Sewer System Evaluation Report

Borough of Bradley Beach

March 31, 2026

Phoenix Advisors

TABLE OF CONTENTS

INTRODUCTION 1

EXECUTIVE SUMMARY 2

THE SYSTEM 3

OVERVIEW OF THE SALE OF MUNICIPAL-OWNED UTILITIES IN THE STATE 5

CURRENT OPERATIONS AND PROJECTED FUTURE OPERATIONS 7

DEFEASANCE OF EXISTING DEBT 12

SYSTEM VALUATION 14

CONCLUSION 18

INTRODUCTION

At the request of the Borough of Bradley Beach (the "Borough"), Phoenix Advisors has been engaged to review the Borough's municipal sewer utility system (the "Sewer Utility or "System") as it relates to a potential sale of the System to a qualified private third-party owner/operator. After analyzing the operations and finances over recent years, the Borough has concluded for a variety of reasons (e.g. technical, managerial and financial requirements, regulatory environment and customer base) that it should determine if a larger and/or private sector enterprise would be better suited to handle the long-term needs of the System's customers. We understand the Borough's objectives include: (i) obtain the highest value for the System; (ii) utilize the proceeds, at a minimum, to pay off Borough debt and other liabilities; (iii) minimize rate volatility for ratepayers and taxpayers; and (iv) transfer responsibility of expected financial, environmental and regulatory risk to the purchaser.

In order to complete our review, we were provided with: (i) audited financial operating information for a three (3) year period; (ii) a narrative description of the System and its assets; (iii) Borough outstanding debt information; (iv) information regarding the user rates and customer base; and (v) capital plan information provided by the Borough Engineer.

We also had access to various relevant public documents and held various discussions with Borough officials and consultants. We have relied on the general information provided by the Borough Engineer and other Borough officials relating to technical details regarding the System assets, inventory, age, cost and capital plan. We were not provided with a formal report on the technical details of the System by the Borough or Borough Engineer.

The information contained herein assumes no material changes to the customer base, capital plan or System infrastructure beyond what is discussed in this report.

After reviewing the documentation and conducting our own independent analysis of the System, we offer the following financial assessment of the System and general recommendations.

EXECUTIVE SUMMARY

The following bullet points present a summary overview of the information and findings presented in this report.

- Should the Borough wish to move forward with a sale, it would likely need to pursue the referendum option. Based on the condition of the System, it is unclear whether or not the System would qualify under WIPA. Further discussions should be had with the Borough Engineer and administration.

- We estimate the valuation of the System to be in the range of $5.2 to $7.8 million, based on the various approaches discussed herein. Additionally, a projected fund balance of $1.95 million (as of December 31, 2025) would become available after a sale.

- The Borough's Current Fund allocates a share of certain costs to the Sewer Utility in the amount of approximately $275,000. These costs, which include salaries, benefits and pension costs of Borough employees, would likely be returned to the Current Fund in the event of the sale of the System.

- The projected cost to retire the Outstanding Sewer Debt is approximately $7.5 million and the projected cost to retire the Outstanding General Debt is approximately $4.8 million.

- Should the Borough wish to retain the System, it would implement the capital improvement plan and increase rates accordingly. The Borough may wish to change the billing structure from a flat rate per unit type to a volumetric billing type. This may spread the costs more equitably across the customer base. More specific data on usage metrics would be required in order to properly evaluate potential billing options.

- The System is currently staffed and operated by employees from the department of public works. Based on our discussions with Borough administration, there are not currently any staffing, operation or regulatory concerns with the System. Accordingly, pursuing an O&M agreement with a private operator would not generate significant savings for the Borough.

- The Borough's capital improvement plan totals $24.8 million over the next five (5) years, which we assume would be debt-financed through the NJIB. We have assumed $6 million of NJIB principal forgiveness and $2 million of planning and design grants are currently available to offset a portion of this cost. The Borough may be able to pursue additional Federal/State grants in future years.

- In order for the System to be fully self-supporting and absorb the proposed capital improvement plan, we project a three-year rate increase plan of 18-19% annually would be required. This would increase the monthly sewer bill for the average user from $40 in 2025 to $68 in 2032, representing an approximate 70% increase. That said, the Borough's sewer rates are currently significantly below those of investor-owned public utilities and are only expected to be on par with them after the projected increase.

THE SYSTEM

Overview. The Borough, located in eastern Monmouth County, has a total area of approximately 0.6 square miles and is bordered by Ocean Grove, Avon-by-the-Sea and Neptune. The total population in the Borough is estimated to be approximately 4,200. The service area of the System is coterminous with the municipal boundaries. The System is currently owned, operated and maintained by the Borough. The System collects wastewater from its customers and discharges it to the Neptune Township Sewerage Authority's ("TNSA") wastewater treatment plant for treatment. Wastewater is transported via gravity and pump stations to this regional plant for treatment before discharge. The System consists of approximately 15 linear miles of gravity sanitary sewer mains, connection laterals, manholes and two (2) pump stations. We understand that all assets of the System have been funded by the Borough and that there are no assets contributed by private parties.

Customers. The service area of the System is coterminous with the municipal boundaries. The Sewer Utility has approximately 3,200 customers. The customer base is primarily residential dwellings (approximately 84%), with the remainder being mostly commercial businesses.

Rate Structure. Ratepayers of the System include residential and commercial customers that are billed quarterly based on a flat unit rate as shown to the right. The flat unit rate is dependent on the type of residential dwelling or commercial use. The fees were last increased by Borough ordinance in 2020. Most residential customers pay the typical rate of $478 annually (or $119.50 per quarter).

Staffing. The System is staffed by Borough employees from the department of public works. There are currently five (5) employees who dedicate time to the operation and management of the System. We understand that Borough administration and certain professionals, including financial, legal and administrative, also allocate a portion of their time and cost to

A. Single-family private dwelling, with no rental rooms or apartments: $478.
B. Single-family private dwelling and garage apartment, with no rental rooms or apartments: $956.
C. Single-family private dwelling with seven or more bedrooms, with no rental rooms or apartments: $956.
D. Two-family private dwelling, with no rental rooms or apartments: $956.
E. Two-family private dwelling and garage apartment, with no rental rooms or apartments: $1,434.
F. Multifamily (more than two) dwelling, with no rental rooms or apartments, each apartment: $478.
G. Structure with apartments, each apartment: $478.
H. Hotel or motel: $478.
   (1) Each rental room: $159.
I. Rooming house: $478.
   (1) Each rental room: $133.
J. Barber or beauty shop: $478.
   (1) Each chair: $159.
K. Each commercial business:
   (1) One toilet: $478.
   (2) Each additional four toilets or fraction thereof per business: $478.
L. Car wash: $4,781.
M. Service station or garage: $797.
N. Bar: $2,656.
O. Restaurant:
   (1) Up to and including 25 seats: $956.
   (2) Each additional 25 seats or fraction thereof: $478.
P. Laundromat, each washing machine: $478.

the System. Due to increasing technical, regulatory and operational forces, there may be pressure on the Borough in the future to expand the current level of staffing to better manage the System in the coming years. However, as of now, the Borough believes that the System is properly staffed.

Capital Improvement Plan. Although the Borough has previously performed various rehabilitation and replacement projects on the System, including recently rehabbing/replacing approximately 40% of the System, the Borough Engineer has identified approximately $24.8 million of capital projects in the coming years, primarily relating to the rehabilitation and replacement of the remaining 60% of the System. Of this total, we conservatively estimate that approximately $8 million will come in the form of Federal/State funding ($6 million of NJIB principal forgiveness and $2 million of planning and design grants), so the net amount to be financed is approximately $16.8 million. We note that the Borough typically budgets $50,000 annually in pay-go capital for routine repairs and maintenance. At this time, we are not aware of any additional required large capital improvements needed over the next 5-10 years.

For the purposes of this analysis, we assumed that the Borough would issue general obligation bonds through the New Jersey Infrastructure Bank (the "NJIB") via their 75% interest-free and 25% market-rate financing program, with $8 million of total Federal/State funding, as noted above. The NJIB's financing offerings are subject to change from time to time, so the actual debt service figures may be different than those presented.

OVERVIEW OF THE SALE OF MUNICIPAL-OWNED UTILITIES IN THE STATE

Over the past 30 years there have been many efforts in the State of New Jersey (the "State") and nationally to use public/private partnership models to convert municipal-owned water and wastewater utilities to privately owned or operated status. In the State, investor-owned public utilities are regulated by the New Jersey Board of Public Utilities ("BPU") with a focus on rate justification based upon costs of service, costs of capital and required equity returns. The four (4) major investor-owned public utilities in the State are: (i) Veolia Water New Jersey; (ii) New Jersey American Water; (iii) Middlesex Water; and (iv) Aqua New Jersey. In October 2025, New Jersey American Water and Aqua New Jersey announced a merger that would potentially be completed in early-2027. Several sewer utility sales have recently been completed, or are in-progress, in the State including the Boroughs of Manville, Somerville and Bound Brook, and the Cities of Salem and Egg Harbor. Below is a brief summary of the various methods available to public entities to transfer risk/ownership to the private sector.

Long-Term Concession. The New Jersey Water Supply and Wastewater Treatment Public-Private Contracting Act (the "Act"), enacted in 1995, provides framework for public entities to enter into long-term contracts (40 years) with private-sector firms for financing, design, construction, improvement, operation, maintenance, administration of a water supply/wastewater treatment system. The Act gives public entities flexibility in terms of allocating the financial and operational risks of the system and specifically defining the private sector's role. Public-private water contracts must be approved by the New Jersey Department of Community Affairs ("DCA") and the BPU, with the New Jersey Department of Environmental Protection ("DEP") having the opportunity to review and comment. However, public-private wastewater contracts require only LFB approval, with the DEP having the opportunity to review and comment. These contracts typically involve a concession fee being paid by the private-sector firm to the public entities upfront, on an ongoing basis, or a combination thereof. Generally, the concession fees must be used by the public entity for: (i) the purpose of reducing or offsetting property taxes; (ii) rate stabilization; or (iii) the defeasance of debt related to the system.

Referendum. State law also provides for public sale or lease of a public water supply or wastewater treatment system to an investor-owned public utility via voter-approved referendum. This method requires a resolution authorizing the sale of the system and advertisement of a comprehensive Request for Bids document. The public entity must choose "highest bidder", which does not always mean the entity that can operate the system the most efficiently or cost effectively. Proceeds from the sale of the system must be used to retire outstanding debt of the public entity and, to the extent additional funds remain, any other general purposes of the public entity.

Water Infrastructure Protection Act. In 2015, the State passed the Water Infrastructure Protection Act ("WIPA"), which sets a uniform standard for public entities to methodically proceed with the sale or long-term lease of their municipal-owned water and wastewater collection systems. In order to justify the sale of the asset, the public entity must have a population less than 270,000 and determine that an "emergent condition" exists. As such, the law identified and defined

five (5) conditions in a municipal-owned utility which may be classified as an "emergent condition". Generally, these conditions involve: (i) the system being located in an Area of Critical Water Supply Concern; (ii) the system has not complied with various environmental regulations of the DEP; (iii) there is a deficiency or violation of maximum contamination levels; (iv) there is a demonstrated lack of historical investment or damage to the system; and (v) the system lacks the financial, technical or managerial capacity to adequately address any of the foregoing on a sustainable basis. Subsequent to this designation, there are various procedural steps, public hearings and formal actions that must occur, including providing the public with a 45-day window in which they may file a petition forcing a referendum. Further, it is necessary to obtain the approval of DCA, BPU and DEP. Finally, once approved by the various governmental agencies and the 45-day period has lapsed, an RFQ/RFP process can commence. Proceeds from the sale of the system must be utilized in accordance with WIPA, which generally includes the retirement of outstanding debt, among other things.

Note that, as of 2025, State law requires that contracts in excess of $15.2 million be submitted to the State Comptroller's office for approval prior to award. Additionally, pursuant to Executive Order 12803 by President George H. W. Bush in 1992, any Federal grant proceeds used to maintain the System must be repaid to the Federal government on a depreciated basis at the time of sale.

CURRENT OPERATIONS AND PROJECTED FUTURE OPERATIONS

We have modeled the current operations and projected future operations of the System under a series of different scenarios in order to have a better understanding of the potential future impact on ratepayers. If the Borough continues to own and operate the System, they will need to implement the capital improvement plan discussed herein and raise rates accordingly. The following tables will show a preliminary operating pro forma based on retained ownership by the Borough, bearing the full cost of projected future operations and funding the required capital improvements. We also modeled the operations of the System if it were to be sold to a private third-party or regulated public utility operator for valuation purposes.

Current Operations. **Table I** sets forth a five (5) year summary of historical financial operations including the budget for the current year (2025) and a projection for the next year (2026). The System has typically operated at roughly breakeven, after accounting for the utilization of utility fund balance to help balance the budget, which is a common practice across the State. In other words, the net income has been generally equal to the amount of fund balance utilized each year, thus resulting in flat fund balance. In recent years, nominal year-ending fund balance has averaged approximately $1.9 million, which we view as a healthy amount given the size of the Sewer Utility budget. As of December 31, 2024, the fund balance was approximately $1.95 million, so absent additional rate increases, the Borough will likely draw down fund balance over the next five (5) years to meet inflationary cost pressures. Due to the size of the System and number of customers, it lacks the economies of scale needed to absorb significant capital costs and increasing operating costs without implementing significant rate increases.

On the revenue side, sewer rents are the primary source of revenue at approximately 73% of budget, averaging approximately $1.7 million per year over the last four (4) years. Miscellaneous revenues, including interest income, represent approximately 8% of budget. Sewer Utility fund balance utilization represents the remainder and is used as needed to help balance the budget. In total, gross revenues averaged approximately $2.3 million over the last four (4) years.

On the expenditure side, payments to TNSA for wastewater treatment are the primary expenditure at approximately $775,000, or about 40% of total expenditures. Salaries/wages, statutory expenditures and operating expenses account for about 37% of total expenditures, at $700,000. As noted above, a portion of the salaries/wages relate to Borough administration and professionals who allocate a portion of their time to the System. Debt service is the next largest expenditure, representing about 20% of total expenditures, at $380,000. Pay-go capital and miscellaneous expenditures make up the bulk of the remainder of the budget.

TABLE I - Historic/Current Operations					
	2022 (Actual)	2023 (Actual)	2024 (Actual)	2025 (Actual)	2026 (Projected)
OPERATING REVENUE					
Growth Factor	***0.00%***	***0.00%***	***0.00%***	***0.00%***	***0.00%***
Sewer Rents	$ 1,703,000	$ 1,706,000	$ 1,706,000	$ 1,705,000	$ 1,708,000
Miscellaneous Revenue	153,000	32,000	204,000	200,000	204,000
Other	96,000	-	-	-	-
Surplus Anticipated	519,000	367,000	450,000	450,000	55,000
TOTAL REVENUE	**$ 2,471,000**	**$ 2,104,000**	**$ 2,360,000**	**$ 2,355,000**	**$ 1,967,000**
OPERATING EXPENDITURES					
Salaries & Wages	$ 253,000	$ 264,000	$ 277,000	$ 265,000	$ 273,000
Operations/Maintenance	394,000	316,000	291,000	334,000	344,000
Third Party Treatment	792,000	724,000	771,000	775,000	798,000
Miscellaneous Expenses	99,000	136,000	112,000	109,000	113,000
Existing Debt Service	208,000	177,000	391,000	381,000	383,000
New Debt Service	-	-	-	-	-
Pay-go Capital	80,000	50,000	32,000	50,000	50,000
TOTAL EXPENDITURES	**$ 2,027,000**	**$ 1,666,000**	**$ 1,873,000**	**$ 1,914,000**	**$ 1,960,000**
NET INCOME	**$ 444,000**	**$ 438,000**	**$ 487,000**	**$ 441,000**	**$ 7,000**
*Figures may not add due to rounding					

Further, we understand that there is currently no direct subsidy to or from the Borough's Current Fund, however, the Borough allocates a share of certain administrative costs to the utility budgets, including a portion of administrative staff salaries and benefits for the share of their duties related to the System. Based on information provided by Borough officials, we estimate these costs to total approximately $275,000 per year. This includes salaries, benefits and pension costs of Borough employees who allocate a portion of their time to the System, but are otherwise needed to support the general municipal operations of the Borough. It can be assumed that such costs would still be required if the System were sold and, therefore, they would need to be shifted to and funded out of the Current Fund, assuming no changes to staffing, salaries, insurance and benefits. The last time that the Sewer Utility provided a direct transfer to the Current Fund was in 2022, for $200,000.

Base Case Status Quo Operations. **Table II** sets forth a six (6) year summary of projected financial operations if the Borough were to continue operation of the System with the current level of staffing and capital improvements, while bearing the full cost of operating the System. **The base case does not include the capital improvement plan referenced herein, any adjustments to staffing/operations or any rate increases.** This scenario is meant to illustrate that the Borough would likely need to raise rates regardless of whether or not they implement the required staffing and capital plans.

On the revenue side, we utilized the remaining fund balance over the next six (6) years and then removed it as a revenue source in order to show the System operating on a fully self-supporting basis. On the expense side, we applied 3% annual inflationary adjustments to salaries/wages, operating expenses, statutory expenditures and third-party treatment. We kept pay-go capital flat at $50,000 and projected forward the existing debt service. For illustrative purposes, we amortized the existing bond anticipation notes beginning in 2027 since they will eventually need to be permanently financed. As shown below, the current rate structure will not be sufficient within the next six (6) years as costs will continue to increase and fund balance will be depleted. The deficit is projected to be approximately $295,000 by 2032 and further increase thereafter.

TABLE II - Projected Base Case Operations							
	2026 (Projected)	2027 (Projected)	2028 (Projected)	2029 (Projected)	2030 (Projected)	2031 (Projected)	2032 (Projected)
OPERATING REVENUE							
Growth Factor	***0.00%***	***0.00%***	***0.00%***	***0.00%***	***0.00%***	***0.00%***	***0.00%***
Sewer Rents	$ 1,708,000	$ 1,708,000	$ 1,708,000	$ 1,708,000	$ 1,708,000	$ 1,708,000	$ 1,708,000
Miscellaneous Revenue	204,000	208,000	212,000	216,000	221,000	225,000	230,000
Other	-	-	-	-	-	-	-
Surplus Anticipated	55,000	250,000	300,000	345,000	385,000	435,000	180,000
TOTAL REVENUE	**$ 1,967,000**	**$ 2,166,000**	**$ 2,220,000**	**$ 2,270,000**	**$ 2,314,000**	**$ 2,368,000**	**$ 2,118,000**
OPERATING EXPENDITURES							
Salaries & Wages	$ 273,000	$ 281,000	$ 289,000	$ 298,000	$ 307,000	$ 316,000	$ 325,000
Operations/Maintenance	344,000	354,000	365,000	376,000	387,000	398,000	410,000
Third Party Treatment	798,000	822,000	847,000	872,000	898,000	925,000	953,000
Miscellaneous Expenses	113,000	116,000	119,000	123,000	127,000	130,000	134,000
Existing Debt Service	383,000	537,000	543,000	545,000	541,000	542,000	538,000
New Debt Service	-	-	-	-	-	-	-
Pay-go Capital	50,000	50,000	50,000	50,000	50,000	50,000	50,000
TOTAL EXPENDITURES	**$ 1,960,000**	**$ 2,160,000**	**$ 2,213,000**	**$ 2,263,000**	**$ 2,310,000**	**$ 2,362,000**	**$ 2,412,000**
NET INCOME	**$ 7,000**	**$ 6,000**	**$ 7,000**	**$ 7,000**	**$ 4,000**	**$ 6,000**	**$ (294,000)**
*Figures may not add due to rounding							

Debt-Financed Capital. **Table III** sets forth a six (6) year summary of projected financial operations if the Borough were to continue operation of the System under the Base Case Status Quo Operations discussed above and finance the capital improvement plan discussed herein of $24.8 million. The annual inflationary growth is consistent with the assumptions reflected in **Table II**. Again, we utilized the remaining fund balance over the next six (6) years to help offset a portion of the rate increases and then removed it as a revenue source in order to show the System operating on a fully self-supporting basis.

The major difference in this scenario is the inclusion of the above-referenced debt-financed capital over the next five (5) years in the form of staggered bond issuances. For the purposes of this analysis, we assumed that the Borough would issue general obligation bonds through the NJIB

with approximately $8 million of total Federal/State funding, thereby reducing the debt burden on the System to approximately $16.8 million. Due to future changes in the NJIB program (specifically the interest-free portion and amount of principal forgiveness), the actual debt service figures could be different than presented. However, we wanted to present this scenario in a more conservative manner due to the uncertainty of future State/Federal funding and programmatic changes.

TABLE III - Projected Municipal Operations							
	2026 (Projected)	2027 (Projected)	2028 (Projected)	2029 (Projected)	2030 (Projected)	2031 (Projected)	2032 (Projected)
OPERATING REVENUE							
Growth Factor	***0.00%***	***0.00%***	***0.00%***	***18.00%***	***19.00%***	***19.00%***	***2.00%***
Sewer Rents	$ 1,708,000	$ 1,708,000	$ 1,708,000	$ 2,015,000	$ 2,398,000	$ 2,854,000	$ 2,911,000
Miscellaneous Revenue	204,000	208,000	212,000	216,000	221,000	225,000	230,000
Other	-	-	-	-	-	-	-
Surplus Anticipated	65,000	405,000	595,000	485,000	300,000	50,000	40,000
TOTAL REVENUE	**$ 1,977,000**	**$ 2,321,000**	**$ 2,515,000**	**$ 2,717,000**	**$ 2,919,000**	**$ 3,129,000**	**$ 3,181,000**
OPERATING EXPENDITURES							
Salaries & Wages	$ 273,000	$ 281,000	$ 289,000	$ 298,000	$ 307,000	$ 316,000	$ 325,000
Operations/Maintenance	344,000	354,000	365,000	376,000	387,000	398,000	410,000
Third Party Treatment	798,000	822,000	847,000	872,000	898,000	925,000	953,000
Miscellaneous Expenses	113,000	116,000	119,000	123,000	127,000	130,000	134,000
Existing Debt Service	383,000	537,000	543,000	545,000	541,000	542,000	538,000
New Debt Service	-	140,000	283,000	437,000	593,000	746,000	752,000
Pay-go Capital	50,000	50,000	50,000	50,000	50,000	50,000	50,000
TOTAL EXPENDITURES	**$ 1,960,000**	**$ 2,300,000**	**$ 2,496,000**	**$ 2,700,000**	**$ 2,903,000**	**$ 3,108,000**	**$ 3,164,000**
NET INCOME	**$ 17,000**	**$ 21,000**	**$ 19,000**	**$ 17,000**	**$ 16,000**	**$ 21,000**	**$ 17,000**
*Figures may not add due to rounding							

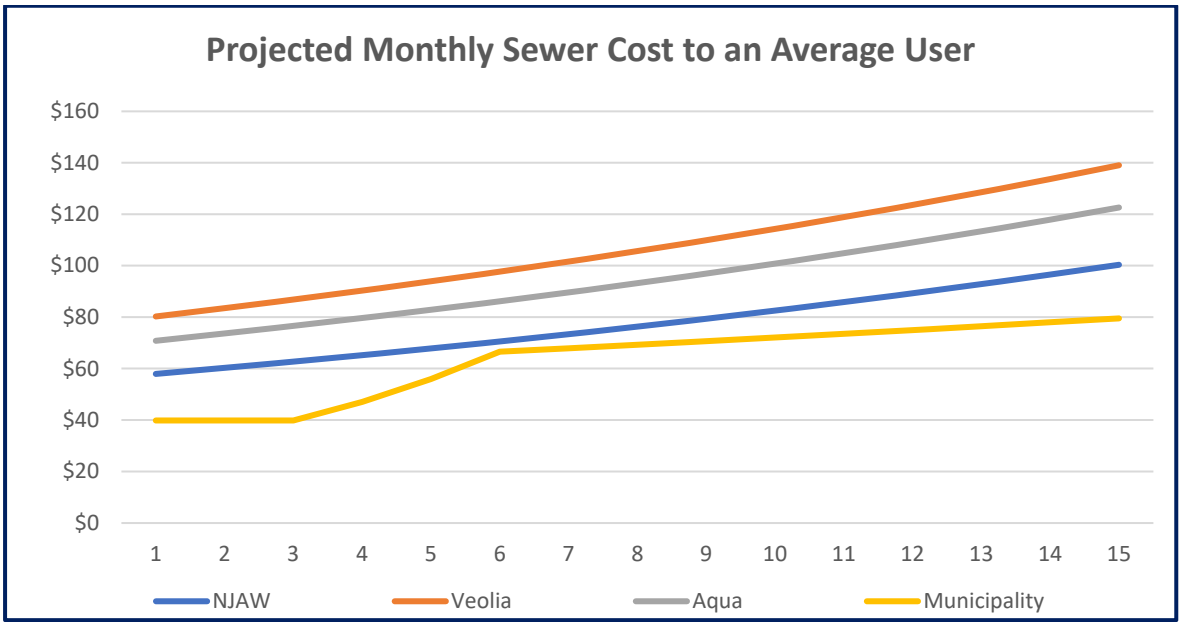
In this scenario, we project that the Borough will need to implement a three-year rate increase plan of 18-19% annually, as shown above, in order for the System to be fully self-supporting and absorb the proposed capital improvement plan. **This would result in the Borough's sewer rates in 2032 being approximately 70% higher than the Borough's current rates in 2025.** The new debt service is projected to reach a maximum of approximately **$750,000** per year by 2031. Thereafter, the Borough would likely need to implement 2-3% annual rate increases to continue to rebuild fund balance, keep up with capital investment and ensure positive future operations.

Ratepayer Impact. For comparative purposes, we have assumed that an average user of the System utilizes approximately 4,000 gallons of water per month. The typical Borough ratepayer currently pays $478 annually as described herein, which equates to approximately $40 per month in sewer charges. This monthly rate is relatively low as compared to that of investor-owned public utilities, who currently pay between $58 to $80 per month as described in the respective tariff

schedules of each major provider (Veolia, NJAW, Aqua). **On average, a typical user of an investor-owned public utility in the State currently pays approximately $70 per month in sewer charges (a 75% increase over the Borough's rate) for similar usage.**

Based on the Borough rate projections described herein, we project that the Borough's sewer rates will climb over the next six (6) years and be close to those of the investor-owned public utilities. However, for the remaining nine (9) years of the projection, the investor-owned public utilities' rates would exceed those of the Borough due to the difference in the expected inflationary annual increases (4% for the investor-owned public utilities versus 2-3% for the Borough). We estimate that in 2032, an average user in the Borough would pay approximately $68 per month in sewer charges, as compared to approximately $85 per month with the investor-owned public utility (a 25% increase from the Borough's rate).

This assumes 4% annual increases for the investor-owned public utilities, which is based on the approximate historical average annual increase over the last 10-15 years. If the Borough elects to sell the System, the investor-owned public utility will typically transition the Borough rates into the new owner's rate base in the State, subject to BPU oversight and approval. This transition may occur right away or after a short transition period; however, there is no guaranty of any rate schedule outside of the approved tariff schedule. Investor-owned public utilities can make a good faith effort to implement a fixed rate increase schedule, but ultimately it falls to the BPU to approve rate changes.



DEFEASANCE OF EXISTING DEBT

In connection with the sale of the System via referendum or WIPA, State law requires that the Borough utilize sale proceeds to, among other statutory requirements, defease (i.e. "pay off") its outstanding debt, first with respect to all debt of the System and second with respect to all other debt of the Borough. Based on our review, as of December 31, 2025, the Borough has approximately $7.6 million of Sewer Utility debt and approximately $5.2 million of general improvement debt outstanding. Such debt includes general obligation bonds, bonds and bond anticipation notes issued through the Monmouth County Improvement Authority (the "MCIA"), NJIB loans and a capital lease. We are not aware of any Federal grant proceeds that have been utilized to improve the System.

Outstanding Sewer Debt. **Table IV** details the Borough's $7.6 million of Sewer Utility debt outstanding as of December 31, 2025. This is comprised of fixed rate, long-term bonds, short-term bond anticipation notes issued through the MCIA and NJIB loans (the "Outstanding Sewer Debt"). The Outstanding Sewer Debt matures in annual installments through 2050 and is subject to various prepayment provisions as detailed below. We are not aware of any authorized but not issued debt that would need to be repaid from sale proceeds.

TABLE IV - Defeasance of Sewer Utility Debt as of 12/31/2025

Series	Amount Outstanding	Final Maturity	Redemption Provisions	Est. Cost of Defeasance[(1)]
Series 2024	$417,000	12/01/34	Non-Callable	$402,743
Series 2021	200,000	05/01/32	05/01/28	172,642
NJIB Loans	1,915,010	12/31/50	See Loan Documents	1,835,027
BANs	5,055,000	03/13/26	Non-Callable	5,055,000
	$7,587,010			$7,465,413

(1) Assumes net funded escrow using SLGS rates as of December 18, 2025. Based on January 1, 2027 settlement date for presentation purposes.

Outstanding General Debt. In addition, **Table V** details the Borough's $5.2 million of general improvement debt outstanding as of December 31, 2025. This is comprised of fixed rate, long-term bonds, short-term bond anticipation notes issued through the MCIA and a capital lease (the "Outstanding General Debt"). The Outstanding General Debt matures in annual installments through 2034 and is subject to various prepayment provisions as detailed below. We are not aware of any authorized but not issued debt that would need to be repaid from sale proceeds.

TABLE V - Defeasance of General Improvement Debt as of 12/31/2025				
Series	Amount Outstanding	Final Maturity	Redemption Provisions	Est. Cost of Defeasance[1]
Series 2024	$745,000	12/01/34	Non-Callable	$673,917
Series 2021	2,325,000	05/01/33	05/01/28	2,041,698
Capital Lease	17,000	12/31/27	Non-Callable	9,000
Loans	0	n/a	n/a	0
BANs	2,070,000	03/13/26	Non-Callable	2,070,000
	$5,157,000			$4,794,614
(1) Assumes net funded escrow using SLGS rates as of December 18, 2025. Based on January 1, 2027 settlement date for presentation purposes.				

Debt Defeasance Cost. Also included in **Table IV** and **Table V** is an estimated cost to retire the Borough's Outstanding Sewer Debt and Outstanding General Debt, based on current investment rates. The projected cost to defease the Borough's outstanding debt is based on a combination of: (i) the outstanding principal amount; (ii) the interest cost payable through the respective redemption date of each series; and (iii) available investment rates for the escrowed proceeds.

The Borough can invest proceeds from a potential sale in government obligations, known as State and Local Government Series ("SLGS") securities, to help offset a portion of the defeasance cost. Based on current market conditions, and assuming a January 1, 2027 settlement date (for presentation purposes only), the projected cost to defease all of the Borough's Outstanding Sewer Debt is approximately **$7.5 million** and the projected cost to defease all of the Borough's Outstanding General Debt is approximately **$4.8 million**. Note that these amounts assume that the Borough will make all budgeted debt service payments from now until the estimated settlement date, and are subject to change based on interest rates and timing of the defeasance.

SYSTEM VALUATION

In order to assess the value of the System, we employ a number of valuation methodologies that look at value from various perspectives in order to produce a reasonable range of potential outcomes. Understanding the potential value of the System is of paramount importance as the Borough moves through this process and puts the Borough in a strong position to make better decisions for its taxpayers and ratepayers. We typically employ the following asset-valuing methodologies: (i) replacement cost and original cost approaches; (ii) income capitalization approach; and (iii) market comparable approach. With all approaches, we have applied a typical inflationary factor to projected cash flow during the calculation period.

Replacement/Original Cost Approach. When valuing an asset, it is important to consider the amounts that the Borough has invested in the System and the potential cost for another entity to recreate the infrastructure needed to operate the System. Original cost less depreciation ("OCLD") is the preferred methodology for valuing systems through the referendum method. Replacement cost less depreciation ("RCLD") is the preferred methodology for valuing systems under WIPA. As noted herein, we have not been provided technical details regarding the inventory, age, condition, original cost or replacement cost of the System assets. However, we have been advised that the Borough recently replaced/rehabbed approximately 40% of the System for a total estimated cost of approximately $8 million. We assume the other 60% of the System has generally depreciated beyond its useful life. Accordingly, we estimate the OCLD to be approximately **$8 million** and the RCLD to be approximately **$9 million.**

Income Capitalization Approach. One of the most common ways to value any revenue-producing asset is using income capitalization. With respect to the System, we expect that a private owner will be able to capitalize on higher tariff rates and various operational efficiencies, resulting in an estimated initial net income of approximately $400,000. This net income figure was projected by (i) increasing sewer rates commensurate with those of investor-owned public utilities; (ii) eliminating various operating expenses that would not apply to a private operator, such as debt service and statutory expenditures; (iii) applying an efficiency factor to the remaining salaries & wages and operating expenses; and (iv) estimating the annual capital needs to maintain the System in a state of good repair.

Phoenix Advisors uses the average of three (3) income approaches to determine the value of the System under this methodology. First, we applied a revenue multiplier of 3.0x, which is based on an average of the multipliers (sales price vs. system revenue) derived from recent similar sewer system sales to the projected 2027 revenue for the System ("Analysis #1"). Second, Phoenix Advisors applied an estimated capitalization rate of 7.50% (based on the typical allowable returns to public utilities) to the projected 2027 net income to develop a simple valuation ("Analysis #2"). Lastly, we applied the industry standard method of converting net income to a value using a discounted cash flow analysis. This method determines the "present value" of the future projected cash flows to the current year through the use of a risk adjusted weighted average cost of capital of 7.50% ("Analysis #3"). After performing the three (3) calculations described above, we

averaged the results, which produces a valuation of approximately **$6.2 million**, as shown in **Table VI**.

TABLE VI - Income Capitalization Approach	
Description of Method	**Sewer Utility**
Financial Summary	
Operating Revenue	$2,300,000
Less: Operating Expenditures	1,900,000
Surplus/(Deficit)	$400,000
Analysis #1	
System Use Charges (2027 Est.)	$2,100,000
Revenue Multiple	3.0
Gross Valuation	**$6,200,000**
Analysis #2	
Net Operating Income (2027 Est.)	$400,000
Estimated Capitalization Rate	7.50%
Gross Valuation	**$5,600,000**
Analysis #3	
WACC Discounted Cash Flow Rate	7.50%
Gross Valuation	**$6,700,000**
Average Valuation:	**$6,200,000**

Market Comparable Approach. Based on our research, we have identified various recent sales of sewer systems in New Jersey (as shown in **Table VII**) and evaluated the sales price in terms of: (i) price per customer; (ii) price per mile of infrastructure; and (iii) price as a multiple of sewer charges. Notably, we have found that, for similar sewer systems, the price per customer has been approximately $1,750, the price per mile of asset infrastructure has been approximately $375,000 and the price per dollar of sewer charges has been approximately 3.0x. Extrapolating this data and applying it to the System results in an average value of approximately **$5.4 million**.

TABLE VII - Other NJ Water/Sewer System Sales						
Entity	Year of Bid	System Type	Sales Price	Customers	System Rents	Price per Customer
Haddonfield Borough	2015	Water/Sewer	$28,675,000	4,500	$3,677,000	$6,250
West Milford Township	2018	Water/Sewer	11,300,000	1,700	1,800,000	6,750
Long Hill Township	2019	Sewer	12,700,000	2,900	2,204,800	4,500
Mt. Ephraim Borough	2019	Sewer	1,400,000	1,800	225,000	750
Allendale Borough	2021	Water	18,000,000	2,500	2,100,000	7,250
Egg Harbor City^	2021	Water/Sewer	21,800,000	3,000	2,079,000	7,250
Saddle River Borough**	2022	Water	3,700,000	500	590,000	7,500
Somerville Borough	2022	Sewer	7,000,000	3,800	2,800,000	1,750
Bound Brook Borough	2022	Sewer	5,000,000	2,800	1,700,000	1,750
Manville Borough	2023	Sewer	6,500,000	3,700	1,900,000	1,750
Shrewsbury Borough^	2024	Water	525,000	265	72,000	2,000
Salem City	2024	Water/Sewer	18,000,000	4,600	2,600,000	4,000
Manalapan Township	2024	Water	4,000,000	2,500	1,975,000	1,500
South Orange Village	2024	Water	19,700,000	4,600	4,850,000	4,250
Hopewell Borough*^	2025	Water	6,400,000	850	900,000	7,500
*In Progress; ^WIPA; **Not Sold						

Estimated Valuation. In summary, we estimate the valuation of the System, in a state of good repair, to be in the range of approximately **$5.2 to $7.8 million**, based on the various approaches discussed above and shown in **Table VIII**. However, the ultimate value may be impacted further due to overdue capital improvements, aging infrastructure or other unknowns.

TABLE VIII - Valuation Summary	
Valuation Method	Sewer Utility
1. Original Cost Approach (20%)	$8,000,000
2. Replacement Cost Approach (10%)	9,000,000
3. Income Capitalization Approach (30%)	6,200,000
4. Market Comparable Approach (40%)	5,400,000
Weighted Average of Valuation Methods	6,500,000
Estimated Valuation Range (+/-20%)	**$5,200,000 to $7,800,000**

Additionally, we note that the WIPA legislation passed by the State in 2015 supports the "fair market value" pricing for the sale of water and wastewater utility systems rather than the prior approach based on the original cost/depreciation of the asset and/or traditional asset valuation methods. Nationally, the outcome usually results in a higher sale price than municipalities would

typically receive under the prior methodology. The BPU incorporates the sale price into the operator's rate base across the State, thus considering the revenues and rates of the private operator outside of the subject municipality. In short, by spreading the potential costs and revenues across the private operator's rate base, the purchase price to municipalities has generally been significantly higher. Due to the "fair market value" approach to pricing, the ultimate sales price is dependent on a number of factors that are unique to the buyer and not always transparent.

CONCLUSION

The decision-making process regarding the potential sale of the System involves several considerations, both financial and otherwise. As a result of aging infrastructure, the Borough has invested a lot into the System in recent years and is still facing significant capital needs over the next five (5) years. Additionally, we have seen many municipalities in the State face increased financial, technical, operational and regulatory challenges due to the regulatory environment, staffing concerns and deferred capital investment. A sale of the System could alleviate these pressures and provide the Borough with a large upfront payment that can be used to pay down debt, providing relief to taxpayers. Conversely, a sale of the System would result in the loss of rate-setting control for the Borough and potentially lead to higher sewer rates in the long term.

Particularly of note to the Borough is the potential impact on the Current Fund budget if the Borough were to sell the System. As noted herein, we understand that there is currently no direct subsidy to or from the Borough's Current Fund, however, the Borough allocates a share of certain administrative costs to the utility budgets. Based on information provided by the Borough and the methodology described herein, we estimate this cost to be approximately $275,000, which includes salaries, benefits, insurance and administrative costs of employees whose primary role is related to general government functions (i.e. administrator, clerk, tax collector, CFO, to name a few). These costs, assuming they are maintained at the current levels, will need to shift to and be funded by the Current Fund. Further, the Borough would begin paying for sewer service since they currently receive such services at no cost. These items would likely need to be offset by a combination of tax increases, reductions to appropriations and/or debt defeasance savings, should the Borough eliminate the ability to share costs with the Sewer Utility.

As discussed herein, generally the sales proceeds from the System must be used for the repayment of Borough debt. Assuming a sales price in the middle of our projected range (i.e. $6.5 million), the Borough would not have sufficient funds available to defease all of the Outstanding Sewer Debt detailed in **Table IV**. In this case, the shortfall would be approximately $1 million. It is unclear as to whether or not a potential purchaser would pay a premium for the System in order to allow the Borough to defease all of the Outstanding Sewer Debt. That said, if the sales price falls towards the higher end of the projected range ($7.8 million), then sufficient funds would be available to defease all of the Outstanding Sewer Debt. Typically, the Borough would want to obtain excess sale proceeds that could be applied to defease the Outstanding General Debt in addition to the Outstanding Sewer Debt. The elimination of Outstanding General Debt would provide direct savings to the current fund budget and would likely offset the increased costs mentioned above. **Based on this analysis, the sale of the System would be modestly budget negative when accounting for the potential debt defeasance savings, shifting costs routinely paid by the Sewer Utility over to the Current Fund and the potential for additional sale proceeds.**

Finally, since the Borough is a member of TNSA via service contract, it would need to be further investigated if the Borough could ultimately get out of its obligation under the service contract after a potential sale. TNSA relies on the Borough's proportionate general obligation pledge

(which we estimate to be approximately 12% based on the 2025 budget) to secure its debt service and operations via the "annual charge". This means that, in the worst-case scenario, Borough taxpayers could ultimately be responsible for TNSA charges in the event that the new owner does not pay its share or other participants do not pay their share. While this is not necessarily detrimental to a potential sale, it should be discussed further with the Borough's professional team, legal counsel and ultimately the TNSA team.