



Town of Milford
Special Town Meeting
Milford Water Company Acquisition

August 2, 2021

History

- 2009 Water contamination crisis breaks, Boil Water Order issued, DEP issues Administrative Consent Order
- 2011 DPU approves 33% rate increase
- 2013 DPU approves 50% rate increase, Town Meeting unanimous vote to explore MWC acquisition
- 2014 Feasibility study conducted
- 2015 Negotiation with MWC begins
- 2016 Mediation on purchase price
- 2017 Negotiation continues on other terms of acquisition of MWC, Town Meeting approves MWC stock purchase price: \$63 million
- 2018 Litigation on asset valuation begins, DPU approves 17% rate increase
- 2021 DPU issues asset valuation order: \$66 million as of December 31, 2018
Negotiation of asset purchase begins



DPU Valuation

- 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

- 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

- 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



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)

A. O&M Expense	2,651,973
B. Depreciation Expense	1,125,973
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

Total Cost of Service (MWC) 7,704,112

OPERATING REVENUES

Test year revenues	6,562,396
Revenue Deficiency as found	1,141,716

Allowed Revenues under DPU 17-107 7,704,112

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 \$810,427¹

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

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



FINANCING PLAN

- 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
 - Anticipated significant Bond Premium
- Estimated Capital Improvements Expenses - \$10 million during the first 5 years
 - Renewal & Replacement Reserve
 - Pay-as-you-go (Surplus)
 - Rate Increases
 - Other available funding sources
- Total other available funding for Capital Improvements - \$12 million during the first 5 years



FINANCIAL APPROACH AND IMPLICATIONS

- 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 reserved for capital improvements).
 - Bond issuance cost paid by premium
 - Estimated net interest: 2.69%



FINANCIAL APPROACH AND IMPLICATIONS (CONT.)

- Capital Planning and Replacement Cost
 - Pay as you go
 - Massachusetts Clean Water Trust
 - Bond Premiums
 - American Recovery Plan Act of 2021
 - Potential infrastructure funds
 - Retained earnings accumulation
- Timing
 - Continued financial and business due diligence
 - Manage credit rating agency for bond sale
 - Town Treasurer receives bids
 - Execute Purchase and Sale Agreement with transfer of funds – December 1st 2021



SCHEDULE C

	Municipal Control									
	5%	5%	5%	5%	5%	5%	5%	1%	1%	1%
	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
Municipal Revenue (Net of Hydrant Services)										
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%
Municipal Operating Expense	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
Additional Town Expense										
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
Estimated Additional Municipal Expense	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
Surplus before Capital Expenditures	(180,976)	59,175	308,726	568,140	837,903	1,118,526	1,410,543	1,341,260	1,363,903	1,383,861
Capital Improvement Plan										
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
Other Funding Sources Available										
Bond Premium reserved \$6 million	(5,000,000)	(1,000,000)	-	-	-	-	-	-	-	-
American Recovery Plan Act (ARPA) \$6 million	-	(3,000,000)	(3,000,000)	-	-	-	-	-	-	-
Amount to be covered through rates	-	-	-	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
Net impact	(180,976)	59,175	308,726	(431,860)	(162,097)	118,526	410,543	341,260	363,903	383,861
Retained earnings in enterprise fund to start	750,000									
Cumulative (Retained Earnings for future Capital)	569,024	628,199	936,925	505,065	342,968	461,494	872,037	1,213,297	1,577,200	1,961,061



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.