

Lehigh County Authority & City of Allentown  
*July 27, 2020 – LCA Board of Directors Meeting*



# Allentown Water & Sewer Lease: A Renewed Partnership Approach

Our Water, Our Future!



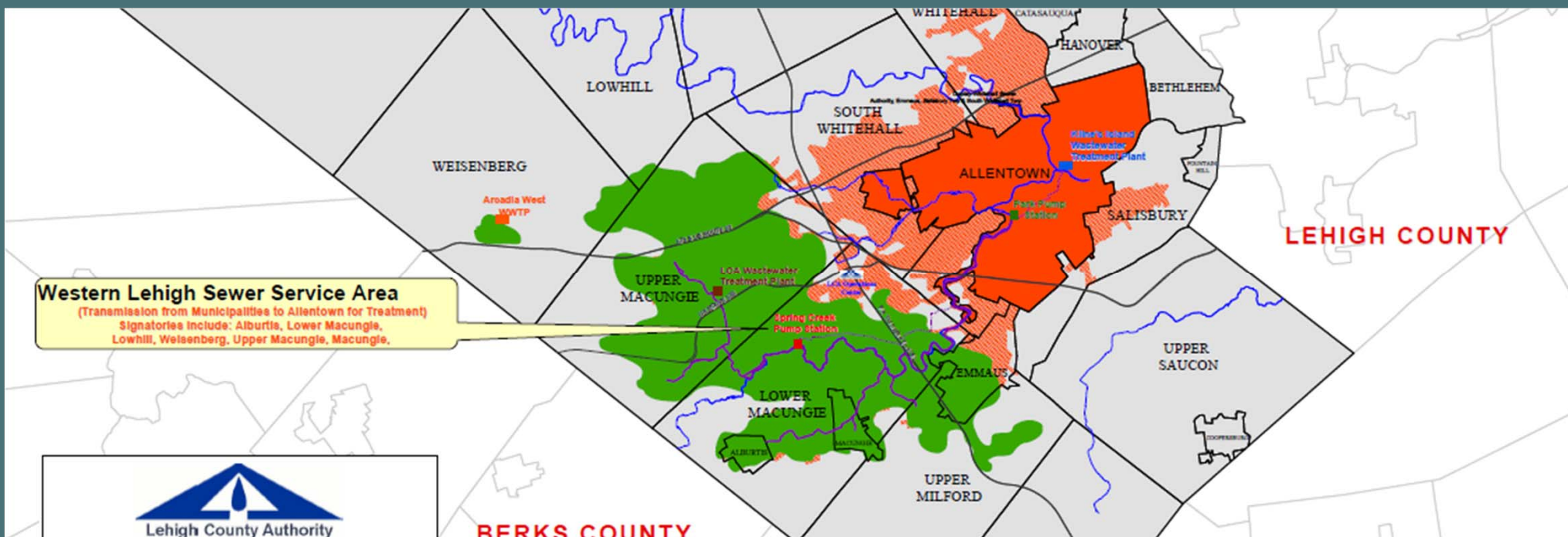
# Public Comments / Questions

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# LCA City System – Service Area

Allentown water & sewer systems serve the City of Allentown and 14 other neighboring municipalities




## LCA City System – Infrastructure

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- Water Treatment Plant: 30 million gallons per day (mgd) permitted; 21.8 mgd average day water production
- Wastewater Treatment Plant: 40 mgd permitted; 33 mgd average
- Water Mains: 320 Miles
- Sewer Mains: 316 Miles
- Fire Hydrants: 8,733
- Valves: 1,907
- Manholes: 7,198
- Storage Tanks: 7 (50 Million Gallons)
- Pump Stations: 7
- Air Release Valves: 81





## City Water / Sewer System Upgrades Needed (10-Year Outlook – 2021-2030)

- Water Filtration Plant = \$47M
- Wastewater Treatment Plant = \$39M
- Water Main Replacements = \$49M
- Sewer System Rehab = \$15M
- **Total System Need = \$150M**



## Current Status of Allentown Water/Sewer Lease

- Lease revenues missed the target (2014-2018)
- City system capital improvement needs are higher than expected
- Legal disputes compound problems:
  - Fraudulent Inducement Claim
  - Monthly Billing Dispute
  - Roof Project (“aggregation” Dispute)
  - Surcharge Dispute
  - Retiree Health Benefits Dispute
  - Union Employee Sick Leave Dispute

# Negotiating Solutions: Overarching Goals



Financial sustainability of LCA



Permanent solutions to avoid future disputes



Financial capacity to fund system improvements when they are needed



Long-term rate stability for Allentown customers



Renewed partnership approach between LCA and the City

# Proposed Resolution – Approvals Requested

- Four agreement documents make up the integrated global settlement
  1. Stand-Alone Dispute Settlement Agreement
  2. Amendment to Water Supply Agreement
  3. Amendment to Memorandum of Understanding – Capital Cost Recovery Charges
  4. Amendment to Concession Lease Agreement
- Water and sewer rate schedules updated for 10/1/2020 implementation
- Bondholder consent required to implement (to be reviewed in August)



# Stand Alone Dispute Settlement Agreement

- Resolves claims for employee health benefits & unreimbursed sick leave
- Roof replacement project reimbursement dispute resolved
- City waives its right to withhold approval of Capital Cost Recovery Charges which are greater than 200% of any other reporting year

# Amendment to Water Supply Agreement

- City to continue to sell 7 mgd of water to LCA's Suburban Division water system
- Minimum purchase requirement may be lowered if demand decreases
- Term extended 25 additional years to the end of the Lease, or longer if extended
- Rates will be adjusted to include equitable share of O&M and capital costs  
*(Lease debt / costs excluded from cost-sharing with LCA Suburban Division)*

## Amendment to MOU – Capital Cost Recovery Charge

- Refined definitions to avoid future disputes about capital cost recovery
- Clarifies timing of implementation of new charges to recover cost of projects
- Clarifies cost recovery mechanism for debt-funded vs. cash-funded projects

# Amendment to Concession Lease Agreement

- Capital Cost Recovery Charge terms amended; Equity rate of return on cash-funded projects capped at 5.45%; Major Capital Improvement definition clarified
- Event Driven Capital Improvements Fund up to \$2M for exploration of regulatory mandates
- City Rates phased in (2021-2024); first phase adds \$88 per year to customer bill
- Quarterly Billing Frequency maintained during phase-in period
- Rate Relief for City Customers after LCA achieves key financial metrics
- Annual City Lease Administration Payment of \$400,000
- Main replacements reduced, leak detection increased during phase-in (2021-2024)
- Sewer Collection System Improvements Fund of \$650,000 per year after City completes projects in Regional Flow Management Strategy
- Options for Renewal of Lease in 2063

# LCA City Division -Water & Sewer Rate Schedules

- Changes to fixed charges:

## Water Rates

Meter Size	Current Quarterly Charge	10/1/2020 Quarterly Charge
5/8"	\$30.47	\$46.80
3/4"	\$37.36	\$53.69
1"	\$51.13	\$67.65

## Sewer Rates

Meter Size	Current Quarterly Charge	10/1/2020 Quarterly Charge
5/8"	\$10.57	\$16.26
3/4"	\$12.96	\$18.64
1"	\$17.71	\$23.40



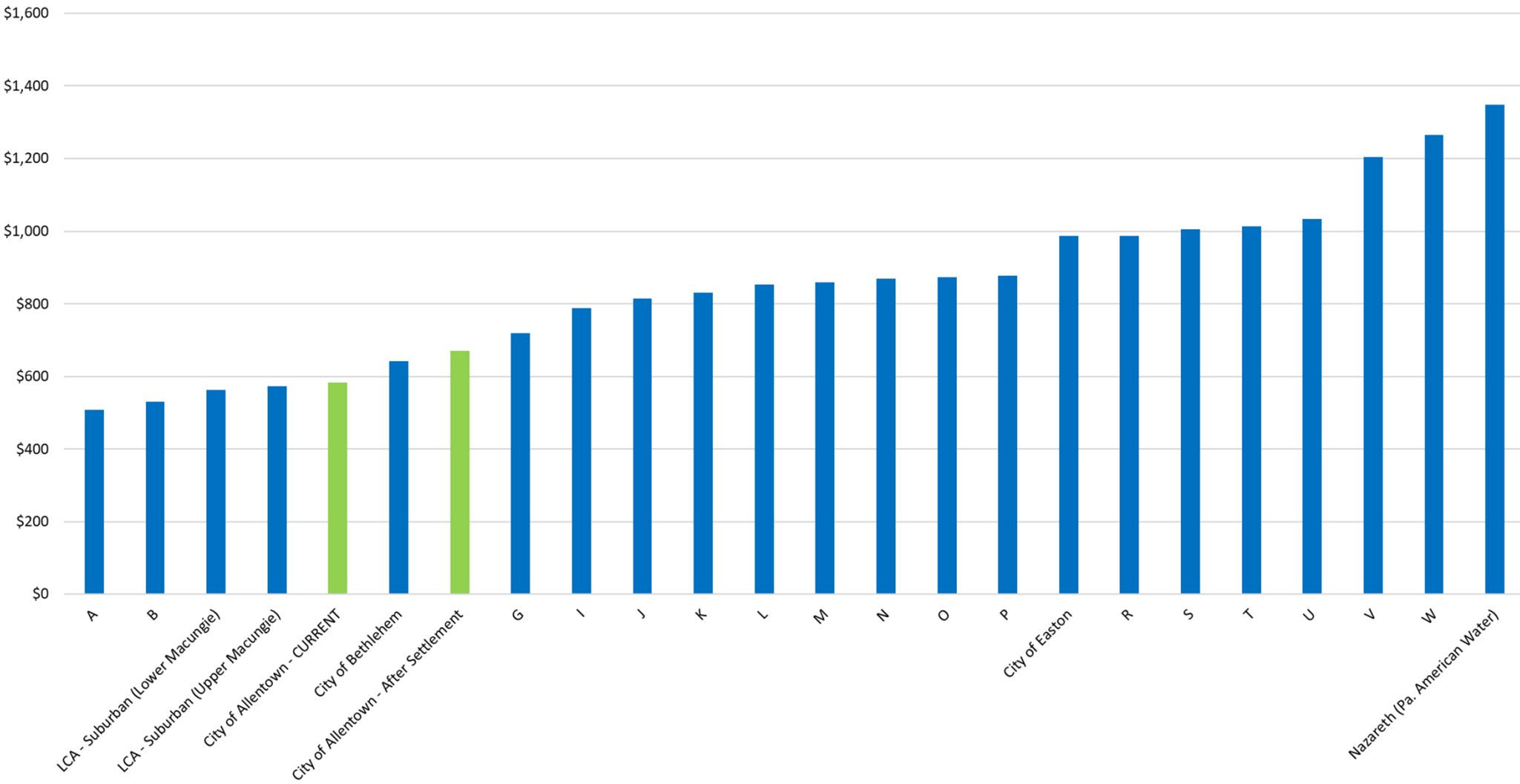
# What does it mean?

## *Billing Example – 2020 Residential Bill for 15,000 Gallons*

Bill Components:	Current	10/1/2020*
Fixed Charge – Water	\$30.47	\$46.80
Water Volume Charge	\$56.56	\$56.56
Water Capital Cost Recovery Charge	\$5.17	\$5.17
Fixed Charge – Sewer	\$10.57	\$16.26
Sewer Flow Charge	\$40.44	\$40.44
Sewer Capital Cost Recovery Charge	\$2.01	\$2.01
Administrative Order Fee	\$0.55	\$0.55
Total Bill per Quarter	<b>\$145.77</b>	<b>\$167.79</b>
<b>TOTAL ANNUAL WATER/SEWER BILL</b>	<b>\$583.08</b>	<b>\$671.16</b>

*\* Due to proration of new rates through a 3-month quarterly bill cycle, customers will not see the full impact until January 2021.*

Lehigh Valley Water & Sewer Rate Comparison (Data from 2019-2020)  
24 communities in Lehigh Valley - average annual residential water & sewer bill (5000 gallons per month)



## Purpose of Bond Refinancing *(more detail provided in August)*



Effectuate integrated agreement to settle all outstanding disputes between LCA and Allentown (achieve 51% bondholder consent)



Extend the maturity of the LCA debt to a more manageable level



Realize interest rate savings

# Expected Results: Improved Lease Performance & Renewed Partnership



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*July 27, 2020 Approvals Requested by LCA Board of Directors:*

- *Resolution 7-2020-1 (approval of 4 agreements)*
- *Updated Water Rate Schedule*
- *Updated Wastewater Rate Schedule*

Thank you!



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