Mount Penn Borough

DRAFT

Financial Analysis Study

Fair Annual Water System Lease Payment

June 23, 2026

Prepared by PFM Financial Advisors LLC

Harrisburg, Pennsylvania

Table of Contents

Executive Summary

Mt. Penn Borough (the “Borough”) engaged PFM Financial Advisors LLC (“PFM”) to evaluate the financial value of its ownership interest in the water system assets owned and operated by the Mt. Penn Borough Municipal Authority (the “Authority”), and to assess the potential for generating revenue through an annual lease payment. This analysis is intended to support informed decision-making by the Borough while balancing the need to maintain affordable water rates and long-term system sustainability.

The Authority provides essential water service to 4,600 equivalent dwelling units across Mt. Penn Borough and surrounding communities. The system is predominantly residential and operates under a rate structure consisting of fixed quarterly charges and a volumetric usage fee. Current rates are generally competitive within the region, with typical residential bills slightly below the peer group average, indicating that the system is currently well-positioned from an affordability standpoint.

From a financial perspective, the Authority has historically maintained a strong liquidity position, with water fund reserves significantly exceeding industry benchmarks. However, operating expenses have increased materially in recent years, growing at an estimated compound annual rate of approximately 9% from 2023 through 2027. This trend has resulted in declining operating performance, including a significant projected operating deficit in 2027. At the same time, the Authority faces increasing capital investment needs, with approximately $8.9 million in projected system improvements through 2036, driven by infrastructure maintenance and regulatory requirements.

To estimate a reasonable annual lease payment, PFM applied a rate base methodology commonly used in utility regulation. Based on an estimated rate base of approximately $10.4 million and a tax-adjusted weighted average cost of capital of 6.80%, the analysis indicates a maximum supportable annual lease payment of approximately $478,000. This figure represents the upper bound of what the system could theoretically sustain based on its underlying financial characteristics.

PFM evaluated the impact of potential lease payments under four scenarios to understand how different payment levels would affect customer rates over time. These scenarios include: (1) no lease payment; (2) the Borough's preferred lease payment of $295,300 annually, assuming $800,000 per year of capital spending; (3) the Borough's preferred lease payment of $295,300 annually, assuming $500,000 per year of capital spending; and (4) a maximum fair annual lease payment of $478,189, assuming $800,000 per year of capital spending.

Importantly, while the maximum calculated lease payment provides a useful benchmark, it should not be viewed as a recommended or required level. The Borough has expressed a clear priority to balance financial benefit with customer affordability and system sustainability. As a result, a more moderate lease payment may represent a more appropriate approach, allowing the Borough to realize value from its assets while minimizing impacts on ratepayers and preserving the Authority’s financial position.

In summary, the Borough’s water system represents a valuable public asset with strong underlying fundamentals, including stable demand, competitive rates, and significant liquidity. However, rising costs and capital needs will require ongoing financial management and periodic rate adjustments. The analysis provides a framework for evaluating lease structures that generate revenue for the Borough while maintaining the Authority’s ability to deliver safe, reliable, and affordable water service over the long term.

Introduction & Purpose of Report

Mt. Penn Borough (the "Borough") engaged PFM Financial Advisors LLC ("PFM") to perform a financial analysis of the Borough's ownership interest in the water system assets operated by the Mt. Penn Borough Municipal Authority. The Borough is evaluating the financial performance and long-term value of these assets and seeking to better understand the potential revenue that could be generated through an annual lease or similar arrangement.

The Authority currently owns and operates the water system and is responsible for providing safe and reliable service to customers, as well as maintaining and investing in the system over time. As part of its ongoing financial planning efforts, the Borough desires to quantify the value of its interest in these assets and evaluate potential financial benefits in a manner that is sustainable and reasonable for customers.

This report presents the results of PFM's analysis and is intended to support informed decision-making by the Borough.

PFM's role in this engagement is limited to performing financial analyses and calculations based on information provided by the Borough, the Authority, and other available sources. PFM has not undertaken, and does not provide any legal, regulatory, or tax advice in connection with this assignment. Accordingly, PFM does not opine on, nor should this report be construed as addressing the legality, validity, or enforceability of any potential conveyance, lease agreement, transfer structure, or related transaction. All such matters should be reviewed and evaluated by the Borough's legal counsel and other qualified advisors.

Purpose of Report

The purpose of this report is to evaluate a reasonable range of annual financial returns (or "fair annual rental values") associated with the Borough's ownership interest in the water system assets. This includes analyzing the financial performance of the system, developing appropriate return assumptions, and estimating the level of revenues and customer rate impacts necessary to support such returns.

Specifically, this report:

- Evaluates the Authority's capital structure, including existing assets and outstanding debt
- Develops a range of reasonable rates of return based on municipal utility and regulatory benchmarks
- Estimates the revenue required to support each return scenario
- Quantifies the potential annual financial benefit to the Borough under each scenario
- Assesses the corresponding impact on customer water rates and bills
- Provides context through comparisons to regional and peer water systems

The analysis is designed to balance the Borough's objective of realizing fair value from its assets with the need to maintain affordable and sustainable rates for customers. The results are intended to provide a framework for evaluating potential lease arrangements or other financial structures involving the water system.

About the Mt. Penn Water System

The Mt. Penn Borough Municipal Authority is a municipally owned, non-profit organization that was created by Mt. Penn Borough. The Authority is responsible for providing public water service to the communities of Mt. Penn Borough, Lower Alsace Township, St. Lawrence Borough, and portions of Exeter Township. The Authority is governed by a five-member Board of Directors.

The Authority's primary mission is to provide customers with a safe, reliable, and high-quality supply of drinking water. This responsibility is central to the Authority's operations and long-term planning efforts. The Authority's employees play a key role in delivering this essential service and maintaining the system for the benefit of the communities served.

The water system currently serves approximately 4,600 Equivalent Dwelling Units ("EDUs"). An EDU is a standard industry metric used to represent the typical water demand of a single residential customer and allows for consistent comparison across different customer classes.

The Authority's service area is distributed across its member communities as follows:

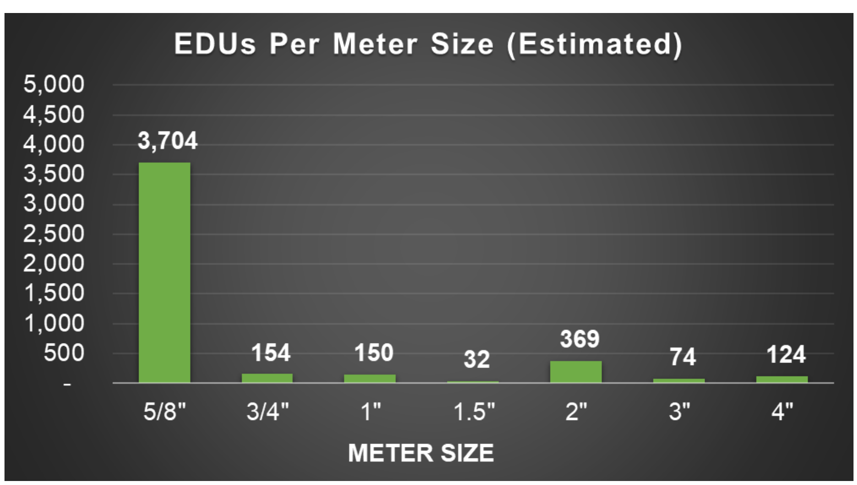
- Lower Alsace Township – approximately 37%
- Mt. Penn Borough – approximately 31%
- St. Lawrence Borough – approximately 23%
- Other areas (including portions of Exeter Township) – approximately 9%

This service area reflects a mix of residential and non-residential customers and contributes to the overall stability and demand profile of the system.

Overall, the Authority plays a critical role in supporting public health, economic activity, and quality of life within the region by ensuring dependable access to clean drinking water.

<u>Customer Breakout</u>

The Authority's customer base is predominantly residential, with approximately 3,700 EDUs served by 5/8-inch meters. Larger meter sizes represent a smaller share of total EDUs.



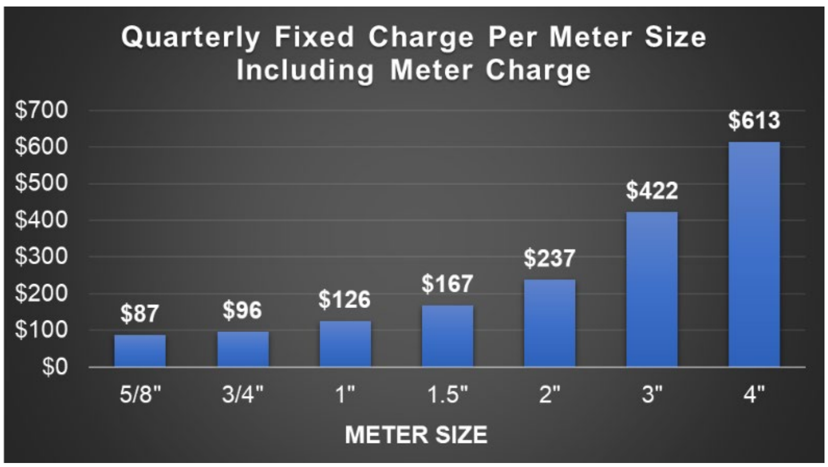
Rates & Billing Overview

The Mt. Penn Borough Municipal Authority establishes water rates to recover the costs of operating, maintaining, and investing in the water system while providing reliable service to its customers. Rates are structured to include both a fixed minimum charge based on meter size and a variable usage-based charge.

As of April 1, 2025, the Authority's water rates consist of:

- A quarterly minimum charge determined by meter size, which recovers a portion of fixed system costs.
- A meter charge determined by meter size.
- A volumetric charge of $2.36 per 1,000 gallons, applied to all water consumption.

Minimum Quarterly Charges by Meter Size:



The minimum charge applies regardless of usage. Customers are billed additionally based on actual water consumption during the billing period.

Customers are billed on a quarterly basis. Total bills reflect the applicable minimum charge plus volumetric charges based on metered water usage.

Typical Residential Bill

Based on current rates, a typical residential customer with a 5/8-inch meter using approximately 12,000 gallons per quarter would incur a bill calculated as follows:

- Minimum quarterly charge: $78.50
- Quarterly meter charge: $5.00
- Usage charge (12,000 gallons at $2.36 per 1,000 gallons): $28.32

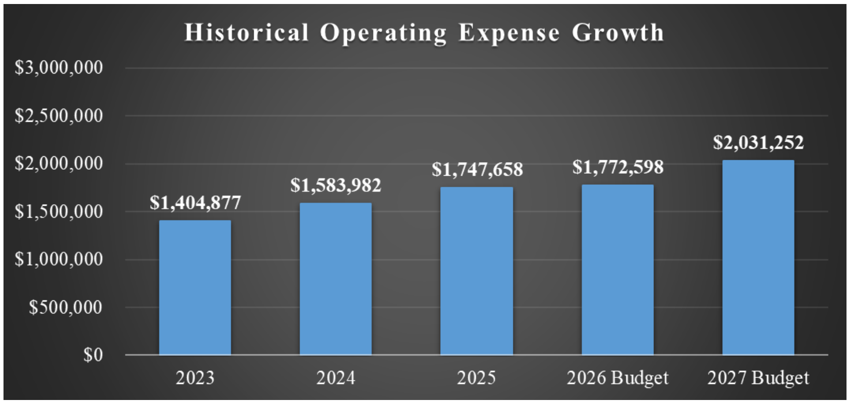
Total Current Quarterly Water Bill: Approximately $112.

This example is intended to illustrate a representative customer bill and will vary depending on actual water usage and meter size.

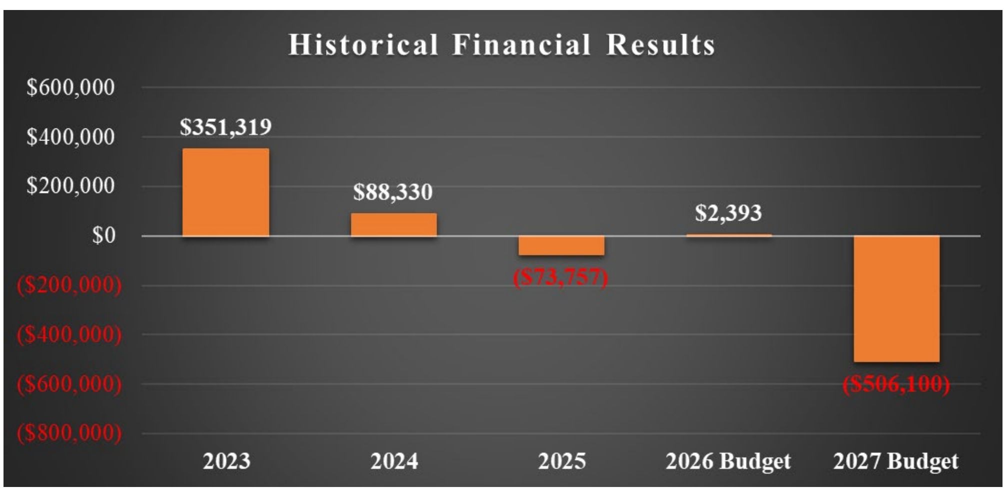
Financial Overview

Historical Financial Results

Operating expenses have exhibited a clear upward trajectory over the historical and projected period. Costs increased from approximately $1.40 million in 2023 to $1.75 million in 2025, with continued growth anticipated to $1.77 million in the 2026 budget and over $2.03 million by 2027. This represents a compound annual growth rate (CAGR) of approximately 9% from 2023 through 2027, indicating sustained and material cost escalation. While some moderation is observed in the near-term 2026 budget, the overall trend suggests that underlying cost drivers, such as labor, materials, and system maintenance, are placing consistent upward pressure on operating expenditures.



This expense growth has had a direct and increasingly negative impact on financial performance. The system generated a positive result of approximately $351,000 in 2023, but net results declined to $88,000 in 2024 and turned slightly negative in 2025 with a loss of roughly $74,000. Although the 2026 budget reflects a near break-even position, the 2027 budget projects a significant deficit of over $500,000[1][2]. The divergence between rising operating costs and relatively constrained revenue growth underscores a structural imbalance that, if unaddressed, will continue to erode financial stability and may necessitate corrective actions such as rate adjustments, cost containment measures, or capital planning refinements.



[1] The proposed 2027 Budget was drafted by the Borough on behalf of the Authority and is currently pending approval by the Authority.
[2] Included in the proposed 2027 Budget is an assumed annual lease payment from the Authority to the Borough in the amount of $295,300.

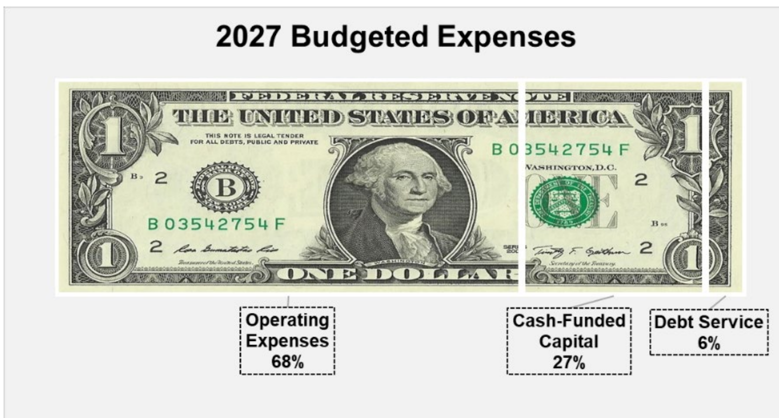
Base Financials – 2027 Draft Water Budget

PFM utilized the Authority's FY 2027 Draft Water Budget as the basis for its rate projection model. The 2027 budget has a projected deficit of $503,707 but includes approximately $800,000 in planned capital expenditures.

The Authority maintains a strong cash position, with a projected Water Fund balance of approximately $3.2 million on December 31, 2026, representing roughly 541 days cash on hand.

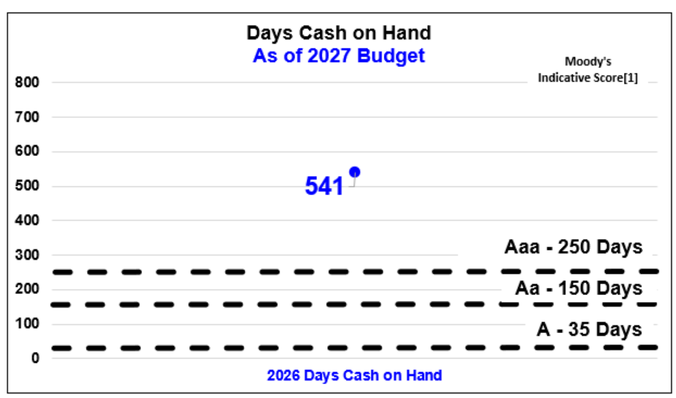
The Authority's revenues are primarily derived from user fees, which account for approximately 91% of total funding. On the expenditure side, approximately 68% of revenues are allocated to day-to-day operations, while 27% supports current-year capital investment and the remaining 6% is used to meet debt service obligations.

2027 DRAFT WATER BUDGET	
Total Operating Revenues	$2,500,491
Tapping Fees	$0
Total Operating Expenses	$1,735,952
Lease Payment to Borough	$295,300
Operating Surplus (Deficit)	**$469,240**
Paygo Capital Projects	$800,000
Total Debt Service	$172,947
Surplus (Deficit)	**($503,707)**
Fund Balance	**$3,264,093**
Days Cash on Hand	**541**



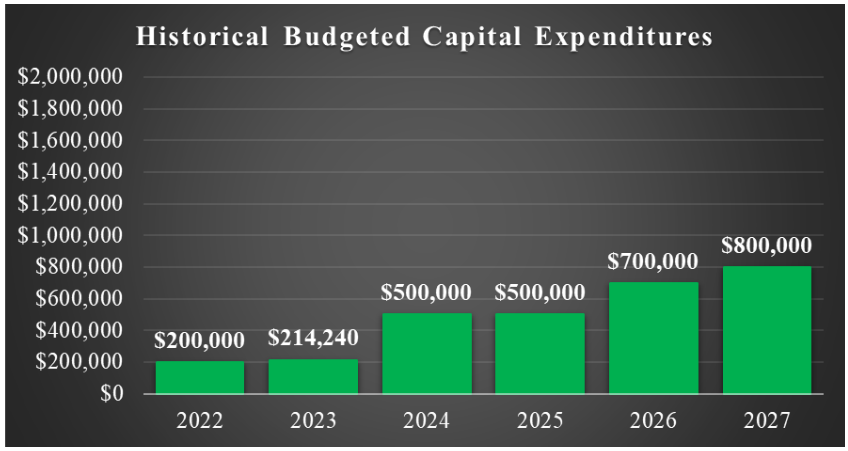
Water Cash Balance

The 2027 Budget projects that the Water Fund will maintain approximately 541 days cash on hand as of December 31, 2026, which is well above Moody's Aaa-category benchmark of 250 days. This elevated level of liquidity likely reflects the Authority's forward-looking approach to building reserves in anticipation of significant projects including but not limited to PFAS (per and polyfluoroalkyl substances) treatment and filtration investments that will require substantial capital spending.

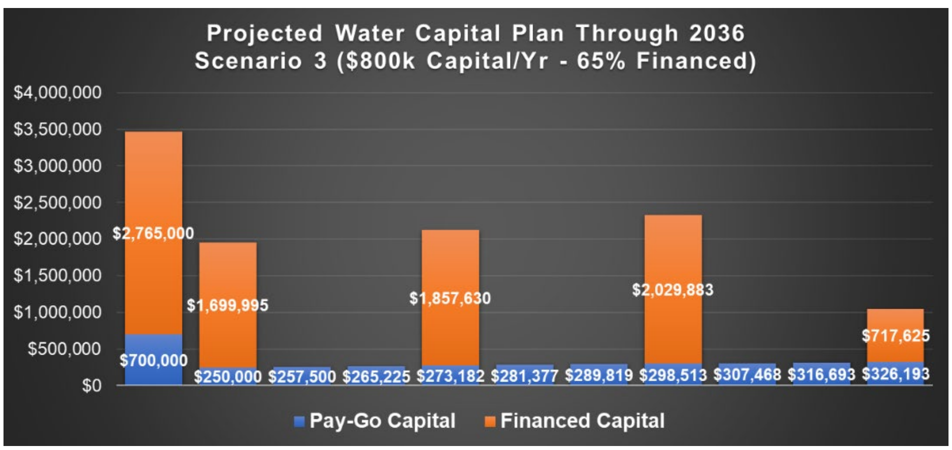


While the Authority's fund balance metrics are very strong and align with Moody's top-tier (Aaa) medians, this represents only one component of the overall Moody's scorecard. A high liquidity position alone does not guarantee a Aaa rating, as the final rating also considers additional factors such as debt burden, rate flexibility and affordability, operating performance, service area trends, and governance and management.

Water System Capital Investment



Historically budgeted capital expenditures show a clear upward trajectory, reflecting a growing commitment to system investment over time. Spending increased modestly from $200,000 in 2022 to $214,240 in 2023, followed by a significant step-up to $500,000 in both 2024 and 2025. This elevated level of investment continues in the outyears, with planned expenditures rising to $700,000 in 2026 and $800,000 in 2027. Overall, the trend indicates a shift toward more proactive and sustained capital reinvestment.



Projected future water capital spending reflects a sustained and elevated level of investment over the planning horizon. The projection is anchored by an assumed baseline capital program of approximately $800,000 per year, growing with inflation over time. For modeling purposes, PFM assumed that 50% of annual capital spending would be financed, with financings structured to bundle approximately three years of capital needs (representing the financed portion) into debt issuances occurring in 2027, 2030, and 2033. Borrowings were assumed at a 4.50% interest rate and amortized over 20 years.

While this financing approach provides a practical framework for smoothing funding needs and limiting annual rate impacts, it remains subject to change based on system needs, financial conditions, and project timing at the point of implementation. In total, the plan reflects approximately $8.9 million in capital investment through 2036, demonstrating a meaningful long-term commitment to maintaining and improving the water system.

While not shown in the graph, a 2025 PENNVEST loan in the amount of $2,830,000 is already incorporated into the projections.

Calculation of Fair Annual Lease Payment

The fair annual lease payment was developed using a rate base methodology grounded in the Authority's audited financial statements and recent financial actions. Assuming a full draw of the 2025 PENNVEST Loan, the system includes $3,551,230 in long-term debt and $10,460,008 in net capital assets. Net capital assets were calculated as the 2024 audited original cost of $12,044,334, plus a $562,500 grant and $2,122,500 in expected capital spending from the 2025 PENNVEST Loan, less accumulated depreciation of $4,269,326. These net capital assets represent the estimated rate base or the value of assets used and useful in providing water service upon which a return is calculated.

Debt/Equity Breakout	
Debt	
Long-Term Debt (as of 12/31/2025)	**$3,551,230**
Equity	
Water System - Original Cost of Assets (2024 Audit)	$12,044,334
Add: Grant from 2025 PENNVEST Loan	$562,500
Add: Expected Capital Spend from 2025 PENNVEST Loan	$2,122,500
Less: Accumulated Depreciation (2024 Audit)	($4,269,326)
Capital Assets Net	**$10,460,008**

Based on this rate base, the system's capital structure consists of approximately 25% debt and 75% equity. The cost of debt was estimated at 1.42%, reflecting the blended interest rate on the Authority's Series 2025 PENNVEST financing. The cost of equity was based on the average return on equity authorized by the Pennsylvania Public Utility Commission for water utilities as of September 30, 2025, which is approximately 10.10%. To reflect the lower risk profile associated with a municipally owned utility, such as local rate-setting authority, stable customer demand, and strong liquidity, a 2.50% reduction was applied, resulting in a tax-adjusted equity cost rate of 8.63%.

Weighted Average Cost of Capital Calculation (WACC)

	Capital	Capital Ratio	Cost Rates[1]	Weighted Cost	Tax Adjusted Equity Cost Rate[2]	Tax Adjusted Weighted Cost
Debt	$3,551,230	25%	1.42%	0.36%	0.00%	0.36%
Equity	$10,460,008	75%	10.10%	7.54%	8.63%	6.44%
Overall	**$14,011,238**	**100.00%**				**6.80%**

[1] For Debt, assumes the blended rate of the 2025 PENNVEST loan. For Equity, assumes the average allowed return on equity for water utilities authorized by the Pennsylvania Public Utility Commission as of September 30, 2025 (Bureau of Technical Utility Services - Report on the Quarterly Earnings of Jurisdiction Utilities).

[2] Assumes a 2.50% reduction to the benchmark return on equity to reflect the lower risk profile of a municipally owned utility, including factors such as local rate-setting control, stable demand, and strong liquidity, relative to an investor-owned utility.

Note that the Authority's 2025 PENNVEST Loan is currently in the construction phase, during which funds are available to draw upon as needed. Upon completion of the construction phase, the drawn balance will transition to the permanent financing phase, at which point a 20-year amortization schedule will be established.

Weighting these costs by the respective capital ratios results in a tax-adjusted weighted average cost of capital of 6.80%. Applying this rate of return to the estimated rate base of $10,460,008 produces an annual return requirement of $711,281. This amount represents the annual earnings necessary to provide a fair return on the capital invested in the system.

To arrive at the fair annual lease payment, annual debt service of $233,092, assuming a full draw of the 2025 PENNVEST Loan, was deducted from the total return requirement. This adjustment avoids double-counting the cost of debt, as debt service is already paid separately, resulting in a fair annual lease payment of approximately $478,189.

While this calculation provides a reasonable estimate of the maximum supportable lease payment based on the system's financial fundamentals, it should not be interpreted as a required or automatic payment level. In practice, the Authority must also consider the impact of any lease payment on customer rates, overall affordability, and long-term financial sustainability. A lease payment set too high could place upward pressure on rates or constrain the Authority's ability to fund ongoing operations and capital improvements.

Accordingly, the final negotiated lease payment should balance fair value to the asset owner with the Authority's obligation to protect customers and maintain prudent financial metrics. This includes ensuring that rates remain stable and affordable, preserving adequate coverage ratios and liquidity, and supporting continued reinvestment in the system. As a result, the ultimately appropriate lease payment may be lower than the calculated amount to reflect these policy and financial considerations.

Effect of Annual Lease Payments on Water Rates & Bills

PFM evaluated the impact of potential lease payments under four scenarios to understand how different payment levels would affect customer rates over time. The capital spending assumptions reflect two levels: approximately $500,000 per year, consistent with historical spending, and $800,000 per year, consistent with the Authority's 2027 budget. These scenarios include: (1) no lease payment, assuming $800,000 per year of capital spending; (2) the Borough's preferred lease payment of $295,300 annually, assuming $800,000 per year of capital spending; (3) the Borough's preferred lease payment of $295,300 annually, assuming $500,000 per year of capital spending; and (4) a maximum fair annual lease payment of $478,189, assuming $800,000 per year of capital spending.

Across all scenarios, water rates are projected to increase over the forecast period, even in the absence of a lease payment. This is primarily driven by ongoing capital investment needs to maintain and improve the system, as well as normal growth in operating expenses such as labor, materials, and regulatory compliance. Under Scenario 1 (no lease payment & $800,000 of capital spending per year), annual rate increases are generally modest, averaging approximately 3% in the early years and tapering closer to 2% in later years. As a result, the average residential quarterly bill for 12,000 gallons is projected to increase from approximately $115 in 2026 to about $150 by 2037.

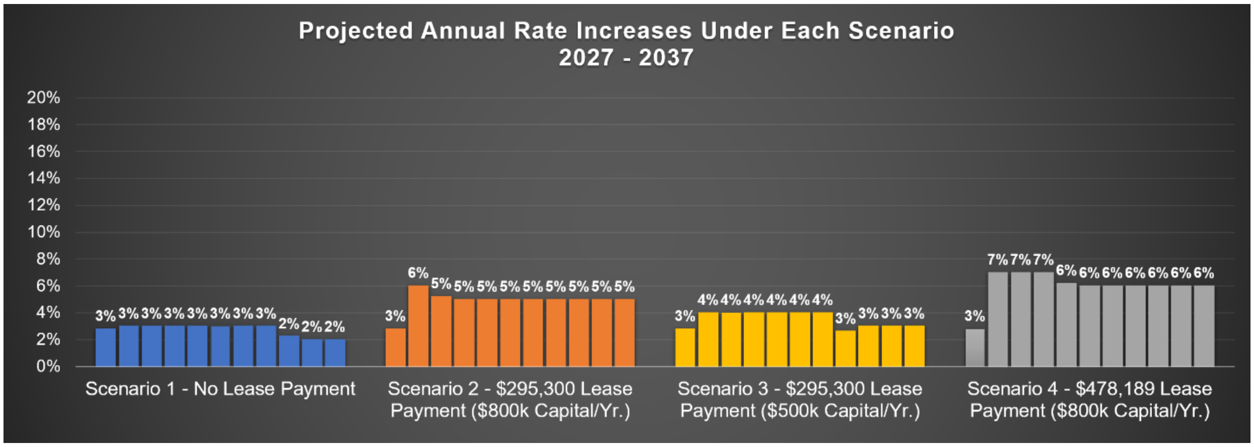
Introducing a lease payment requires incremental rate adjustments to generate sufficient revenue to fund the payment. Under Scenario 2, which assumes an annual lease payment of $295,300 and $800,000 of capital spending per year, projected rate increases rise slightly, generally in the range of 5% annually. This results in a higher, but still gradual, increase in customer bills, with the average quarterly bill reaching approximately $189 by 2037. While this represents a noticeable increase compared to the no-lease scenario, the progression remains relatively smooth and manageable over time.

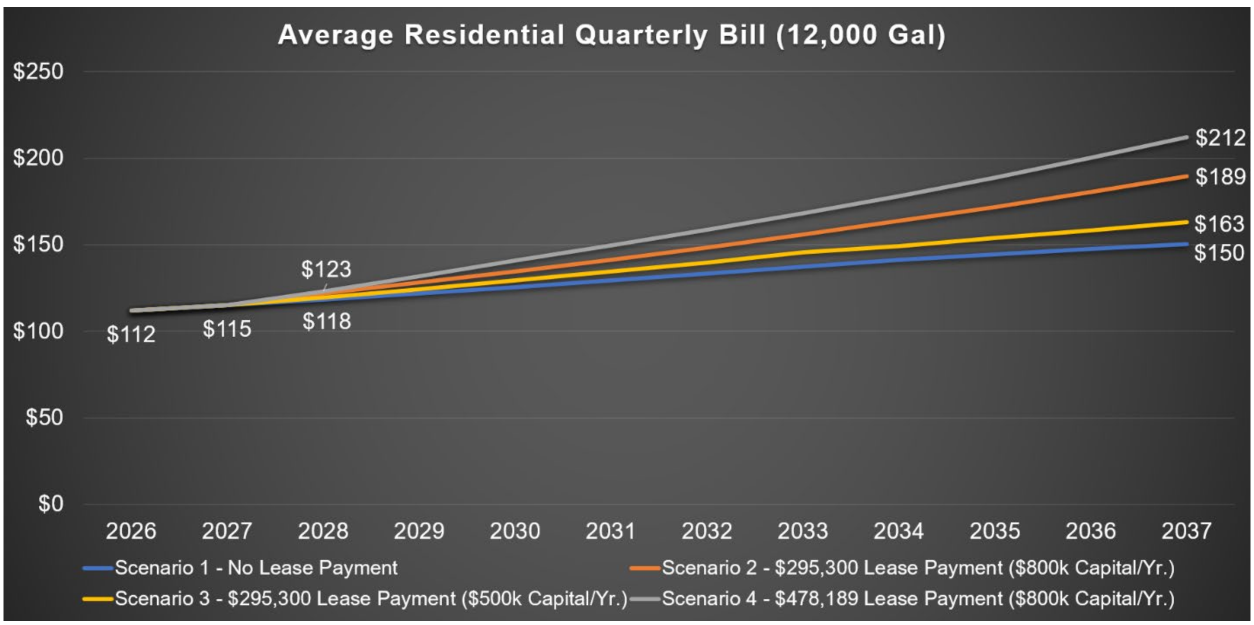
Under Scenario 3, which assumes the same annual lease payment of $295,300 but a lower level of capital spending of $500,000 per year, projected rate increases are more moderate than under Scenario 2. Because the reduced capital investment eases the upward pressure on rates, the average residential quarterly bill rises more gradually, reaching approximately $163 by 2037. This scenario demonstrates that the Borough's preferred lease payment can be funded with a smaller impact on customers when paired with a lower level of capital spending, though it reflects a reduced pace of system reinvestment relative to the Authority's 2027 budget.

Scenario 4 reflects the maximum calculated fair annual lease payment of $478,189. Funding a payment at this level would require more significant rate increases, generally in the range of approximately 6-7% annually. Under this scenario, the average residential quarterly bill increases more rapidly, reaching approximately $212 by 2037. While this level of payment represents the upper bound of what could be supported based on the financial analysis, it also results in the greatest impact on customers.

Importantly, although Scenario 4 establishes the theoretical maximum lease payment, the Borough reports that it does not intend to pursue a payment at this level. Instead, the Borough is prioritizing customer affordability and rate stability, recognizing that higher lease payments directly translate into increased costs for ratepayers. As such, a more moderate lease payment, closer to Scenarios 2 and 3, may provide a better balance between generating value for the Borough and limiting the financial burden on customers.

While lease payments can provide meaningful financial benefits to the Borough, they must be balanced against the resulting impact on water rates and customer bills. The analysis demonstrates that a more moderate lease payment can be supported with more manageable rate increases, whereas higher lease payments would place significantly greater pressure on ratepayers.



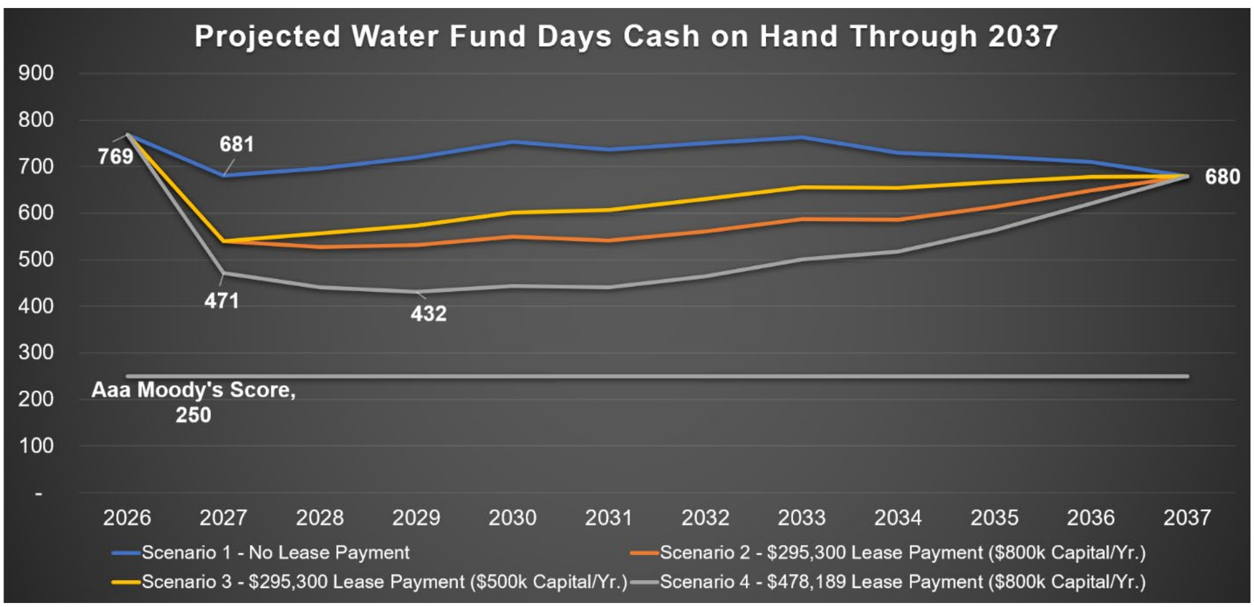


Effect of Annual Lease Payments on Authority Financials

PFM structured the financial projections such that, across all scenarios, the Authority's liquidity position remains consistent with its current financial strength. Specifically, the analysis was calibrated so that projected **days cash on hand returns to approximately 680 days by the end of the projection period**, which is in line with the Authority's level in the 2027 draft budget. This approach ensures that, even with the introduction of a lease payment, the Authority preserves a strong liquidity profile and avoids long-term erosion of financial flexibility.

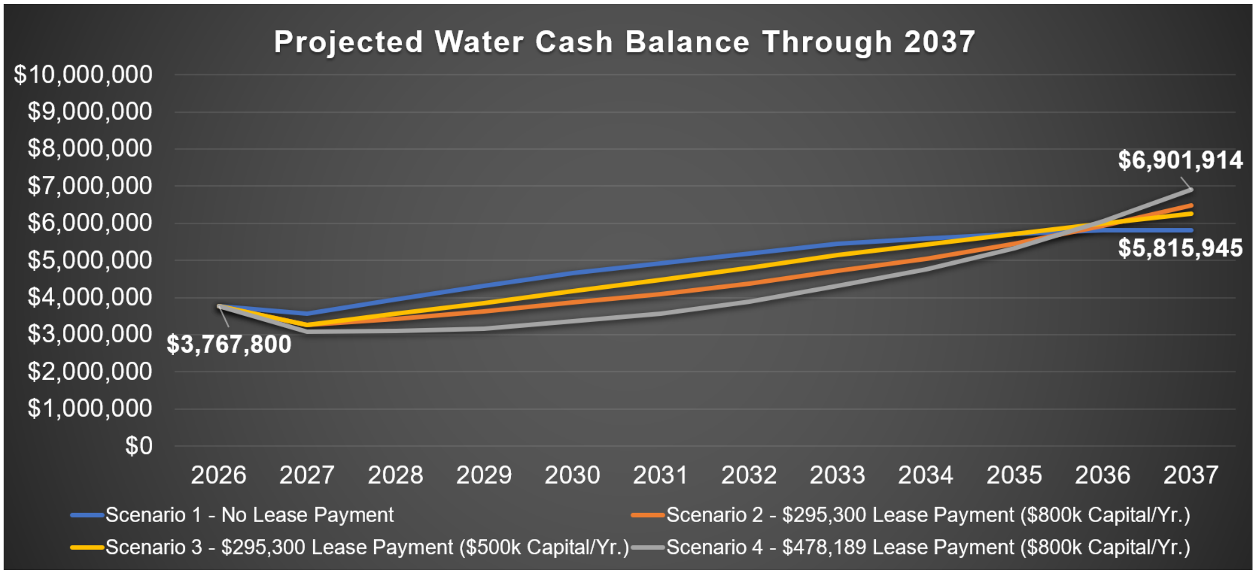
As shown in the projections, **cash balances increase over time in all scenarios**, including those incorporating both moderate and maximum lease payments. While higher lease payments initially reduce cash accumulation in the early years, the system recovers through planned rate adjustments and ultimately achieves comparable or stronger ending balances.

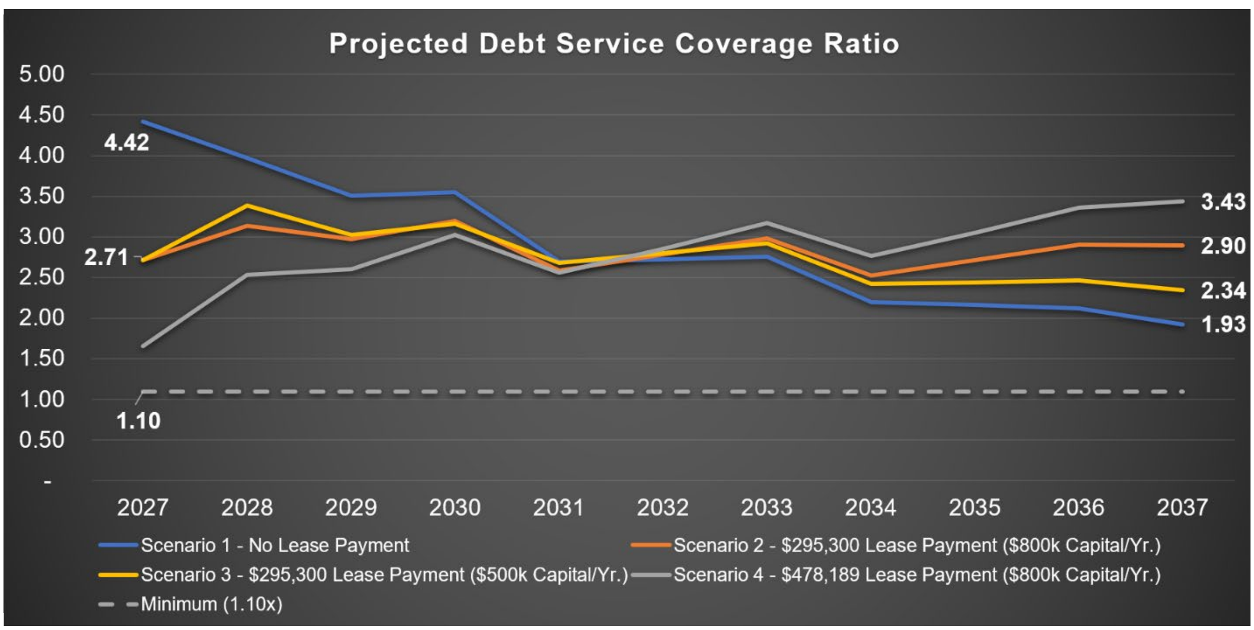
Similarly, **days cash on hand remains well above industry benchmarks throughout the projection period**, including Moody's Aaa reference level of approximately 250 days. Although the higher lease payment scenarios results in a temporary dip in liquidity in the early years, the metric steadily improves and converges with the other scenarios by the end of the forecast.



From a coverage perspective, **debt service coverage ratios remain strong in all scenarios and never fall below 1.1x**, which is a minimum threshold typically required by bond covenants. In fact, coverage levels are generally well above this minimum, providing a meaningful cushion and demonstrating the Authority's continued ability to meet its debt obligations even with additional financial commitments.

Overall, the analysis demonstrates that if the projected rate adjustments are implemented, the Authority can successfully incorporate a fair annual lease payment while maintaining strong financial metrics. Liquidity, cash reserves, and debt service coverage all remain at levels consistent with a financially resilient and well-managed utility system, supporting both ongoing operations and future capital investment needs.

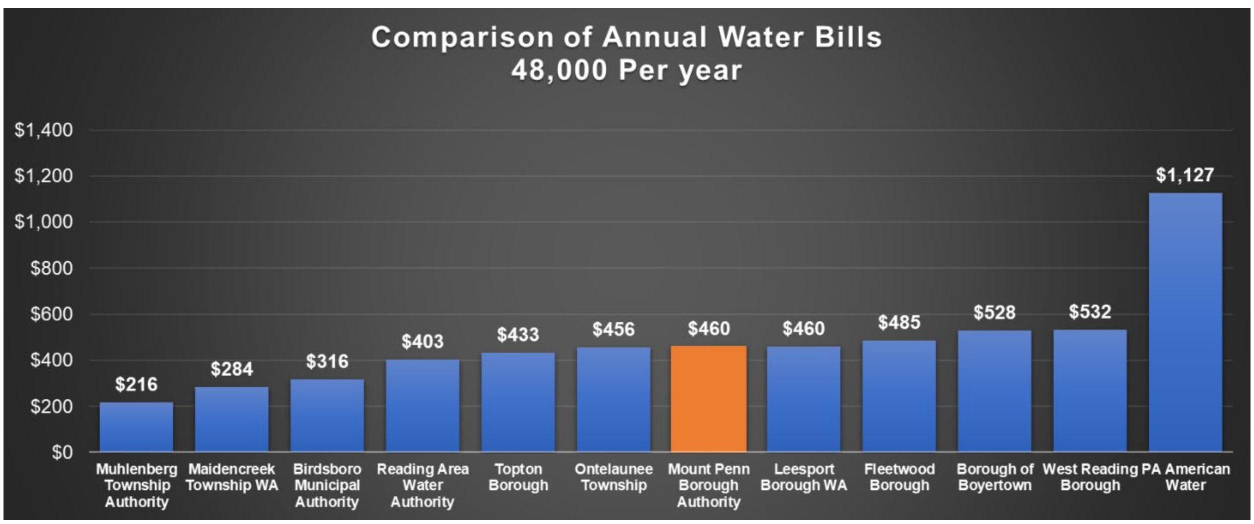




Comparison of Water Rates to Other Providers

Mount Penn Borough's annual water bill of approximately $460 for a typical residential customer (48,000 gallons per year) is slightly below the average of the peer group, which is $475. This positioning indicates that Mount Penn's rates are generally in line with comparable municipal systems in Berks County, while still providing a modest affordability advantage relative to the broader sample. Most peer systems fall within a relatively tight range of roughly $400 to $530 annually, further reinforcing that Mount Penn is competitively priced within the regional market.

When compared to individual systems, Mount Penn's rates are higher than several lower-cost providers, such as Muhlenberg Township Authority and Maidencreek Township Authority, but remain below others including Fleetwood, Boyertown, and West Reading. Notably, Mount Penn's rates are significantly lower than those of Pennsylvania American Water, which recently purchased Exeter Township's system and serves as a useful private utility benchmark. Pennsylvania American Water's annual bill exceeds $1,100, more than double Mount Penn's current level. Overall, the comparison demonstrates that Mount Penn's current rate structure is generally in line with regional peers and remains relatively affordable, particularly when compared to investor-owned utility pricing.



Note – Pennsylvania American Water rates shown reflect Zone 1 rates only; other rate zones may differ.

Appendix: Detailed Financial/Rate Projections

Scenario 1 – No Lease Payment

	Budget 2027	Proj. 2028	Proj. 2029	Proj. 2030	Proj. 2031	Proj. 2032	Proj. 2033	Proj. 2034	Proj. 2035	Proj. 2036	Proj. 2037
Beginning Total EDU Count	4,607	4,607	4,607	4,607	4,607	4,607	4,607	4,607	4,607	4,607	4,607
New EDUs Assumed	0	0	0	0	0	0	0	0	0	0	0
Ending Total EDU Count	4,607	4,607	4,607	4,607	4,607	4,607	4,607	4,607	4,607	4,607	4,607
Qtr. 5/8" Customer - Qtr. Fixed Charge	**$86.64**	**$89.24**	**$91.92**	**$94.67**	**$97.51**	**$100.44**	**$103.45**	**$106.56**	**$108.95**	**$111.12**	**$113.35**
Volumetric Charge Per 1,000 Gal	**$2.36**	**$2.43**	**$2.50**	**$2.58**	**$2.66**	**$2.74**	**$2.82**	**$2.90**	**$2.97**	**$3.03**	**$3.09**
Quarterly 5/8" Bill (12,000 Gal)	**$115**	**$118**	**$122**	**$126**	**$129**	**$133**	**$137**	**$141**	**$145**	**$147**	**$150**
Est. Annual Rate Increase(Decrease)		3%	3%	3%	3%	3%	3%	3%	2%	2%	2%
Total Capital Funded (2028-2037)	New Debt for Capital $4,481,353		Cash $4,481,353		**Total Capital Funded $8,962,705**						
	50%		50%								
Revenues											
User Charges	2,355,941	2,714,642	2,796,082	2,879,964	2,966,363	3,055,354	3,147,015	3,241,425	3,314,111	3,380,393	3,448,001
Tapping Fee Revenues	0	0	0	0	0	0	0	0	0	0	0
Other Revenues	144,550	148,164	151,868	155,665	159,556	163,545	167,634	171,825	176,120	180,523	185,036
Total Revenues	2,500,491	2,862,806	2,947,950	3,035,629	3,125,919	3,218,899	3,314,648	3,413,250	3,490,231	3,560,916	3,633,037
Expenses											
Operating Expenses	1,735,952	1,805,390	1,877,605	1,952,709	2,030,818	2,112,050	2,196,532	2,284,394	2,375,770	2,470,800	2,569,632
Lease Payment to Borough	0	0	0	0	0	0	0	0	0	0	0
Debt Service - Existing	172,947	55,947	55,947	55,947	55,947	55,947	55,947	55,947	55,947	55,947	55,947
Debt Service - New Capital	0	210,398	249,398	249,398	349,977	349,977	349,977	458,291	458,291	458,291	496,215
Pay-Go Capital	800,000	400,000	410,000	420,250	430,756	441,525	452,563	463,877	475,474	487,361	499,545
Total Expenses	2,708,898	2,471,734	2,592,950	2,678,304	2,867,498	2,959,500	3,055,020	3,262,508	3,365,481	3,472,399	3,621,339
Surplus (Deficit)	**(208,407)**	**391,072**	**355,000**	**357,325**	**258,421**	**259,399**	**259,628**	**150,741**	**124,750**	**88,517**	**11,698**
Cash Balance	**3,559,393**	**3,950,465**	**4,305,465**	**4,662,789**	**4,921,211**	**5,180,610**	**5,440,238**	**5,590,980**	**5,715,729**	**5,804,247**	**5,815,945**
Days Cash on Hand	**681**	**696**	**720**	**754**	**737**	**751**	**763**	**729**	**722**	**710**	**680**
Indicative Moody's Score[1]	**Aaa**	**Aaa**	**Aaa**	**Aaa**	**Aaa**	**Aaa**	**Aaa**	**Aaa**	**Aaa**	**Aaa**	**Aaa**
Debt Service Coverage	**4.42**	**3.97**	**3.51**	**3.55**	**2.70**	**2.73**	**2.75**	**2.20**	**2.17**	**2.12**	**1.93**
Indicative Moody's Score[1]	**Aaa**	**Aaa**	**Aaa**	**Aaa**	**Aaa**	**Aaa**	**Aaa**	**Aaa**	**Aaa**	**Aaa**	**Aa**

Scenario 2 – $295,300 Lease Payment ($800k Capital/Yr.)

	Budget 2027	Proj. 2028	Proj. 2029	Proj. 2030	Proj. 2031	Proj. 2032	Proj. 2033	Proj. 2034	Proj. 2035	Proj. 2036	Proj. 2037
Beginning Total EDU Count	4,607	4,607	4,607	4,607	4,607	4,607	4,607	4,607	4,607	4,607	4,607
New EDUs Assumed	0	0	0	0	0	0	0	0	0	0	0
Ending Total EDU Count	4,607	4,607	4,607	4,607	4,607	4,607	4,607	4,607	4,607	4,607	4,607
Qtr. 5/8" Customer - Qtr. Fixed Charge	**$86.64**	**$91.84**	**$96.63**	**$101.47**	**$106.54**	**$111.87**	**$117.46**	**$123.33**	**$129.50**	**$135.97**	**$142.77**
Volumetric Charge Per 1,000 Gal	**$2.36**	**$2.50**	**$2.63**	**$2.76**	**$2.90**	**$3.05**	**$3.20**	**$3.36**	**$3.53**	**$3.70**	**$3.89**
Quarterly 5/8" Bill (12,000 Gal)	**$115**	**$122**	**$128**	**$135**	**$141**	**$148**	**$156**	**$164**	**$172**	**$180**	**$189**
Est. Annual Rate Increase(Decrease)		6%	5%	5%	5%	5%	5%	5%	5%	5%	5%
Total Capital Funded (2028-2037)	New Debt for Capital $4,481,353		Cash $4,481,353		**Total Capital Funded** **$8,962,705**						
	50%		50%								
Revenues											
User Charges	2,355,941	2,793,710	2,939,600	3,086,580	3,240,909	3,402,955	3,573,102	3,751,757	3,939,345	4,136,312	4,343,128
Tapping Fee Revenues	0	0	0	0	0	0	0	0	0	0	0
Other Revenues	144,550	148,164	151,868	155,665	159,556	163,545	167,634	171,825	176,120	180,523	185,036
Total Revenues	2,500,491	2,941,873	3,091,468	3,242,245	3,400,465	3,566,500	3,740,736	3,923,582	4,115,465	4,316,836	4,528,164
Expenses											
Operating Expenses	1,735,952	1,805,390	1,877,605	1,952,709	2,030,818	2,112,050	2,196,532	2,284,394	2,375,770	2,470,800	2,569,632
Lease Payment to Borough	295,300	301,206	307,230	313,375	319,642	326,035	332,556	339,207	345,991	352,911	359,969
Debt Service - Existing	172,947	55,947	55,947	55,947	55,947	55,947	55,947	55,947	55,947	55,947	55,947
Debt Service - New Capital	0	210,398	249,398	249,398	349,977	349,977	349,977	458,291	458,291	458,291	496,215
Pay-Go Capital	800,000	400,000	410,000	420,250	430,756	441,525	452,563	463,877	475,474	487,361	499,545
Total Expenses	3,004,198	2,772,940	2,900,180	2,991,679	3,187,140	3,285,535	3,387,576	3,601,715	3,711,472	3,825,310	3,981,308
Surplus (Deficit)	**(503,707)**	**168,933**	**191,288**	**250,566**	**213,325**	**280,965**	**353,160**	**321,867**	**403,993**	**491,526**	**546,856**
Cash Balance	**3,264,093**	**3,433,026**	**3,624,314**	**3,874,880**	**4,088,205**	**4,369,170**	**4,722,330**	**5,044,197**	**5,448,190**	**5,939,716**	**6,486,572**
Days Cash on Hand	**541**	**528**	**531**	**550**	**541**	**561**	**587**	**587**	**615**	**649**	**680**
Indicative Moody's Score[1]	**Aaa**	**Aaa**	**Aaa**	**Aaa**	**Aaa**	**Aaa**	**Aaa**	**Aaa**	**Aaa**	**Aaa**	**Aaa**
Debt Service Coverage	**2.71**	**3.14**	**2.97**	**3.20**	**2.59**	**2.78**	**2.98**	**2.53**	**2.71**	**2.90**	**2.90**
Indicative Moody's Score[1]	**Aaa**	**Aaa**	**Aaa**	**Aaa**	**Aaa**	**Aaa**	**Aaa**	**Aaa**	**Aaa**	**Aaa**	**Aaa**

Scenario 3 - $295,300 Lease Payment ($500k Capital/Yr.)

	Budget 2027	Proj. 2028	Proj. 2029	Proj. 2030	Proj. 2031	Proj. 2032	Proj. 2033	Proj. 2034	Proj. 2035	Proj. 2036	Proj. 2037
Beginning Total EDU Count	4,607	4,607	4,607	4,607	4,607	4,607	4,607	4,607	4,607	4,607	4,607
New EDUs Assumed	0	0	0	0	0	0	0	0	0	0	0
Ending Total EDU Count	4,607	4,607	4,607	4,607	4,607	4,607	4,607	4,607	4,607	4,607	4,607
Qtr. 5/8" Customer - Qtr. Fixed Charge	**$86.64**	**$90.11**	**$93.71**	**$97.46**	**$101.36**	**$105.41**	**$109.63**	**$112.50**	**$115.87**	**$119.35**	**$122.93**
Volumetric Charge Per 1,000 Gal	**$2.36**	**$2.45**	**$2.55**	**$2.65**	**$2.76**	**$2.87**	**$2.99**	**$3.06**	**$3.16**	**$3.25**	**$3.35**
Quarterly 5/8" Bill (12,000 Gal)	**$115**	**$120**	**$124**	**$129**	**$134**	**$140**	**$145**	**$149**	**$154**	**$158**	**$163**
Est. Annual Rate Increase(Decrease)		4%	4%	4%	4%	4%	4%	3%	3%	3%	3%
Total Capital Funded (2028-2037)	New Debt for Capital $2,800,845		Cash $2,800,845		**Total Capital Funded $5,601,691**						
	50%		50%								
Revenues											
User Charges	2,355,941	2,740,998	2,850,638	2,964,664	3,083,250	3,206,580	3,334,843	3,422,217	3,524,883	3,630,630	3,739,549
Tapping Fee Revenues	0	0	0	0	0	0	0	0	0	0	0
Other Revenues	144,550	148,164	151,868	155,665	159,556	163,545	167,634	171,825	176,120	180,523	185,036
Total Revenues	2,500,491	2,889,162	3,002,506	3,120,328	3,242,806	3,370,125	3,502,477	3,594,041	3,701,003	3,811,153	3,924,585
Expenses											
Operating Expenses	1,735,952	1,805,390	1,877,605	1,952,709	2,030,818	2,112,050	2,196,532	2,284,394	2,375,770	2,470,800	2,569,632
Lease Payment to Borough	295,300	301,206	307,230	313,375	319,642	326,035	332,556	339,207	345,991	352,911	359,969
Debt Service - Existing	172,947	55,947	55,947	55,947	55,947	55,947	55,947	55,947	55,947	55,947	55,947
Debt Service - New Capital	0	175,374	214,374	214,374	277,236	277,236	277,236	344,932	344,932	344,932	368,634
Pay-Go Capital	800,000	250,000	256,250	262,656	269,223	275,953	282,852	289,923	297,171	304,601	312,216
Total Expenses	3,004,198	2,587,916	2,711,406	2,799,061	2,952,865	3,047,221	3,145,123	3,314,402	3,419,810	3,529,190	3,666,398
Surplus (Deficit)	**(503,707)**	**301,246**	**291,100**	**321,267**	**289,941**	**322,904**	**357,354**	**279,639**	**281,193**	**281,963**	**258,187**
Cash Balance	**3,264,093**	**3,565,339**	**3,856,439**	**4,177,707**	**4,467,648**	**4,790,552**	**5,147,906**	**5,427,545**	**5,708,738**	**5,990,701**	**6,248,888**
Days Cash on Hand	**541**	**557**	**573**	**601**	**608**	**631**	**656**	**655**	**667**	**678**	**680**
Indicative Moody's Score[1]	**Aaa**	**Aaa**	**Aaa**	**Aaa**	**Aaa**	**Aaa**	**Aaa**	**Aaa**	**Aaa**	**Aaa**	**Aaa**
Debt Service Coverage	**2.71**	**3.38**	**3.02**	**3.16**	**2.68**	**2.80**	**2.92**	**2.42**	**2.44**	**2.46**	**2.34**
Indicative Moody's Score[1]	**Aaa**	**Aaa**	**Aaa**	**Aaa**	**Aaa**	**Aaa**	**Aaa**	**Aaa**	**Aaa**	**Aaa**	**Aaa**

Scenario 4 - $478,189 Lease Payment ($800k Capital/Yr.)

	Budget 2027	Proj. 2028	Proj. 2029	Proj. 2030	Proj. 2031	Proj. 2032	Proj. 2033	Proj. 2034	Proj. 2035	Proj. 2036	Proj. 2037
Beginning Total EDU Count	4,607	4,607	4,607	4,607	4,607	4,607	4,607	4,607	4,607	4,607	4,607
New EDUs Assumed	0	0	0	0	0	0	0	0	0	0	0
Ending Total EDU Count	4,607	4,607	4,607	4,607	4,607	4,607	4,607	4,607	4,607	4,607	4,607
Qtr. 5/8" Customer - Qtr. Fixed Charge	**$86.64**	**$92.70**	**$99.19**	**$106.14**	**$112.72**	**$119.48**	**$126.65**	**$134.25**	**$142.31**	**$150.85**	**$159.90**
Volumetric Charge Per 1,000 Gal	**$2.36**	**$2.53**	**$2.70**	**$2.89**	**$3.07**	**$3.25**	**$3.45**	**$3.66**	**$3.88**	**$4.11**	**$4.36**
Quarterly 5/8" Bill (12,000 Gal)	**$115**	**$123**	**$132**	**$141**	**$150**	**$159**	**$168**	**$178**	**$189**	**$200**	**$212**
Est. Annual Rate Increase(Decrease)		7%	7%	7%	6%	6%	6%	6%	6%	6%	6%
Total Capital Funded (2028-2037)	New Debt for Capital $4,481,353		Cash $4,481,353		**Total Capital Funded** **$8,962,705**						
	50%		50%								
Revenues											
User Charges	2,355,941	2,820,065	3,017,470	3,228,693	3,428,948	3,634,685	3,852,766	4,083,932	4,328,968	4,588,706	4,864,029
Tapping Fee Revenues	0	0	0	0	0	0	0	0	0	0	0
Other Revenues	144,550	148,164	151,868	155,665	159,556	163,545	167,634	171,825	176,120	180,523	185,036
Total Revenues	2,500,491	2,968,229	3,169,338	3,384,358	3,588,505	3,798,230	4,020,400	4,255,757	4,505,088	4,769,230	5,049,065
Expenses											
Operating Expenses	1,735,952	1,805,390	1,877,605	1,952,709	2,030,818	2,112,050	2,196,532	2,284,394	2,375,770	2,470,800	2,569,632
Lease Payment to Borough	478,189	487,753	497,508	507,458	517,607	527,959	538,518	549,289	560,275	571,480	582,910
Debt Service - Existing	172,947	55,947	55,947	55,947	55,947	55,947	55,947	55,947	55,947	55,947	55,947
Debt Service - New Capital	0	210,398	249,398	249,398	349,977	349,977	349,977	458,291	458,291	458,291	496,215
Pay-Go Capital	800,000	400,000	410,000	420,250	430,756	441,525	452,563	463,877	475,474	487,361	499,545
Total Expenses	3,187,087	2,959,487	3,090,458	3,185,762	3,385,105	3,487,459	3,593,538	3,811,797	3,925,756	4,043,879	4,204,249
Surplus (Deficit)	**(686,596)**	**8,742**	**78,880**	**198,595**	**203,399**	**310,771**	**426,862**	**443,960**	**579,333**	**725,351**	**844,816**
Cash Balance	**3,081,204**	**3,089,946**	**3,168,826**	**3,367,422**	**3,570,821**	**3,881,592**	**4,308,454**	**4,752,414**	**5,331,747**	**6,057,098**	**6,901,914**
Days Cash on Hand	**471**	**441**	**432**	**444**	**441**	**465**	**501**	**518**	**564**	**622**	**680**
Indicative Moody's Score[1]	**Aaa**	**Aaa**	**Aaa**	**Aaa**	**Aaa**	**Aaa**	**Aaa**	**Aaa**	**Aaa**	**Aaa**	**Aaa**
Debt Service Coverage	**1.66**	**2.53**	**2.60**	**3.03**	**2.56**	**2.85**	**3.17**	**2.77**	**3.05**	**3.36**	**3.43**
Indicative Moody's Score[1]	**A**	**Aaa**	**Aaa**	**Aaa**	**Aaa**	**Aaa**	**Aaa**	**Aaa**	**Aaa**	**Aaa**	**Aaa**

Disclaimer

This report has been prepared by PFM Financial Advisors LLC ("PFM") at the request of the Borough solely for the purpose of providing a financial analysis of the Borough's ownership interest in the water system assets and evaluating the potential range of an annual lease or similar arrangement. The analysis, findings, and projections contained herein are based on information provided by the Borough, the Authority, and other third parties, as well as on certain assumptions and estimates developed by PFM. While PFM believes the information and assumptions used are reasonable for purposes of this analysis, PFM does not guarantee their accuracy or completeness and has not independently verified all such information.

The financial projections included in this report are forward-looking and based on assumptions regarding future events, operating performance, capital needs, and economic conditions. Actual results may differ materially from those projected due to changes in these assumptions or other factors beyond PFM's control. This report is not intended to predict future performance but rather to illustrate potential financial outcomes under a defined set of assumptions.

PFM's role in this engagement is limited to financial advisory services. PFM is not providing, and this report does not constitute, legal, tax, accounting, engineering, or regulatory advice. In particular, PFM does not opine on the legality, enforceability, or appropriateness of any proposed lease arrangement, conveyance, or transfer of assets, nor does it provide any opinion regarding compliance with applicable laws, regulations, or governmental approvals that may be required.

This report is intended solely for the use of the Borough and its authorized representatives for internal planning and decision-making purposes. It should not be relied upon by any other party without the prior written consent of PFM.

PFM Financial Advisors LLC
phone 717.231.6265 | web pfm.com
100 Market Street | Harrisburg, PA 17101

PFM Disclosures:

PFM is the marketing name for a group of affiliated companies providing a range of services. All services are provided through separate agreements with each company. This material is for general information purposes only and is not intended to provide or give a specific recommendation. Municipal advisory services are provided by PFM Financial Advisors LLC which is a registered municipal advisor with the Securities and Exchange Commission (SEC) and the Municipal Securities Rulemaking Board (MSRB) under the Dodd-Frank Act of 2010. Swap advisory services are provided by PFM Swap Advisors LLC which is registered as a municipal advisor with both the MSRB and SEC, a commodity trading advisor with the Commodity Futures Trading Commission, and a member of the National Futures Association. Consulting services are provided through PFM Group Consulting LLC. PFM financial modeling platform for strategic forecasting is provided through PFM Solutions LLC. For more information regarding PFM's services or entities, please visit www.pfm.com. The information and any analyses contained in this presentation are taken from, or based upon, information obtained from the recipient or from publicly available sources, the completeness and accuracy of which has not been independently verified and cannot be assured by PFM. The information and any analyses in these materials reflect prevailing conditions and PFM's views as of this date, all of which are subject to change. To the extent projections and financial analyses are set forth herein, they may be based on estimated financial performance prepared by or in consultation with the recipient and are intended only to suggest reasonable ranges of results. Opinions, results, and data presented are not indicative of future performance. Actual rates may vary based upon market conditions at the time of pricing. The printed presentation is incomplete without reference to the oral presentation or other written materials that supplement it. To the extent permitted by applicable law, no employee or officer of PFM's municipal advisory business, nor any of PFM's affiliated companies, accept any liability whatsoever for any direct or consequential loss arising from negligence or from any use of this presentation or its contents. Any municipal financial product or financial strategy referenced may involve significant risks, including, but not limited to: market, interest rate, or credit risk, and may not be suitable for all clients. The ultimate decision to proceed with any transaction rests solely with the client.