

REGULAR MEETING MINUTES

October 22, 2018

The Regular Meeting of the Lehigh County Authority was called to order at 12:00 p.m. on Monday, October 22, 2018, Chairman Brian Nagle presiding. Other Members present at the commencement of the meeting were: Linda Rosenfeld, Jeff Morgan, Richard Bohner, Norma Cusick, and Scott Bieber. Ted Lyons was on the conference phone for the duration of the meeting. Authority Staff present were Liesel Gross, Ed Klein, Pat Mandes, Brad Landon, Chuck Volk, John Parsons, Chris Moughan and Susan Sampson.

REVIEW OF AGENDA

Chairman Nagle announced that today's Board meeting is being videotaped and streaming live and recordings will be posted to the Authority's website.

Liesel Gross noted no changes to the agenda and said there would be an Executive Session at the end of the meeting to discuss matters of potential litigation.

APPROVAL OF MINUTES

October 8, 2018 Regular Meeting Minutes

Richard Bohner offered one grammatical correction to the minutes. On a motion by Richard Bohner, seconded by Norma Cusick, the Board approved the Minutes of October 8, 2018 meeting as corrected (7-0).

PUBLIC COMMENTS

None.

Kevin Baker entered the meeting at 12:20 p.m.

ACTION AND DISCUSSION ITEMS

2019 Budget

Liesel Gross reviewed the Executive Summary of the 2019 Proposed Budget that was prepared and distributed to the Board prior to the meeting. She highlighted the revised planning schedule which will begin next year with an updated five-year capital plan that will be used to forecast future rate requirements in advance of the annual budget process.

Ed Klein offered a brief summary of the 2019 Proposed Budget, which included no changes from the October 8, 2018 detailed presentation to the Board. He highlighted that the budget proposal includes adequate revenues to achieve required debt service coverage ratios, and that the measure for days of operating cash on hand is achieved in Suburban Water, but not in the Suburban Wastewater or City Division budgets, although they are improving over prior years. He also highlighted rate increases that are included in the budget projections including a 5 percent increase in the Suburban Water rates and a 5.1 percent increase in City Division rates. All funds are providing some operating revenue to support the capital improvements, with reserves or prior borrowing used to fund the remainder of the capital budget.

Liesel Gross reviewed comments provided prior to the meeting by Deana Zosky, who was unable to attend the Board meeting. Ms. Zosky's comments focused primarily on the Authority's need to address revenue shortfalls that would be required to cover system improvements and enhance financial sustainability, and reduce reliance on debt to fund capital improvements. Ms. Zosky would also like the Authority's financial system be more integrated between capital planning, budgeting, rate design and financial reporting.

Board discussion followed regarding revenue adequacy and how decisions are made to fund capital improvements from operating revenues versus debt. Jeff Morgan highlighted the large cash balances held in each operating budget and whether additional rate increases would be justified. Scott Bieber inquired about constraints within the lease agreement with Allentown and the municipal service agreements that constrain how the Authority can raise revenue. Liesel Gross responded to these questions and stated that the Suburban Water fund is the only area where the Authority has greater flexibility to raise rates on its own and to change its capital financing strategy because of agreements with the Suburban wastewater signatories and with the City Division, the concession agreement, all of which define the respective rate structures for those systems.

Brian Nagle stated that the 2019 Budget proposal does not include funding for all projects that may be required in the City Division under the terms of the lease agreement. Ed Klein agreed and stated the City Division budget only includes projects that the Authority can fund through current revenues or reserves.

Ted Lyons asked what the industry best practices are for utility rate setting and capital financing. Liesel Gross referred to the guidance manual prepared by the American Water Works Association and stated that the Authority uses the "cash needs basis" for rate making, in which all operating expenses minus depreciation are included in the rates along with debt service and any pay-as-you-go capital projects, which are typically projects focused on repairing and replacing existing assets. She suggested that additional discussion on capital financing strategy and rate impact could be conducted during the upcoming five-year capital plan development.

On a motion by Linda Rosenfeld, seconded by Norma Cusick, the Board approved the 2019 Budget. (8-0).

Suburban Division – Mechanical Asset Management Upgrade Project

Chuck Volk described the project as outlined in the Board agenda materials. The project will include various mechanical upgrades to Suburban Water and Wastewater assets such as repair and replacement of various pumps, valves, electrical equipment and other upgrades necessary to restore full working condition of the systems. He explained that this project is a continuation of the asset management condition assessment work that was completed two years ago, and that updated risk ratings would be assigned to these facilities at the completion of this project, for purposes of updating the Authority's key performance indicators for its Infrastructure Stability strategic goals.

Chuck Volk asked for approval of the Capital Project Authorization for the Construction Phase in the amount of \$431,427.00 which includes the Professional Services Authorization to D'Huy Engineering in the amount of \$29,800.00, the General Contract Award to Blooming Glen Contractors in the amount of \$221,299.00, and the Electrical Contract Award to Diefenderfer Electrical Contractors in the amount of \$125,328.00.

On a motion by Linda Rosenfeld, seconded by Norma Cusick, the Board approved the Capital Project Authorization for the Construction Phase in the amount of \$431,427.00 which includes the Professional Services Authorization to D'Huy Engineering in the amount of \$29,800.00, the General

Contract Award to Blooming Glen Contractors in the amount of \$221,299.00, and the Electrical Contract Award to Diefenderfer Electrical Contractors in the amount of \$125,328.00. (8-0).

Suburban Division – Wynnewood WWTP Upgrade Project

Chuck Volk described the project as outlined in the Board agenda materials. The project will include replacement of the circa-1980s wastewater treatment plant in the Wynnewood Terrace development in North Whitehall Township with a new sequencing batch reactor package plant. He noted that the bids were favorable as compared to the engineer's estimate and the new treatment technology will be an improvement for the community as it will be designed to meet all current treatment requirements as well as have capability to meet future potential treatment requirements that may be more stringent than the current permit. He noted that this project is already included in the 2019 Budget the Board approved earlier in the meeting and makes up a large portion of the Suburban Wastewater capital budget for next year.

Scott Bieber asked about treatment capacity of the new plant as compared to average flows. Mr. Volk explained the new plant will not increase capacity in the system and that the plant will be designed to treat 60,000 gallons per day. Average flows are 45,000 gallons per day. No significant growth is anticipated in this area of the township that would require additional capacity. The new treatment technology will be adequate to address peak wet-weather flows in this system.

Chuck Volk asked for approval of the Capital Project Authorization for the Construction Phase in the amount of \$4,025,570.00 which includes the Professional Services Authorization to Entech Engineering in the amount of \$262,500.00, the General Contract Award to Walabax Construction Services, Inc. in the amount of \$2,755,862.00, the Electrical Contract Award to Blooming Glen Contractors in the amount of \$637,861.00, and the HVAC/Plumbing Contract Award to Rogers Mechanical in the amount of \$94,347.00.

On a motion by Norma Cusick, seconded by Jeff Morgan, the Board approved the Capital Project Authorization for the Construction Phase in the amount of \$4,025,570.00 which includes the Professional Services Authorization to Entech Engineering in the amount of \$262,500.00, the General Contract Award to Walabax Construction Services, Inc. in the amount of \$2,755,862.00, the Electrical Contract Award to Blooming Glen Contractors in the amount of \$637,861.00, and the HVAC/Plumbing Contract Award to Rogers Mechanical in the amount of \$94,347.00. (8-0).

MONTHLY FINANCIAL REVIEW

Ed Klein gave an overview of the September 2018 financial report that was sent out with the Board packet. He explained positive variances in the year-to-date income statement compared to the forecast as resulting from timing of expenses which will be reconciled in the following month. In addition, reductions in capital spending as compared to forecast are driving cash flow results. Both variances are expected to be addressed in the October 2018 report, which will include an updated fourth quarter forecast.

MONTHLY SYSTEM OPERATIONS OVERVIEW

John Parsons reviewed the Monthly System Operations Overview report for September 2018. Brian Nagle asked for discussion on the continued bypasses that occur in the Heidelberg Heights wastewater system. Chuck Volk described prior work and planned future work to repair the collection system, and explained that additional work is needed to address the privately owned portion of the sewer system including homeowner service connections and sump pumps. Following Board discussion, Liesel Gross recommended the staff prepare a report of planned work in this area to address ongoing concerns about treatment plant bypasses during wet-weather events. Mr. Nagle

also reviewed the history of how the Heidelberg Heights and Wynnewood Terrace systems came to be part of the Authority's system after the developer-built systems were no longer being maintained under private ownership.

STAFF COMMENTS

Liesel Gross provided a brief update on the Executive Secretary's absence from the meeting due to medical reasons. The Board asked that their best wishes be conveyed for a speedy recovery.

SOLICITOR'S COMMENTS

None.

PUBLIC COMMENTS / OTHER COMMENTS

None.

Chairman Nagle called a recess at 1:00 p.m. The meeting reconvened at 1:05 p.m.

EXECUTIVE SESSION

An Executive Session was held at 1:05 p.m. to discuss potential litigation. The Executive Session ended at 1:38 p.m.

ADJOURNMENT

There being no further business, the Chairman adjourned the meeting at 1:38 p.m.

Richard H. Bohner
Secretary