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NEWS RELEASE

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CITY & LCA REACH TENTATIVE SETTLEMENT

Negotiators for the City of Allentown and the Lehigh County Authority (LCA) have reached a tentative settlement ending years of disputes and litigation and solidifying their partnership on the concession lease of Allentown's water and sewer utility systems through 2063.

The tentative settlement is the product of years of negotiations and must be approved by Allentown City Council, the LCA Board of Directors and LCA bondholders. It is recommended by the city administration and LCA management.

The settlement terms and conditions bring to an end a number of disputes that were in various stages of resolution. The settlement also includes compromises on issues that developed over time due to differing interpretations of terms of the lease document.

The settlement ensures that the exceptional quality of drinking water and treated sewage effluent are continuously maintained serving city and suburban customers. It ensures funding from all beneficiaries is available for all necessary capital improvements to the water and sewer systems and provides for LCA's continuous and financially sustainable operation of the system.

"The settlement avoids the risks, uncertainty and very expensive legal costs associated with arbitrations and court actions for both the city and LCA," said

Mayor Ray O'Connell. "Issues developed over time that were not anticipated in the original agreement. Both sides have moved substantially from their original positions. The settlement is in the combined best interests of the city, LCA and our ratepayers."

Liesel Gross, Chief Executive Officer for LCA, said "this agreement goes a long way toward renewing the sense of partnership between LCA and the City, which will bring benefits to the entire region. Ensuring the city's water and sewer system can be maintained and costs fairly distributed to all users is critical to ensuring the public's health and the region's quality of life are protected."

At the heart of the disputes, and the new settlement approach developed by the city and LCA over the past two years, is a concern about how the city's vast network of water and sewer system assets will be maintained, and who will pay for the necessary upgrades as the system ages. LCA estimates about \$150 million in system improvements are needed over the next 10 years, which is normal for a system the size and age of Allentown's.

The settlement revises a 2009 water purchase agreement on the costs paid by LCA for water for its suburban division, supporting a regional approach to water supply management. City customers use an average 11 million gallons a day while suburban customers use an estimated 7 million gallons of water from the city's water treatment plant each day, and an additional 3 million gallons per day from local groundwater sources. LCA will now pay for water purchased from the city system based on actual production costs and will pay a proportionate share of the cost of all capital improvements at the water treatment plant in Allentown. These are costs not currently shared with LCA's suburban division based on the terms of the prior agreement. The updated agreement will increase LCA's city division revenues and lower the cost of those projects to the city customers.

LCA will also phase in the higher rates already included in the lease for city customers over a period of four years while maintaining a quarterly billing cycle. New rates applied beginning in October will result in an approximate \$88 increase per year to most customers. By 2024, with the full rates in place, the approximate increase will be \$176 per year plus inflationary increases.

A key component of the settlement, in addition to these near-term changes in rates and cost sharing, is long-term rate stability to be provided by LCA. If the agreement is approved, LCA will provide "rate relief" to city customers upon achievement of key financial benchmarks including meeting bondholder requirements and achieving adequate reserves for future system improvements. Rate relief included in the agreement will come in the form of frozen rates or potential rate reductions in the future, a new provision that is not part of the current lease agreement.

To support the city's administration of the lease along with the city's other related water and sewer expenses, LCA will contribute \$400,000 annually beginning in 2021. Those costs are currently borne by the city's General Fund.

The terms of the settlement also address issues such as minimum annual pipeline replacement, calculation of the Capital Cost Recovery Charge, rate adjustments and capital improvement funding. They also address procedures to be followed as the lease nears its end.

A final vote of the LCA Board is expected on Monday, July 27, following presentation to the Board on Monday, July 20. Details on public participation in LCA's meetings, which will be held virtually due to the pandemic, can be found online at lehighcountyauthority.org. All comments for LCA's consideration should be forwarded to info@lehighcountyauthority.org.

A final vote of Allentown City Council is expected on Wednesday, August 5, following a presentation at a Council meeting scheduled for Wednesday, July 22.

City Council meetings will be livestreamed. The link to the meeting can be found on the city website with the agenda and legislation at <https://www.allentownpa.gov>. Council will receive comments on the legislation prior to the meeting and during the meeting prior to the vote on the bills. All comments for the city's consideration should be forwarded to Michael.Hanlon@AllentownPa.gov.

Approval of the bondholders will be sought in time for implementation on October 1, 2020.