



CONVEYANCE-LEASEBACK PROPOSAL

SparkNotes Presentation

Presented by Hunter L. Ahrens, MPA, SHRM-SCP

AGENDA

01 Executive Summary

02 Why is this necessary?

03 Leaseback Amount

04 Budget Impact

05 Rate Increase Effect

06 Will we invest in our Water System?



EXECUTIVE SUMMARY

- Conveyance-Leaseback is a legal process by which the Water Authority turns over the direct ownership of the water system to the Borough. The Borough then leases the system back. Within that process, we would accomplish three things:
 - Include a binding legal covenant against a Sale to a Public or Private Organization
 - Merge the Water and Borough staff to form a Public Works Department
 - Create a revenue stream under the lease to the Authority to support Emergency Services
- This project is being undertaken to help build a sustainable governance model for Mt. Penn that provides stable revenue, but also prevents privatization, and enhance services to residents in the long-term.

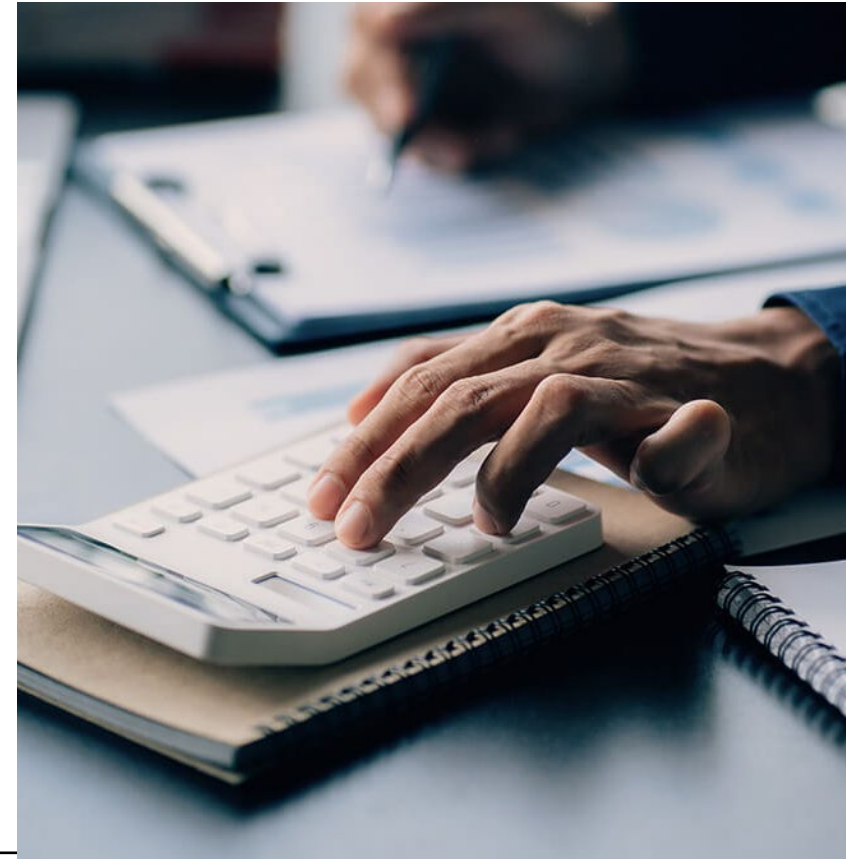
WHY IS THIS NECESSARY?

- Five-year forecast shows recurring deficits starting 2027, driven by costs growing faster than revenues.
- Public Safety-related expenses are the largest and fastest-growing drivers in the budget.
- Core revenues such as property taxes and Act 511 taxes show minimal growth and are constrained by statutory limits; this requires increasing property taxes or making structural changes.
- Property taxes have a behavioral effect that Mt. Penn experiences more than other municipalities because of our high tax rate; this incentivizes rental and multi-unit conversions that at scale undermine our objectives and introduce new challenges including blight and crime.
- By stabilizing utility revenues and integrating operations into a unified public works model, the Borough can redirect resources to shore up police, fire, and EMS services, while building a public works model that supports employees and community members.



LEASEBACK AMOUNT

- Annual leaseback payment amount would be set at \$295,300.00 for CY 2027
 - 5% Escalation in 2028 and 2029
 - Amount Renegotiated in 2029 for 2030-2032
- One-Time transition payment, originally discussed \$60K, for administrative costs under Conveyance-Leaseback and transition expenses. Paid in July 2026
- Payments made in early January and early July annually.
- Final calculation would be evaluated for consistency with Financial Consultants modeling to prevent unintended consequences.



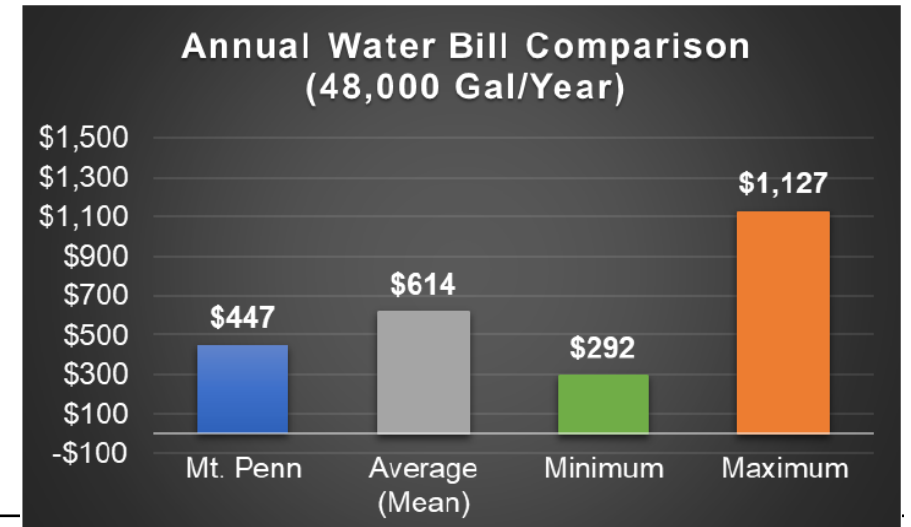
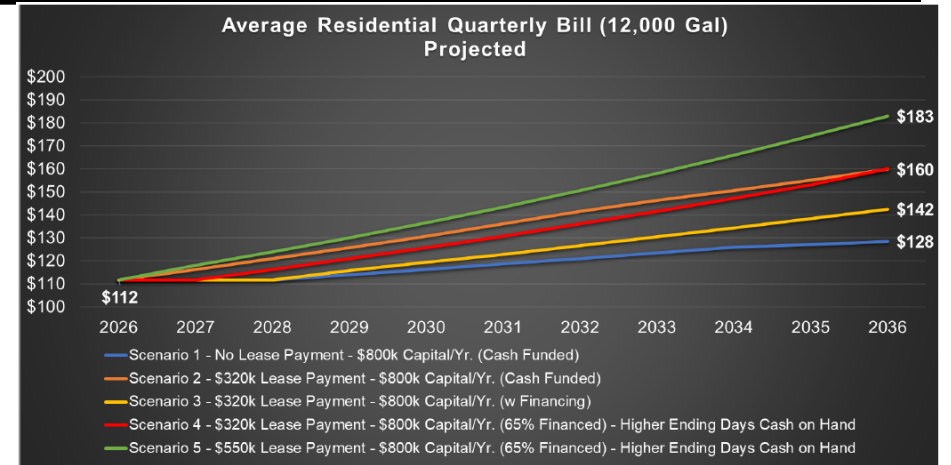
BUDGET IMPACT

- Borough's General Fund experiences changes
 - Leaseback changes would create a net increase for the General Fund after adjustments to Revenue and Expenses.
 - Assists in rebuilding fund balance; funds are uncommitted for projects or critical operating expenses. TBD additional commitments.
- Authority Water Fund experiences net decrease
 - Leaseback changes makeup approx. 55% of expense increase in CY 2027; other changes makeup 45% of increase, especially debt increases.
 - Rate adjustment needed; PFM analysis suggests cash reserves are sufficient to prevent significant rate increase.

	General Fund	Water Fund
Total Revenue	\$ 2,722,121.13	\$ 2,500,491.22
Leaseback Changes	\$ 280,300.00	\$ 10,000.00
Other Changes	\$ (501,659.45)	\$ -
Total Expenditures	\$ 2,541,510.01	\$ 3,004,198.16
Leaseback Changes	\$ 33,502.48	\$ 311,655.40
Other Changes	\$ (434,011.89)	\$ 260,444.39
Summary		
Jan. 1 Fund Balance	\$ 528,022.80	\$ 3,767,799.88
Total Revenue	\$ 2,722,121.13	\$ 2,500,491.22
Total Expenditures	\$ 2,541,510.01	\$ 3,004,198.16
Dec. 31 Fund Balance	\$ 708,633.92	\$ 3,264,092.94
Surplus/(Deficit)	\$ 180,611.12	\$ (503,706.94)

RATE INCREASE EFFECT

- PFM's assessment of rate changes demonstrated increases on larger assumptions than proposed.
- Largest increase forecast averages \$71.00 over 10 years; \$7.10 per year.
- Final analysis will be necessary with financial consultant.
- Average bills for MPBMA are comparatively lower than market.





WILL WE INVEST IN OUR WATER SYSTEM?

- In short – YES! Under the Conveyance-Leaseback model, the financial decisions about improvements, maintenance, etc. will still be governed by an Authority. It will be their responsibility to afford investable funds for projects.
- We model annual cash investments of \$800,000 per year (\$8 million over the next 10 years). In addition, the Authority has borrowed low-interest funds for two water tank projects and is completing that work.
 - Historical investment has been approximately \$500K in the last few years, the current budget has historic high of \$700K.
- The model also includes the maintenance of fund balance at approximately 600 days revenue, or 2-years additional cash on hand, which will allow for the Authority to maintain solid cash reserves for emergencies and major projects.