



Appendix A-7.2 (ScottMadden)

Smart. Focused. Done Right.®

ScottMadden, Inc.  
1900 West Park Drive  
Suite 250  
Westborough, MA 01581  
508-202-7918  
scottmadden.com

July 30, 2020

Privileged and Confidential

Mayor Michael R. Helfrich  
City of York, Pennsylvania  
101 South George Street  
York, PA 17401

Dear Mayor Helfrich:

In response to a request from Mr. Adeolu Bakare, Partner, McNees, Wallace, & Nurick, LLC, ScottMadden, Inc. ("ScottMadden") is pleased to provide the City of York ("York" or the "City") with our proposed fees for a PA Act 12 valuation study and associated valuation report for York's wastewater operations to be completed withing the 90 day Act 12 requirements. The study will establish a fair value for the operations of York in accordance with Public Utility Code (66 PA.C.S.) - Valuation of Acquired Water and Wastewater Systems for Ratemaking Purposes.

**PROPOSED COMMERCIAL TERMS**

Based on the attached Scope of Work, which outlines our approach to developing the valuation study, associated report, and related appendices ScottMadden proposes a fee of \$30,000. Any travel related to the study, will be billed at our direct cost with no markup and is not included in the \$30,000 fee. The fee will be payable in two installments: the first installment (\$15,000) will be payable in September 2020 and the second installment (\$15,000) will be payable in January 2021.

Any additional services required after delivery of the report (e.g., testimony, discovery requests) will be billed at the following hourly rates:

Position	Hourly Rate
Executive Advisor	\$325
Director	\$295
Manager	\$270
Senior Associate	\$230
Associate	\$200
Senior Analyst	\$150
Analyst	\$125
Administrative Assistant	\$65

To minimize our composite billing rate, ScottMadden will leverage lower cost project team resources as appropriate. Any services required after delivery of the report will be invoiced monthly, with payment to be remitted by check or wire in United States dollars.

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Mayor Michael R. Helfrich  
July 30, 2020  
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Should you have any questions, or wish to discuss the proposed terms, please feel free to contact me directly at your convenience via phone (609) 680-8695 or email [ddascendis@scottmadden.com](mailto:ddascendis@scottmadden.com). We look forward to working with you and your staff.

Please indicate your acceptance of these terms by signing in the space provided below.

Sincerely,



Dylan W. D'Ascendis, CRRA, CVA  
Director



James M. Stephens  
Partner

Accepted and Agreed by  
The City of York

By:   
Mayor

Date: 8/3/2020

Accepted and Agreed by  
The City of York

By:   
City Controller

Date: 8/5/2020

# Valuation of the City of York Wastewater Operations

Scope of Work

July 30, 2020



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## VALUATION STUDY AND ASSOCIATED VALUATION REPORTS

### Description of Analysis, Work Plan, and Schedule

ScottMadden is pleased to provide the City of York with this proposal for a PA Act 12 valuation study and associated valuation report for York's wastewater operations. The overall requirements of this assignment fall into four general categories: (1) planning and administration; (2) data collection and verification; (3) analysis and financial modeling; and (4) report generation. These general categories are discussed in the context of our proposed approach, which consists of the following tasks.

#### Task 1: Kick Off Meeting

The purpose of this task is to begin the project planning and administration as well as better understand the goals of the City of York regarding this valuation study. We plan to accomplish this task by holding a kickoff meeting. Specific activities related to this task include:

- Gathering of relevant data and information relating to the valuation study, including, but not limited to:
  - Asset listing by NARUC account (if available);
    - Date in Service
    - Original Cost
    - Accumulated Depreciation
  - Historical Financial Statements;
    - Income statements from 2015-2019
    - Cash flow statements (if available) from 2015-2019
    - History of last five rate increases (% increase, year enacted)
  - Forecasted Financial Statements;
    - Assumptions regarding revenues long-term (20 years)
    - Assumptions regarding operating expenses (20 years)
    - Assumptions regarding capital expenditures (20 years)
    - Assumptions regarding financing of capital (20 years)
      - Type of debt financing (e.g., sinking funds)

**Task 2: Data Analysis and Interviews**

After compiling the data outlined in Task 1, it will be necessary to meet with people familiar with the operations of York (in person or via telephone) to discuss trends in the data. It will also be necessary to tour the facilities to determine the condition of the assets. After these meetings, we will solidify our assumptions with respect to the valuation analysis.

**Task 3: Development of Valuation Study**

After gathering the data and discussing with the City, the valuation study will be developed. The study will consider the national, regional, and local economy and its impact on the City as well as industry trends and competition in the space. The study will consider three valuation approaches; the Asset (or Cost) approach, the Market approach, and the Income approach, to determine our conclusion.

**Asset Approach**

The Asset (or Cost) Approach is used to estimate a value of property based on the current cost of the subject assets, minus physical deterioration, functional obsolescence and economic obsolescence. In the asset approach, an analysis must be made of the property that is actually and physically being valued. The method ScottMadden will use to determine the current cost of the assets will be a trended original cost study. This will be completed by trending each individual asset forward to current cost by use of the Handy-Whitman Index of Public Utility Construction Costs. From this current value the accumulated depreciation of those assets will be subtracted to provide an indication of the value of the assets using the Asset Approach.

**Market Approach**

The Market Approach develops a value through an analysis of recent sales of comparable property. These transactions must be actual transactions (or current offerings) involving similar property. The transactions can be broken down into specific multiples (e.g. purchase price per customer / connection, purchase price / EBIT, etc.) and applied to the City's asset, or the actual purchase price can be adjusted to reflect differences between the completed transactions and the City's asset. Unfortunately, an active market may or may not exist, which means there can be too few transactions or non-representative transactions for the approach to be meaningful. ScottMadden will conduct searches for similar market transactions for regulated water / wastewater companies and will apply judgment on which adjustments to use, or which multiples are applicable to regulated water / wastewater companies. ScottMadden will also determine if the transactions identified are meaningful and if the Market Approach is valid in this case.

**Income Approach**

The Income Approach measures the present value of monetary benefits anticipated to be derived in the future from asset ownership. The present value of monetary benefits is measured by taking into account the duration and pattern of the income stream and the risk inherent in realizing that income stream. ScottMadden will use historical and projected income statements to determine a realistic pattern of cash flows over a 20-year time frame then determine an appropriate capitalization rate to discount those cash flows back to present value which determines the indicated value.

### Report Generation

The valuation study will be used to generate the valuation report. As mentioned above, each valuation approach will produce an indicated value for the assets. ScottMadden will incorporate all three valuation approaches in the final report.

### PROJECT TEAM

The project will be led by Dylan W. D'Ascendis, CRRA, CVA, Director of ScottMadden, Inc. Mr. D'Ascendis will author the reports and will testify in any subsequent regulatory filing (if needed). Resumes and prior testimonies are available upon request. Mr. D'Ascendis will be supported by Matthew Howard, Manager, and Louis Netherland, Senior Associate. In addition, the Project Team will be supplemented by ScottMadden's pool of highly qualified consultants, as needed, throughout the engagement.



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ScottMadden, Inc.  
2626 Glenwood Avenue  
Suite 480  
Raleigh, NC 27608  
919-781-4191  
scottmadden.com

January 19, 2021

Invoice Number: 018483

Michael R. Helfrich  
City of York, Pennsylvania  
101 South George Street  
York, PA 17401

In Reference To: Professional services provided in December 2020 for project 161-001  
City of York Valuation Study

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Summary of Charges	
Valuation Report	\$ 15,000.00
<b>Total Due</b>	<b>\$ 15,000.00</b>

If you have any questions regarding this invoice, please let me know. Please remit payment in U.S. funds to: Accounts Receivable, ScottMadden, Inc., 2626 Glenwood Avenue, Suite 480, Raleigh, NC 27608. Thank you for retaining ScottMadden.

Sincerely,

Dylan D'Ascendis  
Director

ScottMadden, Inc.  
Tax ID: 56-1445505





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ScottMadden, Inc.  
2626 Glenwood Avenue  
Suite 480  
Raleigh, NC 27608  
919-781-4191  
scottmadden.com

February 24, 2021

Invoice Number: 018643

Michael R. Helfrich  
City of York, Pennsylvania  
101 South George Street  
York, PA 17401

In Reference To: Professional services provided in January 2021 for project 161-001  
City of York Valuation Study

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	<i>Amount</i>
<b>Professional Fees</b>	\$ 2,360.00
<b>Expenses</b>	
Travel and Living Expenses	\$ 152.49
<b>Total Fees and Expenses</b>	<u>\$ 2,512.49</u>
<b>Total Due</b>	<u>\$ 2,512.49</u>

If you have any questions regarding this invoice, please let me know. Please remit payment in U.S. funds to:  
Accounts Receivable, ScottMadden, Inc., 2626 Glenwood Avenue, Suite 480, Raleigh, NC 27608. Thank you for retaining  
ScottMadden.

Sincerely,

Dylan D'Ascendis  
Director

ScottMadden, Inc.  
Tax ID: 56-1445505



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**Project** City of York Valuation Study  
**In Reference to:** Professional services provided in January 2021 for project 161-001

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		<u>Current Hours</u>	<u>Rate</u>	<u>Current Amount</u>
<b>Professional Fees</b>				
Dylan D'Ascendis	1/27/2021	8.00	295.00	2,360.00
Site visit.				
	Professional Fees	<u>8.00</u>		<u>2,360.00</u>

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## ScottMadden, Inc.

### Expense Detail

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**Client Name:** City of York, Pennsylvania **Invoice #:** 018643

**Project:** 161-001- City of York Valuation Study

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546 Dylan D'Ascendis

Billable Expenses:

			<u>Units</u>	<u>Rate</u>	<u>Amount</u>
1/27/2021	Dylan D'Ascendis	Car Rental	0.00	0.000	\$112.16
1/28/2021	Dylan D'Ascendis	Fuel	0.00	0.000	\$40.33

Total Billable Expenses: \$152.49

\$152.49