RESOLUTION RECEIVING AND ACCEPTING THE DRAFT BASE CASE FINANCIAL RESULTS FROM ADVISOR ERNST & YOUNG INFRASTRUCTURE ADVISORS, LLC

WHEREAS, pursuant to the Interlocal Cooperation Act, set out at Neb. Rev. Stat. § 13-801 et seq. (hereinafter the "Act"), Sarpy County and the Cities of Papillion, Bellevue, Springfield, La Vista and Gretna entered into an agreement (hereinafter the "Agency Formation Agreement"), and formed the interlocal agency called the Sarpy County and Cities Wastewater Agency (hereinafter the "Agency"); and,

WHEREAS, the Agency is a separate body corporate and politic under the Act; and,

WHEREAS, pursuant to the Agency Formation Agreement, the powers of the Agency as a body are exercised by the Agency Board; and,

WHEREAS, pursuant to Board Resolution 2018-029 and by a written agreement dated August 14, 2018 ("Services Contract"), the Agency retained Ernst & Young Infrastructure Advisors, LLC ("Ernst & Young") to provide to the Agency financial and procurement advisory services; and,

WHEREAS, at this regular meeting of the Agency Board on January 8, 2019, Ernst & Young reported to the Agency Board its Draft Base Case Financial Results ("Draft Report"), as attached hereto as Exhibit A, summarizing Ernst & Young's initial assumptions and forecast on the Agency's ability to finance the construction and operation of the Unified SSWS (as defined in the Agency Formation Agreement); and,

WHEREAS, the Agency Board discussed the Draft Report and after discussion the Board deemed it appropriate and advisable to receive and accept the Draft Report, subject to the Agency Board's review of Ernst & Young's further financial analysis and final report on the Agency's ability to finance the construction and operation of the Unified SSWS.

NOW, THEREFORE, BE IT RESOLVED BY THE AGENCY BOARD that the Ernst & Young Draft Report is hereby received and accepted by the Agency Board.

The above Resolution was approved by a vote of the Sarpy County and Cities Wastewater Agency Board at a public meeting duly held in accordance with applicable law on the 8th day of January, 2019.

Sarpy County and Cities Wastewater
Agency Board Chairman

Exhibit A

DRAFT REPORT

[Attached]

Sarpy County Wastewater Project

Summary financial and commercial analysis

December 2018

Introduction

The Project

Phase 1A + Phase 1B

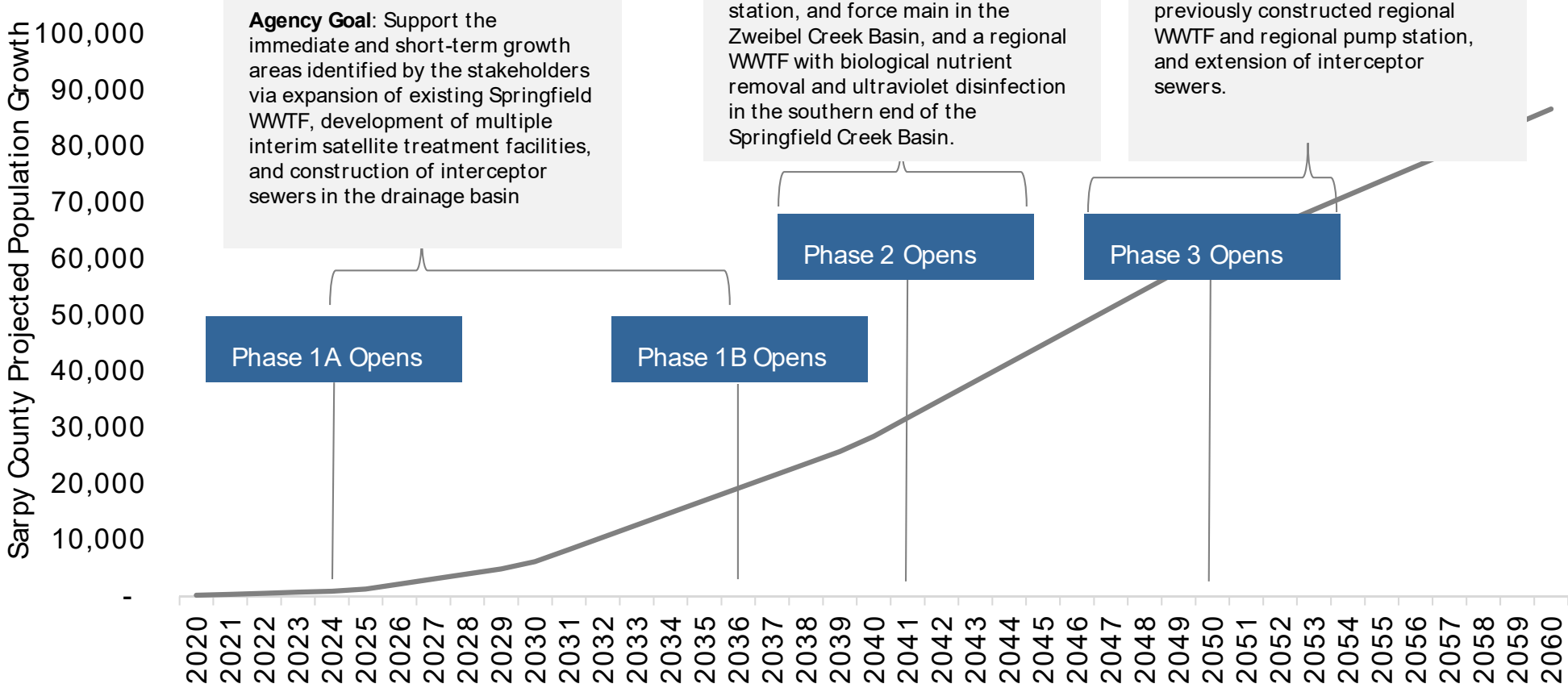
Agency Goal: Support the immediate and short-term growth areas identified by the stakeholders via expansion of existing Springfield WWTF, development of multiple interim satellite treatment facilities, and construction of interceptor sewers in the drainage basin

Phase 2

Agency Goal: Accommodate longer-term growth through the construction of several miles of interceptor sewer, a regional pump station, and force main in the Zweibel Creek Basin, and a regional WWTF with biological nutrient removal and ultraviolet disinfection in the southern end of the Springfield Creek Basin.

Phase 3

Agency Goal: Accommodate new growth south of the ridgeline through the end of the study period (2060) through expansion of the previously constructed regional WWTF and regional pump station, and extension of interceptor sewers.



The Project

1A

Snapshot:

- Year Operational: 2024
- Construction Length: 4 years
- Total Capacity: 1.9 MGD
- Total Cost: $30.7 million (2018$'s)

Infrastructure Built:

- Over 27,000 LF of sewer piping
- Wastewater Treatment Plant Expansion (Springfield)
- Satellite Treatment Facility (Zweibel Creek)

1B

Snapshot:

- Year Operational: 2036
- Construction Length: 4 years
- Total Capacity: 3.2 MGD
- Total Cost: $37.0 million (2018$'s)

Infrastructure Built:

- Over 57,000 LF of sewer piping
- Wastewater Pump Stations / Interim Force Main / WW Treatment Plan Expansion (Springfield)
- Satellite Treatment Facility (Buffalo / Zweibel Creek)
- Creek Rechannelization (Zweibel Creek)

2

Snapshot:

- Year Operational: 2041
- Construction Length: 5 years
- Total Capacity: 6.6 MGD
- Total Cost: $128.2 million (2018$'s)

Infrastructure Built: :

- Over 96,000 LF of sewer piping
- Participation in Future Regional Plant (Springfield / Buffalo Creek / Zweibel Creek))
- Future Regional Pump Station / 18 IN Future Force main (Zweibel Creek)

3

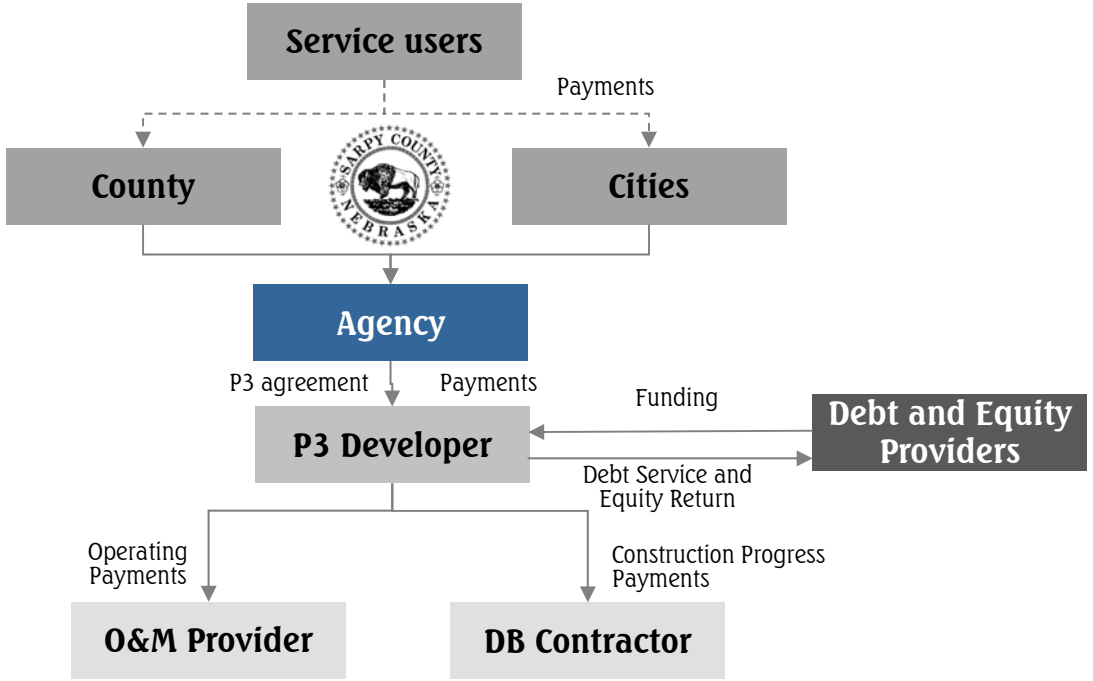
Snapshot:

- Year Operational: 2050
- Construction Length: 4 years
- Total Capacity: 9.9 MGD
- Total Cost: $45.3 million (2018$'s)

Infrastructure Built:

- 0 LF of sewer piping
- Future Regional Pump Station (Springfield)

Underpinning financial and commercial structure



	Traditional Delivery	Standard DBFOM P3
Payment	Agency pays contractor on a milestone basis for construction phase	Agency pays pre-agreed monthly payment over the life of the contract
Design & Construction	Separate contracts for design and construction with Agency holding interface risk	P3 Developer delivers fixed price / date certain construction and holds interface risks
O&M	Agency performs itself or contracts out to 3rd party	Delivered by P3 developer, potential through subcontract supported by guarantees
Financing	Municipal debt	Combination of public/private debt and private equity

Financial Analysis

Summary

A – **B** = **C**

Est. required revenue Profile | **Est. revenue from users** | **Est. Agency contribution**

A

- A 'required revenue' profile was developed based on the capital and O&M assumptions provided by HDR. The projected $240 million in capital costs in 2018$'s ($475 million in cash terms) was used to develop a financing structure using debt and equity. The annual required revenue profile was developed on a basis consistent with the required return under a DBFOM P3 commercial structure.

B

- **Omaha+2%:** Assumes a rate comparable to Omaha's in 2015 (~$50) and grows at of inflation (3%) plus 2%, which remains below Omaha's projected rate profile in the near future
- **Omaha+**: Assumes a rate comparable to Omaha's in 2015 (~$50) and grows at inflation (3%)

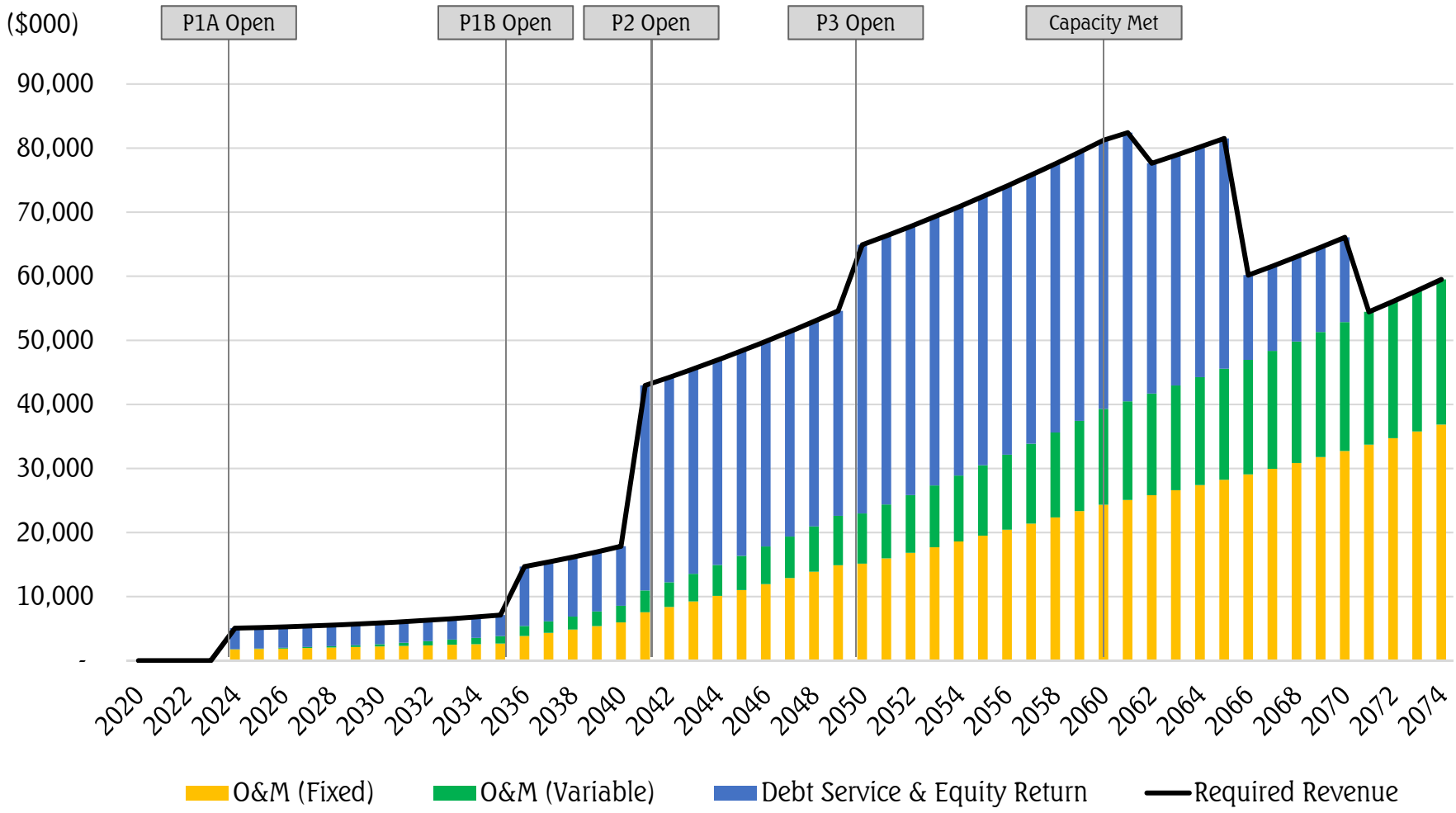
Avg. Monthly Bill *(7,500 Gallons)*	2015	2019	2024
Sarpy (O+2%)	$49.37	$60.01	$76.59
Omaha	$50.28	$66.23	$85.54

C

- **The project is financially viable in the medium to long term, but analysis suggests that revenue from rate payers will not cover the required revenue for the first 7-8 years of Phase 1A. The cumulative shortfall is estimated to be between $12.5 million and $18.5 million, where the Agency is likely to be required to pay the P3 Developer more than is earned from system users.**

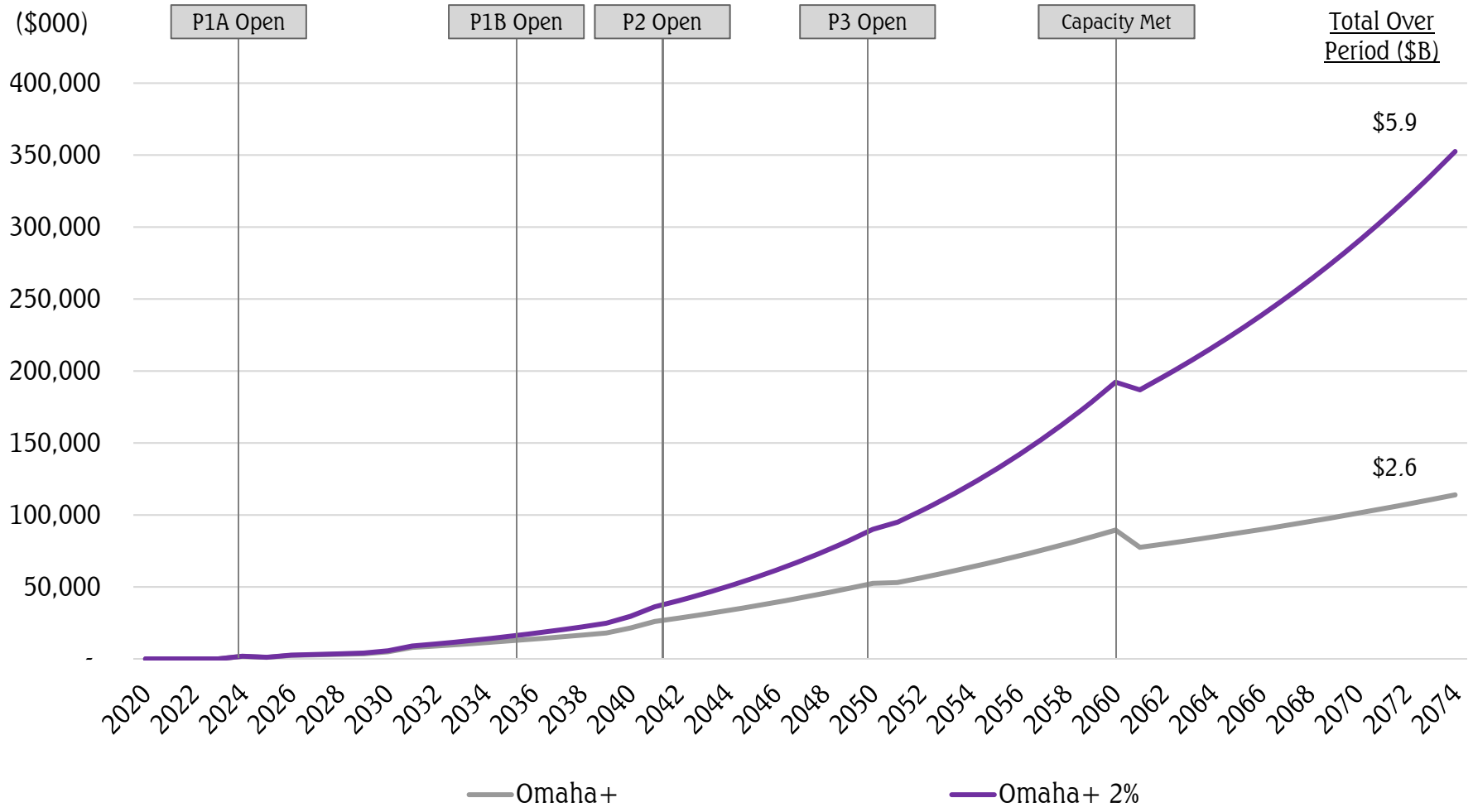
A Estimate of required revenue

Estimates of the revenue required by a P3 developer show steps with the completion of each phase, as payments are made by the Agency to allow the P3 developer to recover operating costs, financing costs and return.



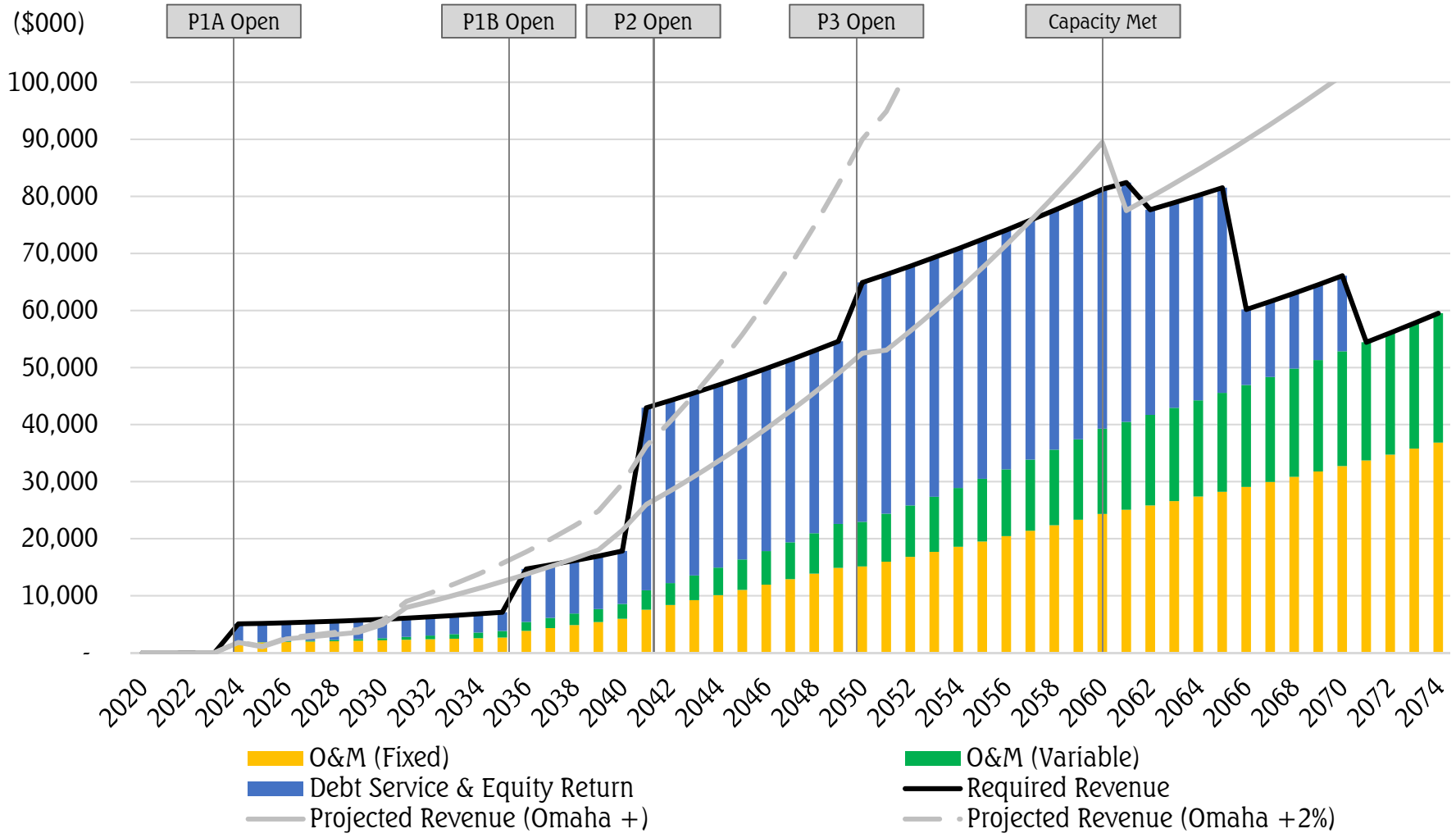
B Estimate of user revenues

Increasing rates by approximately 5% per year over the 50 year term of the analysis yields an additional $3.3bn in revenue for the Agency as compared to a 3% increase.



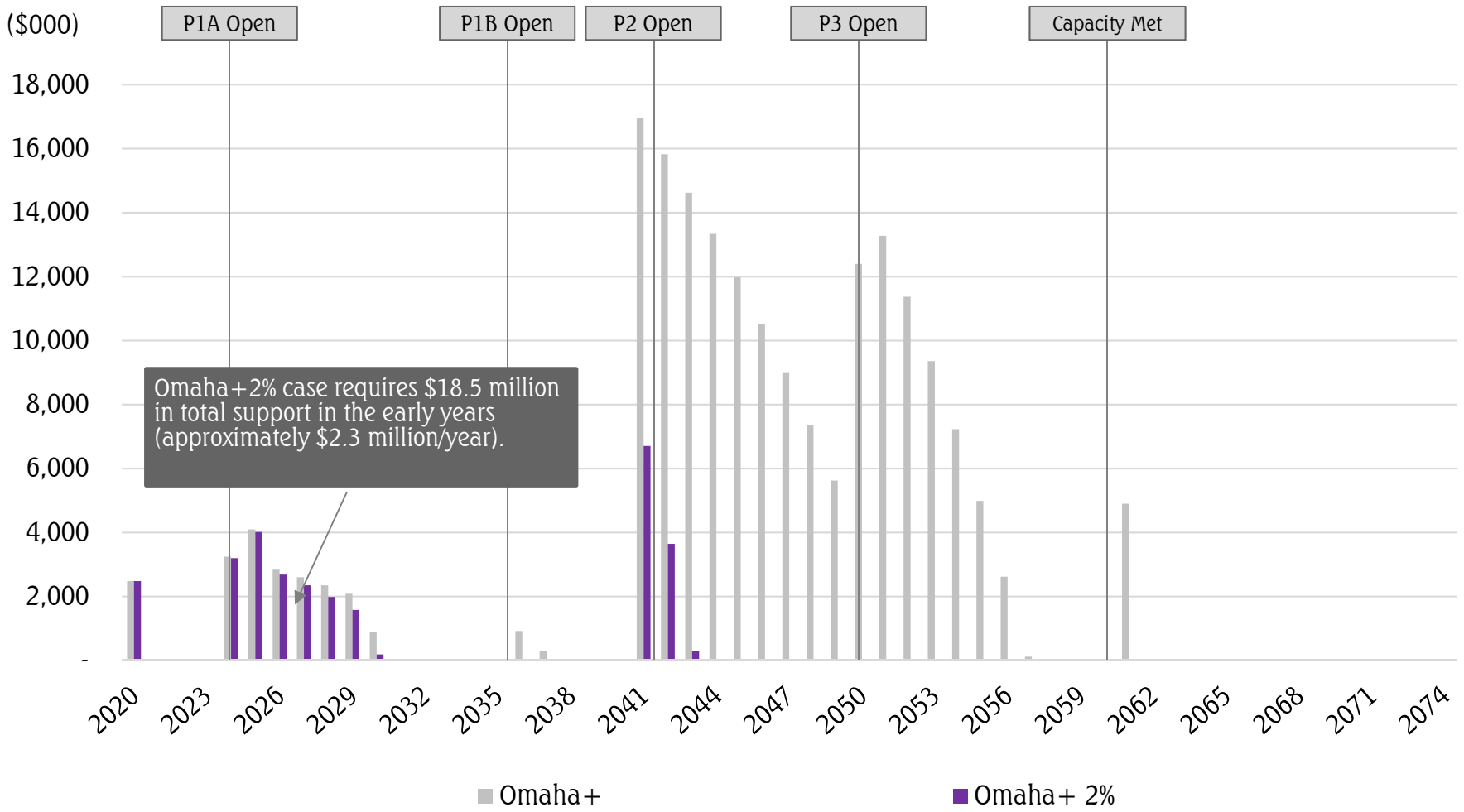
Estimate of required vs user revenues

For the user growth profile underpinning the analysis, increases in user rates of approximately 5% per year until the early 2040's are required to create an economically viable system



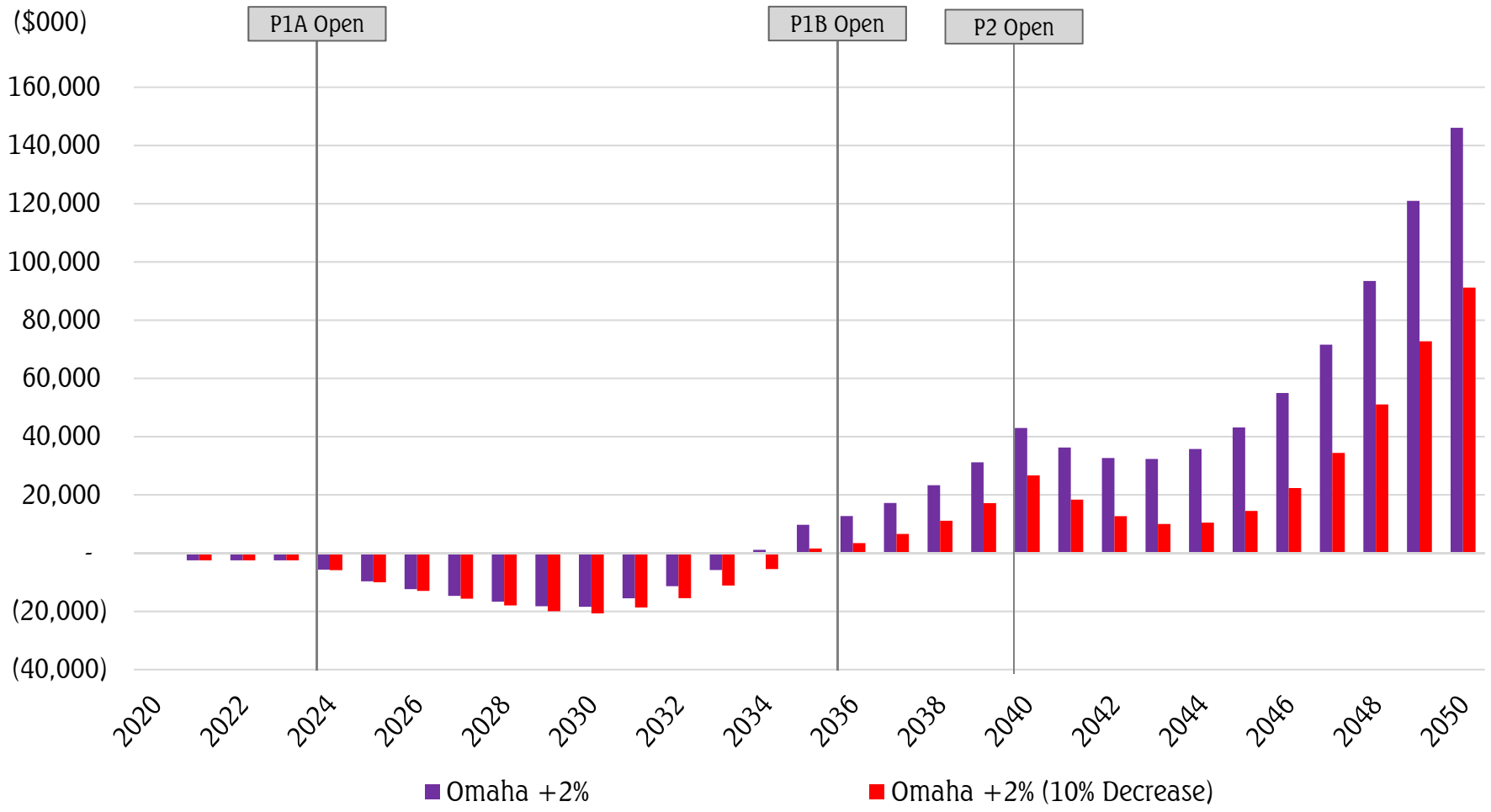
C Estimated shortfall between required and user revenues

Estimated shortfalls in revenue occur during the majority of Phase 1A, and thereafter in the years immediately following Phase 2 becoming operational



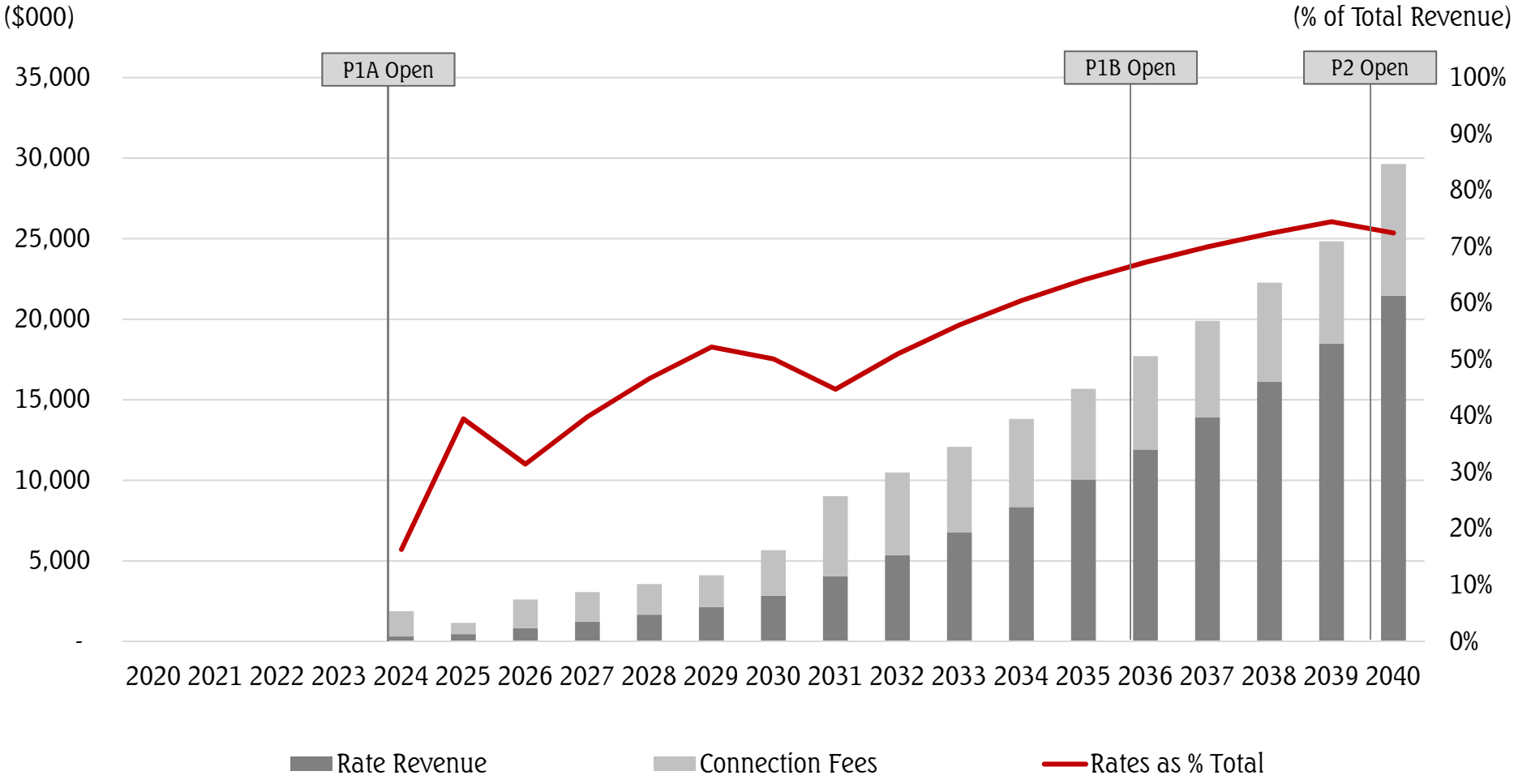
C Estimated cash balances and impact of demand risk

Estimated shortfalls in revenue translate into cash deficits during Phase 1A. The project becomes cumulative cash positive by the time Phase 1B opens, and remains positive thereafter providing user growth and rate increases are as projected.



B Importance of connection fees in early years / demand risk

The early year revenue profile of the Project is highly dependent on connection fees, and hence the rate at which users are connected to the system. The Agency would be unable to make-up for the early year connection revenue shortfalls by increasing sewer rates because there is not sufficient population.



A Other Considerations: SRF Funding

Nebraska's CWSRF provides low interest loans to municipalities for construction of publicly owned wastewater treatment facilities and sanitary sewer systems. Conversations with the administrators of this program (NDEQ) have indicated the likely ability to integrate SRF funding into various potential P3 commercial structures. Obtaining this funding for Phase 1A could save the Agency approximately $6.5 million in financing costs.

Key Features

Interest Rates:
- 20 year tenor at 1.5%
- 30 year tenor at 2.0%
- Administrative fee of 0.5%
- Required to begin paying the administrative fee within a year
- Green projects are given a 0.25% reduction in their interest rates

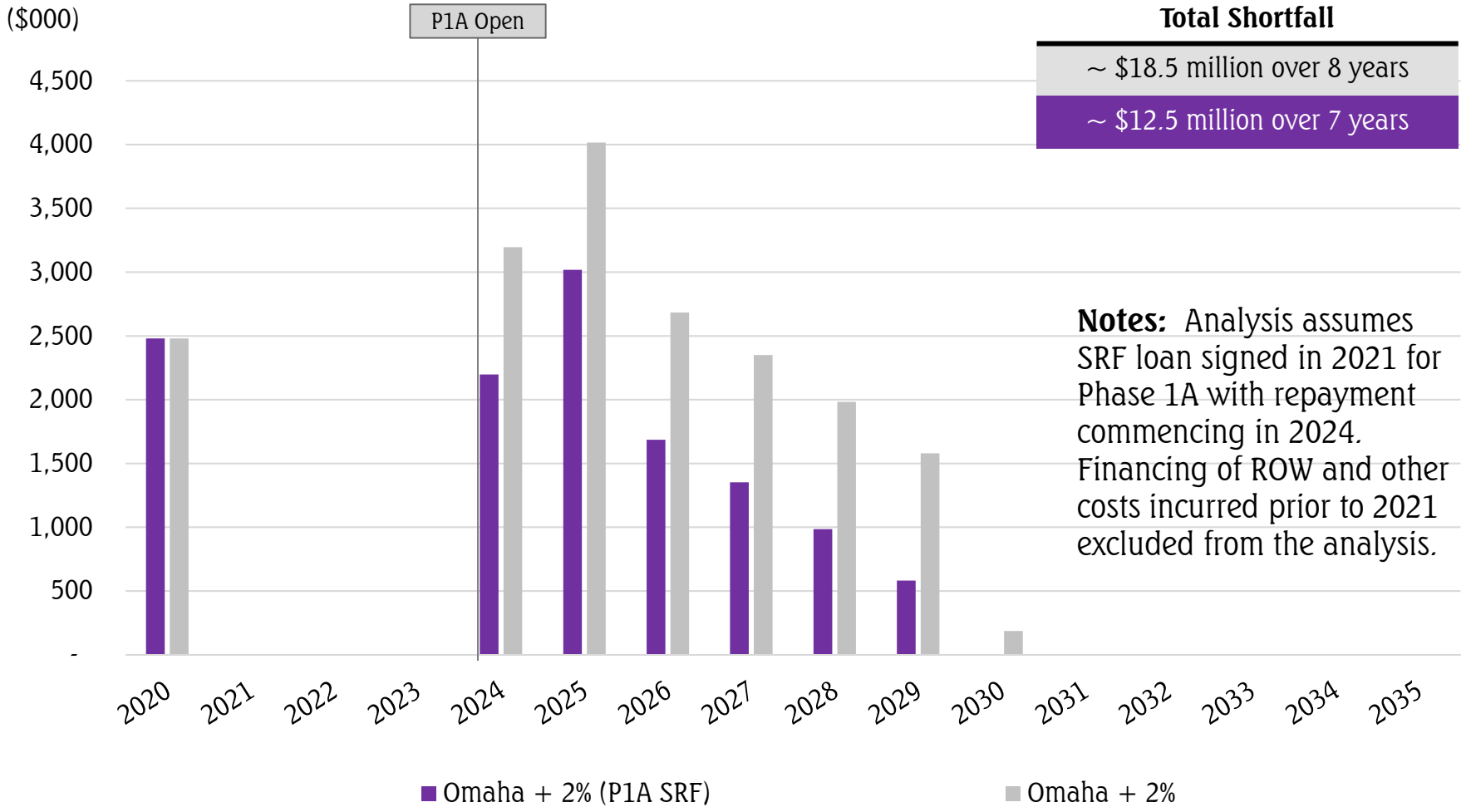
Repayment:
- Tenor can range from 20 to 30 years
- Borrowers required to begin repaying at the earlier of operations and **3 years from signing**

Structuring:
- Borrower must be a public entity
- Not precluded from funding alongside a P3
- Require repayment seniority and credit backstop from the County
- Federal loan requirements apply

NEBRASKA
DEPT. OF ENVIRONMENTAL QUALITY

A Other Considerations: SRF Funding's Impact on Early Year Shortfalls

The analysis below shows the potential to reduce estimated required revenue shortfalls by approximately $6m connected to the financing of Phase 1A. The analysis assumes that the loan is signed in [2021], and repayment commences in [2024].



Qualitative Analysis

Agency goals

It is understood that the Agency has the following key goals:

1	Deliver a scalable project that is responsive to the pace of economic development
2	Transfer risk to the private sector, including long-term responsibility for capital investment and operations and maintenance
3	Benefit from private sector competition for the project, including innovation
4	Minimise complexity, management and administrative burden
5	Wastewater rates that are equitable and competitive with those of the City of Omaha

P3 approaches in the water and wastewater sector

There are numerous examples of P3 / DBFOM projects in the water and wastewater sector, both in the US and internationally. Many of these projects adapt the standard P3 model to accommodate the specific circumstances of the water and wastewater sector.

	Delivery model	Summary	Examples
1	**Standard DBFOM P3** These are discrete assets, such as WWTPs, bio-solids facilities, water reuse assets or desalination projects	Projects have traditional construction and operations phases, a single or limited number of assets, where Capex and Opex risks can be substantially transferred, rely on proven technology and are substantially insulated from end user interface.	▶ Carlsbad Desal ▶ Regina WWTP (CA) ▶ Tampa Bay Desal
2	**System concession P3** Responsibility for the upgrade, management and O&M of an existing system is transferred to the private sector	Projects have an on-going capital program that overlap with operations and maintenance where responsibility is clearly allocated to the private sector. Revenues may be sourced from end users, but typically have some form of backstop revenue guarantee.	▶ Allentown ▶ Bayonne ▶ Rialto
3	**Progressive P3** Partnerships are formed on a risk sharing basis to deliver projects where higher degrees of uncertainty exist	Projects have a complex and uncertain series of needs, that can be best addressed through the joint development or management of the project, with the private sector variously acting as operator, capital works program manager and supply chain procurer	▶ Wichita (in procurement) ▶ Winnipeg (CA)

Evaluation of P3 delivery options: Agency goals

Single DBFOM Multiple DBFOM Concession Progressive P3

		Less Likely ... *More* Likely
1	Deliver a scalable that is responsive to the pace of economic development in the region	
2	Transfer risk to the private sector, including long-term responsibility for capital investment and operations and maintenance	
3	Benefit from private sector competition for the project, including innovation	
4	Minimise complexity, management and administrative burden	
5	Wastewater rates that are equitable and competitive with those of the City of Omaha	

Potential DBFOM project approach

A concession type structure appears to offer the most appropriate balance of lower transaction costs, risk pricing and competition for subsequent phases' Capex and (potentially) O&M.

Key implications

Bidders	Commercial structure	Procurement process	Critical success factors

Critical success factors

A successful P3 project requires a number of key foundations to be in place prior contract signature. Effectively addressing these matters will have multiple benefits in terms of:

1. Transaction credibility in the market
2. Competition for the project
3. High quality solutions
4. A contract that achieves the Agency's core purpose

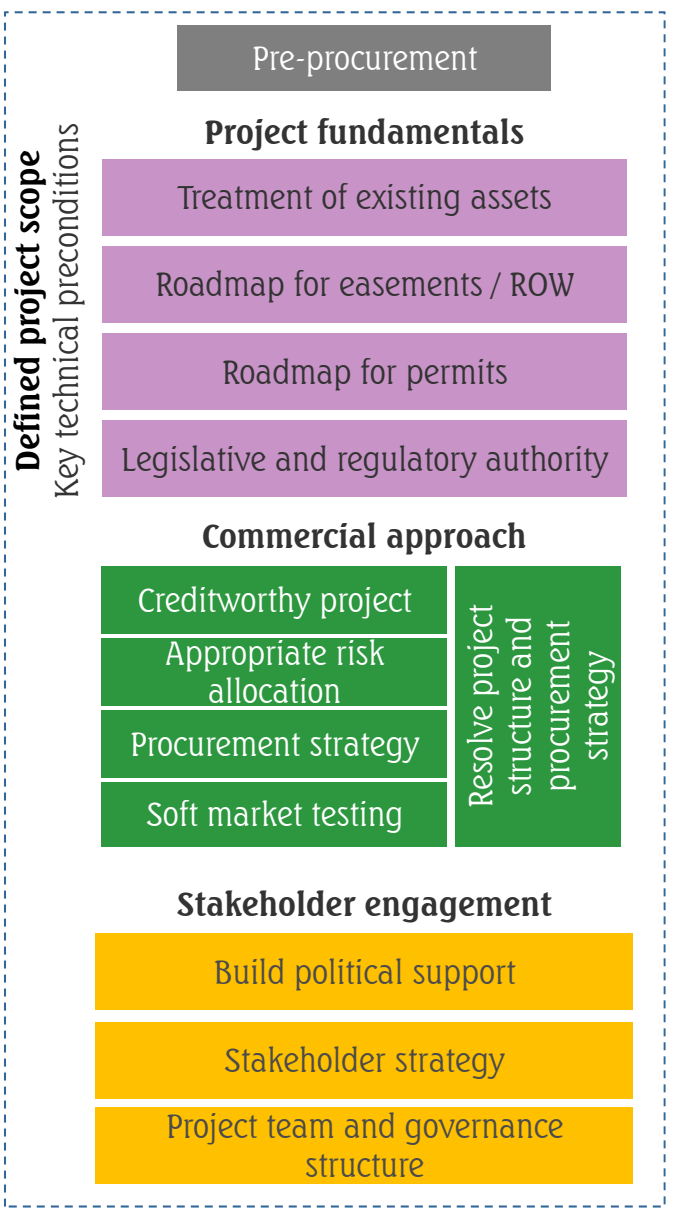
The key financial and commercial critical success factors are likely to be:

The Agency would be <u>obligated to pay</u> the P3 contractor a minimum (pre-agreed) amount regardless of the extent to which revenue from end users was sufficient to make these payments

The County would become <u>responsible for the financial obligations</u> of the Agency to the P3 contractor in the event the Agency was unable to meet them because of insufficient revenue from end users

Key next steps

The Agency should consider the following **key next steps over the next three months** to advance the project such that it is ready for procurement in Q2 2019.



Project

1. Build project team and governance structure
2. Develop critical path project plan
3. Establish robust client side project management
4. Identify/confirm key stakeholders and appropriate engagement strategy

Technical

1. Advance design of Phase 1A to an appropriate point
2. Identify required permits, easements and ROW and develop strategy
3. Address treatment of existing assets
4. Advance SRF discussions and application process
5. Reconfirm costs for updated financial analysis

Legal

1. Advance development of agreements between the Agency, cities and County for (i) SRF credit backstop (ii) financial support for the P3
2. Develop legal aspects of procurement strategy (i.e., RFQ & RFP)
3. Crystallize delegated authorities and decisions making powers
4. Commence development of RFQ procurement documentation

Financial

1. Further develop commercial project blueprint and risk allocation
2. Update financial analysis based on the above work streams
3. Develop commercial aspects of procurement strategy and process
4. Undertake soft market testing exercise
5. Confirm anticipated levels of financial support and rate levels