



MCKEESPORT WASTEWATER

**Acquisition produces economic stability,
long-term infrastructure solution and
\$40 million in proceeds for the city**

CHALLENGES

McKeesport was incorporated as a city in 1891 and thrived in the early 1900s. It manufactured more steel pipe than anywhere in the world. Its population peaked at 55,000 during the 1940s. Since that time, the decline of steel industry started a reversal of fortune. With it came a number of challenges.

- Diminished population
- Underfunded pension liabilities
- Needed street and infrastructure repair
- Rising unemployment
- Keeping essential government services affordable
- Need for increased financing of its wastewater system to support regulatory compliance

Today, the city is home to nearly 20,000 people (2016 US Census).

A SEARCH FOR A SOLUTION

The city began a proactive search for solutions to these challenges. In 2013, the city decided to monetize the wastewater system with several goals in mind:

- Avoid being declared “financially distressed” (Act 47)
- Save the city from municipal bankruptcy
- Maintain a high level of wastewater service
- Keep wastewater rates affordable

In 2015, the city began its search for a regional partner to lease, or possibly purchase, the wastewater system, which serves approximately 22,000 customers, including those served under bulk contracts, in 13 municipalities in Allegheny County.

SOLUTION FOUND

In December 2017, Pennsylvania American Water acquired the wastewater system assets of the Municipal Authority of the City of McKeesport (MACM) for \$159 million. As the first finalized sale under Pennsylvania’s Fair Market Value legislation, this acquisition establishes a strong example for other communities to consider, as it creates the opportunity for municipalities to achieve fiscal stability and to wisely invest the sale proceeds. The proceeds can be dedicated to debt reduction, pension expenses, other infrastructure improvements and economic development, as well as to support recreation, public safety and other community needs.



“The crux of this transaction is bringing financial stability to the City of McKeesport and saving our taxpayers from Act 47 municipal bankruptcy.

When we think about it, the privatization of local sewage services truly makes sense. The City isn’t involved in other utility businesses—gas, electric, water—and this is a final step in providing consistent, regulated utility services to our community.”

**Michael Cherepko,
Mayor of McKeesport, PA**



**PENNSYLVANIA
AMERICAN WATER**

WE KEEP LIFE FLOWING™

RESULTS

For years, McKeesport operated with a functional deficit of several million dollars. The sale of the system provided the city 100 percent of the net sale proceeds and also relieved the city of all future wastewater treatment costs and capital investments required to comply with increasing government mandates.

Immediate benefits:

- \$40 million net proceeds
- Avoided insolvency
- Proceeds used to positively impact community morale
- Launched “McKeesport Rising Project” to eliminate blight; purchase new paving equipment and increase street paving; and safe market based investments
- Former MACM property assets now taxable
- Stabilized wastewater rates
- MACM employees offered employment
- Enhanced customer service

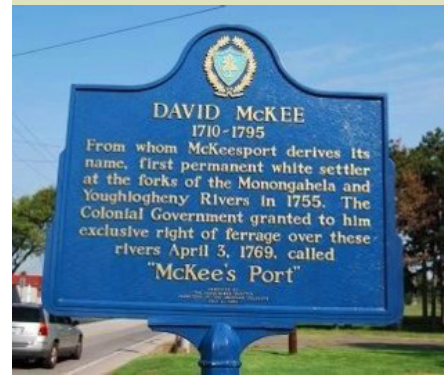
Long-term rate stability is one of the most important benefits for McKeesport wastewater customers. Pennsylvania American Water’s wastewater rates are regulated by the Pennsylvania Public Utility Commission (PUC). Any future rate changes are reviewed and approved by the PUC. Additionally, under the purchase agreement, Pennsylvania American Water will not increase base wastewater rates any earlier than one calendar year after the closing.

In addition, low-income wastewater customers in McKeesport are eligible to apply for assistance through Pennsylvania American Water’s H2O Help to Others Program, which offers grants and discounts on bills for those customers who qualify.

Customers will also benefit from Pennsylvania American Water’s ability to provide much needed investment in the system and enhanced customer service.

DETERMINING THE BEST FIT: ASSET LEASE VS. ASSET SALE AT A GLANCE

	ASSET LEASE	ASSET SALE
Upfront Proceeds for City	YES: Based on cash-flow accounting. Must factor in: <ul style="list-style-type: none"> • Concessionaire overhead • Markup costs • Margin on OpEx • Reserve funds 	YES (more than lease): Based on rate-base evaluation and accounting. <ul style="list-style-type: none"> • No concessionaire overhead • No markup costs • No margin on OpEx • No reserve funds needed
New Revenue Stream for City General Use	YES: Annual lease fee negotiated with concessionaire.	YES: Certain wastewater system assets become eligible for property taxes.
Responsibility for future investments	SHARED: City with negotiated responsibilities contracted with concessionaire. Any additional needs outside of contract would require the contract to be amended/renegotiated.	NONE: Pennsylvania American Water assumes full responsibility. All improvements/ investments are reviewed by PUC before being included in rates.
Effect of system investments on rates	MACM WW CUSTOMERS (22,000): Rate increase for consent decree and lease payment paid only by MACM customers (22,000 customers).	PENNSYLVANIA AMERICAN WATER CUSTOMERS (723,000): No immediate change to rates. Future rates are incorporated into Pennsylvania American Water’s customer base (723,000 customers).
Accountable for approving future rate increases	CITY: City through contract terms with concessionaire	REGULATORY BODY: PA PUC reviews/approves all proposed rate changes in open, thorough and transparent process
Owner of assets	CITY	PENNSYLVANIA AMERICAN WATER
Increased resources to improve efficiency and effectiveness of wastewater services department	YES: Enhanced work force utilization/ opportunities. Leveraged purchasing power.	YES: Enhanced work force utilization/opportunities. Leveraged purchasing power. Leverage existing presence in western Pa as well as nationwide expertise/resources.



QUESTIONS?

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