

Joint Press Release
Columbia Borough, Columbia Municipal Authority, Lancaster Area Sewer Authority

Date: May 28, 2015

Columbia finalizes sale of sewer system to Lancaster Area Sewer Authority (LASA)

Columbia Borough and the Columbia Municipal Authority finalized a \$20.6 Million sale of the Columbia sewer system to the Lancaster Area Sewer Authority (LASA) on May 27, 2015, completing a process that started with discussions nearly a decade ago. LASA is a regional municipal sewer authority which will now serve almost 37,000 customers representing nearly 100,000 citizens and 1,300 businesses. When a new pump station and force main are completed, Columbia wastewater will be treated at LASA's existing plant. LASA Executive Director Mike Kyle said "A regional approach to sewer service makes it possible to keep rates reasonable and stable, while still complying with ever more stringent regulatory and permit requirements. We are happy to welcome our neighbor Columbia to LASA."

The transaction: The asset purchase agreement and accompanying bulk service agreement and bond subsidy agreement that underlies the sale provides for the following: Columbia received \$8.6 Million in cash, and LASA assumed \$12 Million of Columbia's debt. Columbia rates will transition to LASA rates over the greater of 5 years or until the Columbia rates are the same as the LASA rates. A bulk service agreement stipulates that LASA will pay Columbia \$87,500 per month over 3 years, for Columbia to treat sewage while LASA is constructing its pump station and force main. Once the pump station and force main are completed the Columbia sewage flow will be diverted to the LASA plant, and the Columbia plant will be de-commissioned or re-purposed.

The sale added about 3,900 Columbia customers to the LASA service area which previously included about 33,000 customers. LASA owns, operates, and maintains a collection and conveyance system that includes about 535 miles of pipe and 38 pump stations, owns and operates a wastewater treatment plant designed to treat up to 15 million gallons per day of wastewater, which when treated is returned to the Susquehanna River. As a result of the sale, Columbia Borough became LASA's 5th largest municipality (by number of customers) of 8 served by LASA. The largest is Manheim Township, followed by the Townships of East Hempfield, West Hempfield, and Manor.

Why regional service? LASA has interest in growing and expanding its service area when it benefits the customers being served, both the current and future LASA customers and the customers being acquired. The Columbia system was attractive to LASA primarily due to its close proximity to the LASA service area, and because economies of scale would allow for more efficient service to customers (including Columbia customers). LASA believes that future regulations and more stringent discharge limits will make operating a small wastewater treatment plant and collection system more costly per customer than a larger system like LASA's.

Benefits of regionalized sewer service with LASA include the following: Costs and rates will be lower over the long run and more stable over time. Economies of scale generally reduce operating and debt service costs per customer. Costs per customer are more stable and less likely to increase as operating and capital costs are spread out over a larger pool of customers. Interconnecting the two systems will allow some additional cost savings. Lower capital and operating costs of treatment as existing LASA plant infrastructure is maximized. Sharing a pool of LASA personnel allows savings in personnel costs, while debt can be consolidated resulting in debt service savings. The size of regional ownership mitigates spikes in expenses.

The benefits to Columbia include the infusion of \$8.6 Million in cash, as well as relief from its \$12 Million in debt. But probably the biggest relief is from future regulatory, legal, and financial liabilities associated with owning and operating a wastewater collection and treatment system. It also allows Columbia to focus on its main obligations, and the infusion of cash provides opportunities to improve other services it provides to its residents and businesses. One other benefit is that the treatment plant can now be de-commissioned and is open for other possible uses.

There will be improved service because of a larger pool of customer service representatives dedicated to sanitary sewer service and a larger pool of collection operation and maintenance staff provides quicker emergency response. In addition to dedicated customer service staff, LASA staffing also includes licensed treatment plant and collection system operators, information technology services professionals, engineering services headed by a Professional Engineer, financing services headed by a Certified Public Accountant, and accredited laboratory services. There will be reduced Columbia liabilities. Owning and operating a sanitary sewer system has significant financial and legal risks, including permit and other DEP and EPA compliance (which can result in civil and

criminal penalties), environmental and public health damage claims, and risks from large capital expenditures.

Why LASA? LASA recently participated in a nation-wide comparison of utilities, what they do and how well they do it. Compared to similar wastewater agencies nationwide, LASA ranked in the top 25% in the following categories: staff training, billing accuracy, and employee health and safety. LASA can point to its nearly 50-years of rate history to demonstrate how regional facilities can benefit from economies of scale to help control rate increases. Since the early 1970's when LASA was formed, it has averaged about 2% per year in rate increases, which is well below the average inflation rate over that time. And since the year 2000 LASA has averaged an increase of 1.75% per year.

Why \$8.6 Million for the system? There are many different ways to value a sewer system, including depreciated book value, replacement value, and market value. But the primary method that drove the price was the Earnings Value – Debt Supported method. In this method, LASA looked at the cash flow from the system over a long period of time, which factors in the cost of operation and maintenance, capital costs, inflation, and revenues. The difference between all of the revenues and all of the costs is the amount that could be paid for the system.

What happens from here? LASA is in the process of constructing a pump station and force main estimated to cost \$9.4 Million. The force main will be about 3 miles in length, with about 600 feet of 30 inch diameter gravity, about 3 miles of 20 inch diameter force main to handle 5 million gallons per day of peak flow.

Columbia rates will transition to LASA rates over the greater of 5 years or until rates are the same. For residential and multi-unit, the current flow-based rates would initially translate to 1 of 13 tiers, with the initial tier based on each customer's 2-year average usage. The initial year lowest rate would be \$60.00 per quarter. For residential customers, the transition will also include moving from metered rates to flat rates.

Wastewater utilities state-wide are split about 50/50 – half bill residential customers on flow while the other half bill them flat rate. LASA bills its residential customers a flat rate. The principle of flat rate billing is that wastewater utilities are by their nature highly capital intensive with high fixed costs that must be spread out over many customers for efficiency. Although the amount of flow from a

customer does have some effect on operating expenses, LASA's cost to serve a typical residential customer is about the same regardless of the flow, within a fairly wide range of flows. Another benefit from flat rate billing is its simplicity resulting in fewer errors and lower administrative costs.

Columbia customers became LASA customers on May 27, 2015. Columbia will send out 2 more bills, and thereafter all bills will be coming from LASA. Customers should call LASA with any sewer service questions problems or emergencies. LASA's office staff is available in person from 8:00 am to 4:30 pm weekdays. Customers can call weekdays Monday through Friday from 8:00 am through 4:30 pm at 717-299-4843, select Option 3 for sewer service problems. Customers can always reach LASA through its emergency call center number at 717-396-9619 on a 24/7, 365 days a year basis.

Milestones: Closing on the sale of the system to LASA was May 27, 2015. Billing conversion will begin June 1, 2015. Construction of the transportation facilities will begin January 2016, while startup will be November 2016.

Conclusion: LASA now serves eight municipalities in the western part of Lancaster County, including the Boroughs of East Petersburg, Mountville, and Columbia, and the Townships of East Hempfield, West Hempfield, Lancaster, Manheim, and Manor. The system includes the Susquehanna Water Pollution Control Facility which has a capacity to treat 15 million gallons of wastewater per day, 38 pumping stations and approximately 567 miles of pipeline. The Mission of the Authority is to provide Quality Service at Reasonable Cost. Its Guiding Principle is to provide quality service and apply technology to process wastewater so as to protect and enhance the environment, health and well-being of the community at a reasonable cost.