

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- Letter of Intent
- Due Diligence
- Town Meeting Vote
- Purchase and Sale Agreement
- Secure Financing
- Closing



# FEASIBILITY STUDY BACKGROUND

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- **2014 Feasibility Study**
  - Legal authority (Legislation)
    - Advantages/Benefits
      - Control & potential savings/lower rates
    - Disadvantages
      - With control comes responsibility & potential loss/higher rates
    - Cost
      - Estimated range \$45 to \$86 Million, negotiated or by DPU valuation
    - Can the Town finance the purchase
      - Yes through the municipal bond market
- **Justification**
  - Control over water quality
  - Control over rates
  - Control over Management & Operations
  - Acquisition can be accomplished within existing rates with future increases for ongoing capital investment
- **Risk**
  - Unforeseen costs
  - Impact on Town Finances
  - Less efficient management and operation
- **Key Question: Would Town and Ratepayers be better off with Municipal Ownership and Control?**
  - Yes in 2014
  - Yes in 2021



# DPU Valuation

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- Stat. 1881, ch. 77, § 9: DPU had discretion to determine the valuation method. Parties agreed the standard is **Fair Market Value (FMV)**. While the parties agreed that the standard was FMV for determining the price to be paid by the Town, they disagreed on the method to determine FMV. The Town argued that the company's FMV was \$40,485,326. The Water Company argued that the FMV was \$148,000,000.
- Fair Market Value determined by a combination of methods
  - **Replacement Cost New Less Depreciation** – how much it would cost the Town to recreate the water system from scratch today, minus “observed” depreciation, “functional obsolescence” (a loss of value due to deficiencies in the capital assets), and “economic obsolescence” (a shortfall in earnings due to the difference in required returns and expected free cash flows)
  - **Discounted Cash Flow** – the present value of the water system's expected net earnings
  - **Weighting** – 40% RCNLD/60% DCF because DPU found the evidence on RCNLD to be less reliable
- DPU Valuation = **\$66,395,908 as of December 31, 2018**
- DPU did not determine compensation for capital expenditures after this date.



# “GOOD HUSBANDRY” COSTS

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- Under common law, when there is a gap between the date a price is set and the conveyance of the goods or property, and something happens that causes the asset to be wasted or impaired in value, the buyer is entitled to an offset of the value not being conveyed.
- At the same time, the seller has an obligation of “good husbandry” to ensure that the assets are not wasted or impaired in value. The seller is entitled to recover costs that are clearly required to preserve the assets or prevent interruption of service.
- DPU asset valuation set as of December 31, 2018, but MWC will have spent approximately \$10 million in capital improvements to keep the water system viable by the time this transaction closes.



# 2021 Letter of Intent

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- After issuance of the DPU valuation report, the purchase price is still subject to litigation before SJC.
- MWC and the Town negotiated terms in July 7, 2021 Letter of Intent
  - Purchase Price = \$66,395,908, plus an amount to reflect all prudent capital expenditures by MWC since December 31, 2018, adjusted for any applicable depreciation through Closing
  - Target closing date December 1, 2021, but no later than December 8, 2021
  - Town is not assuming any MWC liabilities unless specifically assumed
  - The assets are being sold “as is”
  - Town will have right, but not the obligation, to offer employment to existing MWC employees
  - Transaction is subject to due diligence review and Town financing



# FINANCING PLAN

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- Funds for the Purchase Price - \$78 million
  - General Obligation Bond – Up to a 40 Year Term
  - Interest Rate – Net Interest Rate of 2.69%, Debt Service - \$4.0 million
- Estimated Capital Improvements Expenses - \$10 million during the first 5 years
  - Renewal & Replacement Reserve
  - Pay-as-you-go (Surplus)
  - Rate Increases
- Total available Capital Improvement Funds - \$12 million during the first 5 years



# AFFORDABILITY EVALUATION

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- In the upcoming slides, there will be 3 schedules showing the breakdown of revenue and expenses. Information that was provided through a 2018 DPU Case filing, and the company's audited financials through 2020.
- 2018 DPU Rate Cases (Schedule A). This slide breaks out the Company's cost as well as shows the estimated revenues the Company should bring in. With the removal of several cost the Company incurred (exempt for Municipalities) there would be approximately 4.24 Million available for debt service.
- Summary of Milford Water Company's audited financials (Schedule B). Schedule B shows a breakdown of the revenues by source as well as the expenses by source. Focuses on the earnings before taxes and depreciation, which validates the debt service project of 4 million. If it were to remain under private control, it would have to incorporate the "other expenses" which would leave the company with about 2.0 million of net income.



# AFFORDABILITY EVALUATION (CONT.)

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- Summary of Town of Milford Water Department (Schedule C). This schedule is a projection from the point in time the sale goes through. This includes a plan for CAPEX.
  - 5% rate increase on both revenue and operating expenses.
  - 4.2 million in additional expenses for debt and retirement.
  - An accelerated Capital improvement plan based off the Tata & Howard report.
  - Other funding sources the Town has available for capital.
  - Cumulative Retained Earnings.
- The analysis and projects we have put forward in this presentation, is sufficient to pay the annual debt service on a \$78 million bond, plus all the operating costs and up to \$12 million in capital improvements over the 1<sup>st</sup> 10 years under Town control.
- If the Town does not go through with the purchase of the Milford Water Company, the Town can expect at least a 25% - 50% rate increase in the following years.



# SCHEDULE A

## ANALYSIS OF ABILITY OF WATER DEPARTMENT TO ABSORB DEBT SERVICE WITHIN EXISTING RATES

All data utilized herein is from the last DPU Rate Decision, DPU No. 17-107  
rendered August 31, 2018

COST OF SERVICE (Schedule 1 per Order)		OPERATING REVENUES	
A. O&M Expense	2,651,973	Test year revenues	6,562,396
B. Depreciation Expense	1,125,973	Revenue Deficiency as found	1,141,716
C. Amortization Expense	421,391		
D. Taxes Other Than Income	895,119		
E. Income Taxes	473,874		
F. Return on Rate Base	2,132,324		
G. Additional Bad Debt	3,619		
<b>Total Cost of Service (MWC)</b>	<b>7,704,112</b>	<b>Allowed Revenues under DPU 17-107</b>	<b>7,704,112</b>

Milford Water Department would not have to pay items B. through F. above, leaving an initial "cushion" within the revenues for debt service.

Available for debt service \$5,048,520.

The above must be "adjusted" for loss of hydrant service charges to Town, per DPU 17-107 \$810,427<sup>1</sup>

**Revenue available for debt service based upon DPU 17-107 \$4,238,093**

<sup>1</sup>This "savings" to Town budget offset by "loss" of Real Estate and personal property taxes - approx. \$600,000



# SCHEDULE B

	<b>Private Control</b>			
	<u>2018</u>	<u>2019</u>	<u>2020</u>	Estimated <u>2021</u>
<b>Revenue :</b>				
Metered water Sales	6,027,847	6,609,224	6,782,502	6,783,029
Hydrant Services	902,940	1,016,971	1,016,971	1,016,971
<b>Total Revenues</b>	<u>6,930,787</u>	<u>7,626,195</u>	<u>7,799,473</u>	<u>7,800,000</u>
<b>Operating Expense</b>	<u>2,818,699</u>	<u>2,809,609</u>	<u>2,989,198</u>	<u>2,955,387</u>
<b>Earnings before Taxes &amp; Deprecation</b>	4,112,088	4,816,586	4,810,275	4,844,613
<b>Other Expense *</b>				
Depreciation	1,178,768	1,176,303	1,234,860	1,200,000
Milford RE Tax	620,000	663,860	642,041	644,613
Interest Expense	836,626	787,783	731,970	700,000
<b>Total other Expenses</b>	<u>2,635,394</u>	<u>2,627,946</u>	<u>2,608,871</u>	<u>2,544,613</u>
<b>Profit before Income Taxes &amp; CapEx</b>	<u>1,476,694</u>	<u>2,188,640</u>	<u>2,201,404</u>	<u>2,300,000</u>

\* Other Expense not subject under municipal controlled water company



# SCHEDULE C

	Municipal Control									
	5%	5%	5%	5%	5%	5%	5%	1%	1%	1%
	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>	<u>2026</u>	<u>2027</u>	<u>2028</u>	<u>2029</u>	<u>2030</u>	<u>2031</u>
<b>Municipal Revenue (Net of Hydrant Services)</b>										
Metered water Sales	7,122,180	7,478,289	7,852,204	8,244,814	8,657,055	9,089,908	9,544,403	9,544,403	9,639,847	9,736,245
	5%	5%	5%	5%	5%	5%	5%	2.5%	2.5%	2.5%
<b>Municipal Operating Expense</b>	3,103,156	3,258,314	3,421,230	3,592,291	3,771,906	3,960,501	4,158,526	4,262,489	4,369,052	4,478,278
Income before additional										
Muni Exp, Debt Services & CapEx	4,019,024	4,219,975	4,430,974	4,652,523	4,885,149	5,129,406	5,385,877	5,281,914	5,270,795	5,257,967
<b>Additional Town Expense</b>										
Additional Payrolls	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000
Pension Annual Required Contribution (ARC)	180,000	190,800	202,248	214,383	227,246	240,881	255,333	270,653	286,893	304,106
Acquisition Bond \$78 mill - Annual Debt Service	4,000,000	3,950,000	3,900,000	3,850,000	3,800,000	3,750,000	3,700,000	3,650,000	3,600,000	3,550,000
<b>Estimated Additional Municipal Expense</b>	4,200,000	4,160,800	4,122,248	4,084,383	4,047,246	4,010,881	3,975,333	3,940,653	3,906,893	3,874,106
<b>Surplus before Capital Expenditures</b>	<b>(180,976)</b>	<b>59,175</b>	<b>308,726</b>	<b>568,140</b>	<b>837,903</b>	<b>1,118,526</b>	<b>1,410,543</b>	<b>1,341,260</b>	<b>1,363,903</b>	<b>1,383,861</b>
<b>Capital Improvement Plan</b>										
Estimated Capital Expenditures (accelerated 1st 3 years)	5,000,000	4,000,000	3,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
<b>Other Funding Sources Available</b>										
Bond Premium reserved \$6 million	(5,000,000)	(1,000,000)	-	-	-	-	-	-	-	-
American Recovery Plan Act (ARPA) \$6 million	-	(3,000,000)	(3,000,000)	-	-	-	-	-	-	-
<b>Amount to be covered through rates</b>	-	-	-	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
<b>Net impact</b>	<b>(180,976)</b>	<b>59,175</b>	<b>308,726</b>	<b>(431,860)</b>	<b>(162,097)</b>	<b>118,526</b>	<b>410,543</b>	<b>341,260</b>	<b>363,903</b>	<b>383,861</b>
Retained earnings in enterprise fund to start	750,000									
<b>Cumulative (Retained Earnings for future Capital)</b>	<b>569,024</b>	<b>628,199</b>	<b>936,925</b>	<b>505,065</b>	<b>342,968</b>	<b>461,494</b>	<b>872,037</b>	<b>1,213,297</b>	<b>1,577,200</b>	<b>1,961,061</b>



# RATEPAYER IMPACTS

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- 5% increase on rates for the first seven years.
- Minimum increase thereon.
- Necessary capital improvements done within the first 5 years of ownership.
- Complete control over the water system through an elected board of commissioners.



# FINANCIAL APPROACH AND IMPLICATIONS

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- Goals and Objectives
  - Rate Stability
  - Costs within Enterprise Fund
  - Capital improvements; repairs and maintenance
  - Minimizing impact on Town finances
  - Local control by elected officials
- Financing Acquisition
  - 40-year level principal bond
  - Anticipate large premium (significant portion applied to cost, other applied to capital).
  - Bond issuance cost paid by premium
  - Estimated net interest: 2.69%



# FINANCIAL APPROACH AND IMPLICATIONS (CONT.)

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- Capital Planning and Replacement Cost
  - Pay as you go
  - Massachusetts Clean Water Trust
  - American Recovery Plan Act of 2021
  - Potential infrastructure funds
  - Retained earnings accumulation
  - Bond Premiums
- Timing
  - Continued financial and business due diligence
  - Full review with credit rating agency
  - Town Treasurer receives bids



Thank you for joining us.

Questions?

Except for statements of historical fact, the information contained herein and any discussions occurring today constitute forward-looking statements. Forward-looking statements are provided to allow you the opportunity to understand the Select Board's current beliefs and opinions in respect of the future so that you may use such beliefs and opinions as one factor in evaluating the proposed transaction. These statements are not guarantees of future performance and undue reliance should not be placed on them. Such forward-looking statements necessarily involve known and unknown risks and uncertainties, which may cause actual performance and financial results in future periods to differ materially from any projections of future performance or result expressed or implied by such forward-looking statements.