

SPECIAL MEETING MINUTES

July 20, 2020

A Special Meeting of the Lehigh County Authority Board of Directors was called to order at 12:02 p.m. on Monday, July 20, 2020, to discuss the proposed Allentown Water & Sewer Lease settlement and any other Authority business brought before the Board, Chairman Brian Nagle presiding. The meeting was held via video and audio advanced communication technology (“ACT”), using the ZOOM internet application, due to the COVID-19 pandemic emergency. Each Board member and other attendees of the meeting were able to hear each other attendee and be heard by each other attendee. The public could also participate in the meeting via ACT, using the ZOOM internet application. A Roll Call of Board members present was taken. Chairman Brian Nagle, Kevin Baker, Norma Cusick, Richard Bohner, Linda Rosenfeld, Jeff Morgan, and Amir Famili were present through ACT for the duration of the meeting.

Solicitor Michael Gaul was also present via ACT. Authority Staff present via ACT were Liesel Gross, Ed Klein, John Parsons, Chris Moughan, Lisa Miller, Susan Sampson, Phil DePoe, Andrew Moore, Chuck Volk, and Todd Marion.

Chairman Nagle announced the Board received the Board packet in advance of the meeting.

REVIEW OF AGENDA

Liesel Gross stated there are no changes to the agenda.

APPROVAL OF MINUTES

None.

PUBLIC COMMENTS

None.

ACTION AND DISCUSSION ITEMS

Allentown Water & Sewer Lease – Proposed Settlement of Disputes (presentation and discussion)

Liesel Gross gave a presentation of the proposed settlement between the City of Allentown and the Authority regarding the Allentown Water & Sewer Concession Lease. Ms. Gross emphasized that the approach is based on a renewed partnership between the City of Allentown and the Authority. She encouraged anyone with comments to email them to info@lehighcountyauthority.org, and all comments should include the person’s name and municipality. The Authority staff will read all submitted comments and questions following the conclusion of the presentation. Comments and questions can also be submitted during the meeting using the chat feature of the Zoom software.

Ms. Gross reviewed the background and history of the Allentown Water and Sewer Concession Lease Agreement (Lease) and the financial structure, including the Authority’s upfront payment to Allentown in the amount of \$220 million for the right to operate the City systems for a period of 50 years. She reviewed the bidding process and the bonds issued by the Authority to fund the upfront costs associated with the lease. During the first five years operating under the lease, revenues were much lower than anticipated, leading to a decreased ability to fund system improvements, and an increased risk to system operations. The biggest risk associated with these challenges is the

Authority's reduced ability to fund improvements to an aging system. Ms. Gross also reviewed the legal disputes raised by the Authority and the City during this time period, which added to the challenges. She stated an important reminder is that a well-run water and sewer system is essential for protecting public health and the environment, and for ensuring the economic vitality and quality of life of our region.

After reviewing the key goals shared by the Authority and the City during negotiations, which began about two years ago, Ms. Gross reviewed the details of the settlement agreement that has been reached. There are three major building blocks in the new agreement: meeting revenue requirements, upgrading the water and sewer system, and enhancing the partnership. Meeting revenue requirements consists of three main components: phased rate increases to City customers, opportunity for future rate relief, and a change in cost-sharing agreement for the bulk sale of water supply from the City system to the LCA Suburban Division. The rate increase to City customers will begin on October 1, 2020 and will equate to \$88 per year. Subsequent rate increases will be phased in annually over the next four years. Future rate relief is proposed as a new term of the lease, whereby rates to City customers will be frozen or reduced once the Authority achieves key financial metrics. For the purchase of water from the City system by the LCA Suburban Division, water treatment costs will be shared equitably based on the proportionate share of water sales, with no lease costs or debt service associated with the lease bonds passed on to the Suburban Division. This amendment to the water supply agreement, and extension of the term of that agreement to 2063, will allow for a watershed-based approach to supply management that the Authority has sought for many years.

The second building block of the settlement agreement relates to upgrading the water and sewer system. There are some adjustments that will be made to the method of recovering costs for capital improvements, including capping the equity rate of return applied to Major Capital Improvements at 5.45 percent. During the four-year phase-in period, water main replacements will be reduced to 1 mile per year and Authority leak detection activity will increase to 165 miles per year. Another component of system upgrades includes addressing sewer system rehabilitation following the City's completion of projects outlined in the Regional Flow Management Strategy. The settlement agreement provides for the Authority to continue sewer system improvement work after the City has completed its projects, at a cost of \$650,000 per year, to address inflow and infiltration into the City sewer collection system.

The third building block of the settlement agreement relates to enhancing the partnership and resolving the disputes between the Authority and the City. By settling the disputes, both the City and LCA can focus on system operations and improvements, rather than spending customer fees on legal fees. Some additional mutual support will be provided via cost-sharing for retiree health benefits, the Authority's contribution of \$400,000 per year to help defray the City's water and sewer administrative and regulatory expenses, and exploration of options for lease renewal, system sale or consolidation at the end of the lease.

A summary of the expected results was reviewed, highlighting the expected improved financial performance of the lease and the positive impact of future rate relief for City customers. The proposed settlement includes the following four documents: an amendment to the lease agreement, amendment to the memorandum of understanding regarding capital cost recovery charges, amendment to the LCA Water Supply Agreement, and a stand-alone settlement agreement to capture items that are not covered in any of the other prior documents. These four agreements together present the integrated approach to addressing all the items presented and resolving the disputes between Allentown and Lehigh County Authority. In addition to approving the four agreement documents, the Authority Board will also be asked to approve updated water and sewer

rate schedules, which were attached to the Board packet. Another important step is to receive bondholder consent. Ms. Gross said the option to refinance a portion of the lease bonds will be reviewed with the Board in August.

No questions or comments were received through email or Zoom during the meeting.

Jennifer McKenna, City of Allentown Office of Compliance, complimented Ms. Gross on a great presentation and stated that the City Compliance team will use the same template when they give a presentation to City Council, which will keep the message consistent and will emphasize the new partnership between the City and the Authority. The Board also complimented Ms. Gross and staff for their work on the settlement agreement.

Ms. Gross noted that the settlement agreement will be presented at the City Council meeting on Wednesday, July 22nd for discussion and comments. A link to view the meeting online will be provided to the Board and staff.

Jeff Morgan asked if the Authority received any comments from the public. Ms. Gross said none were received to date. She noted that any public comments received, along with any feedback received from City Council, will be sent to the Board by Friday, July 24th, and any additional comments received after Friday will be shared with the Board at the next regular meeting on Monday, July 27th. The Board will be asked to approve all documents and updated rate schedules at the July 27th meeting.

STAFF COMMENTS

None.

SOLICITOR'S COMMENTS

None, except to comment that Ms. Gross's presentation of the proposed settlement agreement was excellent.

PUBLIC COMMENTS / OTHER COMMENTS

Jennifer McKenna commented that the settlement agreement is the first agenda item at the City Council Committee of the Whole meeting on Wednesday, July 22nd, beginning at 6:00 p.m.

EXECUTIVE SESSION

None.

ADJOURNMENT

There being no further business, the Chairman adjourned the meeting at 1:05 p.m.

Richard Bohner
Secretary