

REGULAR MEETING MINUTES

September 28, 2020

The Regular Meeting of the Lehigh County Authority Board of Directors was called to order at 12:02 p.m. on Monday, September 28, 2020, 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, Richard Bohner, Norma Cusick, Ted Lyons, Kevin Baker, Jeff Morgan, and Amir Famili were present for the duration of the meeting.

Solicitor Michael Gaul of KingSpry was present along with Authority Staff, Liesel Gross, Ed Klein, Lisa Miller, John Parsons, Todd Marion, Andrew Moore, Susan Sampson, Chris Moughan, Chuck Volk, and Phil DePoe.

REVIEW OF AGENDA

Liesel Gross stated there are no changes to the agenda and noted that the Budget material and presentation were emailed and posted to the website. Ms. Gross requested an Executive Session after the regular meeting to discuss matters of personnel.

APPROVAL OF MINUTES

September 14, 2020 Meeting Minutes

On a motion by Richard Bohner, seconded by Norma Cusick, the Board approved the minutes of the September 14, 2020 Board meeting as written (7-0).

PUBLIC COMMENTS

None.

ACTION AND DISCUSSION ITEMS

2021 Preliminary Budget Review (Presentation and discussion only)

Liesel Gross reviewed the Authority's budget development process and explained that today's presentation would cover the preliminary financial information for the 2021 Budget. Before the next Board meeting on October 12, modifications may be made to the figures to be presented today, and those modifications will be provided to the Board prior to the next meeting.

Ed Klein gave a PowerPoint presentation, which reviewed the 2021 Preliminary Budget details. He reviewed the staffing levels for each department, noting that the 2021 Budget will incorporate four additional positions. Richard Bohner asked about the Wastewater Services Manager position that was noted as remaining vacant in 2021, and how those responsibilities would be addressed. John Parsons and Liesel Gross explained that the person who held that position provided ample notice of his retirement in 2020, allowing for proper succession planning activities to take place. The Wastewater Services Manager's duties were transitioned to other personnel over the last year or more, so that the position would not need to be filled when the retirement occurred last month. Mr. Klein then reviewed details of the various budgets included in the 2021 Preliminary Budget. In the Internal Services budget, he highlighted the reorganization of the budget into departmental units that

will provide more detail and accountability for expenses by each department manager. The internal Services expenses show a 9.1 percent increase from the 2020 Budget, mainly due to personnel, benefits, and information technology (IT).

Kevin Baker asked how the financial projections developed this summer to support the refinancing of the 2013 Lease Bonds are lining up with the 2021 Preliminary Budget. Mr. Klein stated that the preliminary figures for the 2021 City Division budget are in line with the projections.

For the Suburban Water Division budget, Mr. Klein explained that the preliminary budget is based on revenues increasing by 9.0 percent. This budgeted revenue increase is based on volume growth due to new connections, plus a rate increase of 7 to 7.5 percent. Rate projections will be presented in October. Mr. Klein explained that these revenue increases are necessary to achieve debt service coverage ratio of 1.10, which is required by the Suburban Water bonds. However, the Authority's internal financial target of 1.20 debt service coverage would not be achieved based on the preliminary budget figures presented. Mr. Klein reviewed the expense increases that are driving the need for significant rate increases in the Suburban Water Division. A primary driver is an increase in the cost to purchase water from the City of Allentown through a purchase agreement that was renegotiated this summer. In addition, staff additions to address preventive maintenance and technology upgrades in the Suburban Water systems are driving costs higher as well. As a result, even with a 9 percent revenue increase, limited operating cash is available for capital improvements, which will be funded through reserves in 2021. Mr. Klein noted that reserves are adequate to cover 2021 capital expenses without borrowing. Chuck Volk reviewed the planned capital improvements for 2021.

For the Suburban Wastewater Division budget, Mr. Klein explained that increased user revenues are expected due to higher projected municipal flows and loads, which will generate strong surpluses in 2021. The debt service coverage ratio remains well above internal targets and no borrowing is required to cover 2021 capital improvements costs. Chuck Volk discussed the wastewater capital budget and explained that the budget is lower than prior years because the Park Pump Station, Wynnewood Wastewater Treatment Plant, and the Sand Springs Wastewater Treatment Plant projects are nearing completion. While significant work is expected to be completed to develop additional sewer capacity and address the conveyance system bottleneck in the Trexlertown area, the work in 2021 will primarily focus on engineering and planning activities, which can be paid through existing reserves.

For the City Division budget, Mr. Klein explained that key components of the settlement agreement and amended lease agreement have been incorporated into the 2021 Preliminary Budget. This includes revenue increases due to rate changes and increase in water purchase revenue from the Suburban Water Division. Operating expenses are generally lower than the 2020 Budget and debt service is also reduced due to the refinancing of a portion of the 2013 Lease Bonds that was completed in September 2020. However, some expenses will increase due to additional payments to the City of Allentown based on the settlement agreement, along with higher capital expenses. He noted that the purpose of the settlement was to ensure funding is available for capital improvements, which is illustrated in the 2021 Preliminary Budget. Chuck Volk reviewed the capital improvements planned for 2021 in the City Division and highlighted new projects that were previously unfunded. In 2021, the Authority will restart its water main replacement program and complete 1 mile of water main replacement. Structural repairs noted in the annual bond indenture report will be completed. At the Kline's Island Wastewater Treatment Plant, the boiler replacement project will move forward in 2021. At the Water Filtration Plant, the project to replace the variable frequency drives (VFDs) for the high lift pumps will also move forward. Ed Klein noted that the VFD project was omitted from the 2021 Preliminary Budget, along with information about the potential financing of that project through

a PENNVEST loan. This information will be added to the modified budget figures presented to the Board in October.

Brian Nagle asked whether the additional costs associated with the renegotiated water purchase agreement between the Authority and the City of Allentown were appropriate to pass on to the Suburban Water Division customers. He noted that the settlement agreement with Allentown has regional benefits and inquired whether the cost increase could be shared differently. Liesel Gross explained that the renegotiated water purchase agreement is somewhat separate from the other terms of the settlement agreement. The primary benefit of the renegotiated water purchase agreement is that the actual cost to produce water at the City's water filtration plant is shared equitably among all users. The rate paid by the Authority to purchase water for its Suburban Water Division had not covered the actual cost to produce the water at the plant, and the renegotiated agreement addresses that issue. Therefore, the Suburban Water Division and its customers would be paying a higher rate, but that higher rate is based on the actual cost to run the water plant.

Ms. Gross noted that at the next meeting, the Board will receive updated 2021 Budget statements. Also, at the next meeting, Jennifer Montero, the Authority's Contracts Administrator, will provide the Western Lehigh User Charge Report for Board discussion and preliminary approval. Rates for the Suburban Water Division and City Division will also be discussed over the course of the next several meetings.

Amir Famili asked if there is a plan in place if the pandemic situation worsens and expenses and revenues continue to be adversely affected. Ed Klein explained that the 2021 Preliminary Budget includes conservative revenue and expense figures based on some continuation of the pandemic effects but does not include plans for another complete business shutdown, as occurred in early 2020. He noted that if that situation would happen again in 2021, the Authority would approach it in a similar fashion including instituting hiring freeze and deferring non-critical projects. Liesel Gross added that the Lease Agreement allows for discussion with the City of Allentown about a reduction of Operating Standards requirements in the event of an emergency, which could also be instituted to save expenses if needed.

Jennifer McKenna, City of Allentown Office of Compliance, thanked Ms. Gross for her clarification regarding the water supply agreement and reiterated that the amended agreement provides for a fairer method of sharing the cost of water production among all users. She also commented on the flow characterization study that is included in the City Division wastewater capital budget, explaining that the project will be pre-funded by the City but the costs will be shared by all municipalities due to the project's benefit to the region.

MONTHLY FINANCIAL REVIEW

Ed Klein gave a brief overview of the August 2020 Financial statements, noting the variances from the 2020 forecast.

MONTHLY SYSTEM OPERATIONS OVERVIEW

John Parsons reviewed the August 2020 operations report, noting that the number of sanitary sewer overflows (SSOs) and bypasses was incorrectly reported in the report. There were 27 SSOs and bypasses in August 2020, all resulting from Hurricane Isaias's record rainfall and flooding on August 5th.

STAFF COMMENTS

None.

SOLICITOR'S COMMENTS

None.

PUBLIC COMMENTS / OTHER COMMENTS

None.

EXECUTIVE SESSION

ADJOURNMENT

There being no further business, the Chairman adjourned the meeting at 1:40 p.m.

Richard Bohner
Secretary