

CONVEYANCE–LEASEBACK: WHAT IT IS & WHY IT MATTERS

What is the Conveyance–Leaseback?

The Borough will assume ownership of the water system while maintaining operations locally through a leaseback structure. This ensures **public control, professional operation, and long-term protection** of the system.

Our Core Objectives

1. Keep Water Public

A binding no-sale covenant included in the leaseback agreement ensures the system can't be privatized during the lease.

2. Stabilize Finances Without Selling Assets

This approach avoids privatization while creating responsible, predictable funding for the Borough. We are proposing an annual payment of \$295,300.

3. Maintain Local Service & Employees

Borough and Water Staff remains in place and works towards a unified public works team with common duties and helps control costs in the future.

FAQs

Will Ratepayers see an increase?

Yes - rate increases will continue whether a leaseback payment is instituted or not. This next year, Authority expenses will increase by an anticipated \$217K. We expect a marginal rate increase to sustain the lease payment beyond this. Over the next 10 years, the most expensive scenario tested showed an average quarterly bill increase of \$7.10. We expect to be below that figure.

Why should other communities pay Mt. Penn? Mt. Penn holds the Authority charter and is seeking a return on the system it helped build. The money will fund public safety; our Police, Fire, and EMS services, which help keep all of our neighbors safe, not just Mt. Penn.

Is this legal?

Yes - Both the Municipal Authorities Act and Case Law have supported this leaseback model. Many other municipalities in Pennsylvania practice this or similar structures. The closest example to us is our next-door neighbor, the City of Reading.

Is the system really in danger of a sale?

Probably Not - Around the state, privatization has mixed results; this Council doesn't want to be a test case. Future Council's will have the ability to change that. Our financial trajectory shows real challenges, and this approach helps to change that trajectory while prohibiting a sale in the future.

WHY COSTS ARE RISING: EMS, POLICE, & FIRE

Essential Services Are Getting More Expensive

Mount Penn's budget and long-term forecast show a clear reality:

- Public safety and personnel costs are the largest and fastest-growing expenses
- These costs are driven by wages, healthcare, pensions, and service demand
- At the same time, revenues grow slowly and are limited by law

The result: A structural imbalance where costs rise faster than revenues over time

Why This Is Happening

EMS (Ambulance Services)

- Unsustainable Federal reimbursement model for Healthcare
- Rising medical and equipment costs
- Increased call volume across the region

Fire Services

- Aging volunteer base
- Higher training, insurance, and equipment standards
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Police Services

- Competitive wages needed to retain officers, reduced recruitment pool for applicants
- Growing service demands and expectations
- State and federal requirements with unfunded mandates

These Services Go Beyond Our Borders

Mount Penn is a regional connector community, supporting surrounding municipalities and shared infrastructure

- Emergency services respond across municipal lines
- Our infrastructure supports regional movement and safety
- The Borough plays a role in protecting the broader community

Putting It All Together

The Conveyance–Leaseback is part of a broader plan to:

- Maintain essential services
- Protect residents and infrastructure
- Ensure long-term financial sustainability

Have questions - feel free to ask! We've published almost all documents presented on the Borough's website, and staff is happy to discuss this in more detail.

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Our Core Objectives

1. Keep Water Public

A binding no-sale covenant included in the leaseback agreement ensures the system can't be privatized during the lease.

A no sale covenant would be drafted by the Borough's attorneys to ensure a sale of the system or parts thereof are prohibited during the term of the lease agreement, which could be maximized for a term of 50-years in conjunction with the Authority's charter being extended for a full 50-years. The PA Authority's act limits the lifespan for an authority to 50-years.

2. Stabilize Finances Without Selling Assets

This approach avoids privatization while creating responsible, predictable funding for the Borough. We are proposing an annual payment of \$295,300.

The revenue to support the Borough assists with the long-term cost growth of public safety expenses that the Borough is required to provide under state law (Fire and EMS); the regional police services are also growing due to several factors but are primarily driven by the Borough's call volume and reportable incidents. 2024 and 2025 Chief of Police Reports show that the Borough makes up about 31% of calls and reportable incidents with 23% of the population. The leaseback amounts modeled showed that the Authority could sustain a payment of up to \$580K (PFM Presentation from Jan. 20, 2026); the \$295K amount is more conservative to release financial pressure on Mt. Penn while avoiding large rate increases for residents.

3. Maintain Local Service & Employees

Borough and Water Staff remains in place and works towards a unified public works team with common duties and helps control costs in the future.

A unified public works team and offices won't be achieved overnight, but comparable organizations in Berks County and elsewhere attest to their efficiency when realized. The Borough is investigating other municipal setups. Shillington and Hamburg Boroughs are serving as positive models to pursue. Success in the cost control, shared and enhanced services should be measured in several years, because the initial change period won't show many day-to-day differences. The movement towards a fully integrated

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organization will require additional training, alignment of compensation systems, etc. which takes time.

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- \$217K is based on a \$100K increase in capital projects provided by Authority staff when preparing the financial models as well as increasing debt service payments resulting from borrowings to improve the system's water tanks. The amount of the debt service increase is \$117K ($\$110 + \$117K = \$217K$). These figures were provided by the Authority to the Borough.
- PFM Financial Advisors presented their initial water rate analysis at the Borough's Townhall meeting on January 20, 2026 and showed that average bills stand at \$112 in 2026 and could grow to \$183 per quarter in 2036 ($\$183 - \$112 = \$71.00 / 10 \text{ years} = \7.10 increase on quarterly bills each year) in the most aggressive lease payment amount of \$580,000.00. This presentation is available on the Borough's website for reference.

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- Mount Penn is exercising its legal and structural role as the holder of the Authority charter and the steward of the system that was originally built through Borough initiative and support.
- The Borough assumes ownership responsibility, protects the system from privatization, and establishes a long-term structure that keeps water service public, local, and professionally operated. In return, a fair and lawful leaseback payment reflects the value of that system and the Borough's role in securing and maintaining it.
- Mount Penn's Police, Fire, and EMS services do not operate in isolation. They regularly respond across municipal boundaries, support mutual aid, and contribute to the broader public safety network that protects neighboring communities. As costs for these services continue to rise—driven by staffing, training, equipment, and regulatory requirements—the Borough must ensure they remain stable and effective.

WHY COSTS ARE RISING: EMS, POLICE, & FIRE

- The leaseback structure helps achieve that by creating a sustainable funding source tied to an existing public asset, rather than relying on increased taxes or service reductions. At the same time, the Borough remains committed to maintaining affordable, reliable water service and preserving a local workforce.
- Rising tax pressure can unintentionally drive the conversion of single-family homes into multi-unit rentals. While this may make sense at the property level, it changes neighborhood density and stability in ways that extend beyond any one municipality.
- These impacts are regional. Increased density places added demand on Central Berks Regional Police, shared utilities, infrastructure, and the School District—all of which serve multiple communities. More residents per property typically means more calls for service, greater infrastructure use, and higher public safety demand, but without a proportional increase in stable revenue.
- The School District feels this directly through enrollment volatility, transportation needs, and support services, with costs shared across all member municipalities.
- If conversions outpace oversight, they can also contribute to blight, absentee ownership, and property decline. These conditions do not stay contained—they influence surrounding property values, investment patterns, and neighborhood perception across borders.
- Crime and quality-of-life issues follow patterns, not municipal lines. Increased service demand and instability in one area can quickly affect neighboring communities, particularly in a connected region like Mount Penn, Lower Alsace, St. Lawrence, and Exeter.

Is this legal?

Yes - Both the Municipal Authorities Act and Case Law have supported this leaseback model. Many other municipalities in Pennsylvania practice this or similar structures. The closest example to us is our next-door neighbor, the City of Reading.

- The Municipal Authorities Act and supporting case law clearly establish that an incorporating municipality has the authority to reclaim ownership of a utility system it created and to structure how that system is operated going forward. Once ownership is established, a leaseback arrangement becomes a practical and lawful way to ensure the system continues to be professionally operated while recognizing the municipality's role as the asset owner.
- This is not a workaround—it reflects how many systems were originally structured. As outlined in a presentation by attorney Jens Damgaard, Esq. to the Pennsylvania Local Government Symposium in 2022, municipalities have long used authorities to finance and operate utility systems, and in many cases, assets were transferred with the

WHY COSTS ARE RISING: EMS, POLICE, & FIRE

expectation of continued municipal control and long-term value. (Citation Link: <https://www.lgc.state.pa.us/symposiumPres.cfm?yr=2022>)

- Municipal utility systems are often a municipality's most valuable public asset, and preserving that value is a legitimate public objective. When structured properly, leaseback payments represent fair compensation for the use of a publicly owned asset—not a subsidy or transfer of funds.
- Across Pennsylvania, municipalities have used similar structures to regain control, protect systems from privatization, and create stable, predictable funding tied to existing public assets. The example of Lewistown demonstrates that municipalities can and do secure ongoing payments through these arrangements. Closer to home, the City of Reading operates under a similar model.

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