

Kline's Island Sewer System

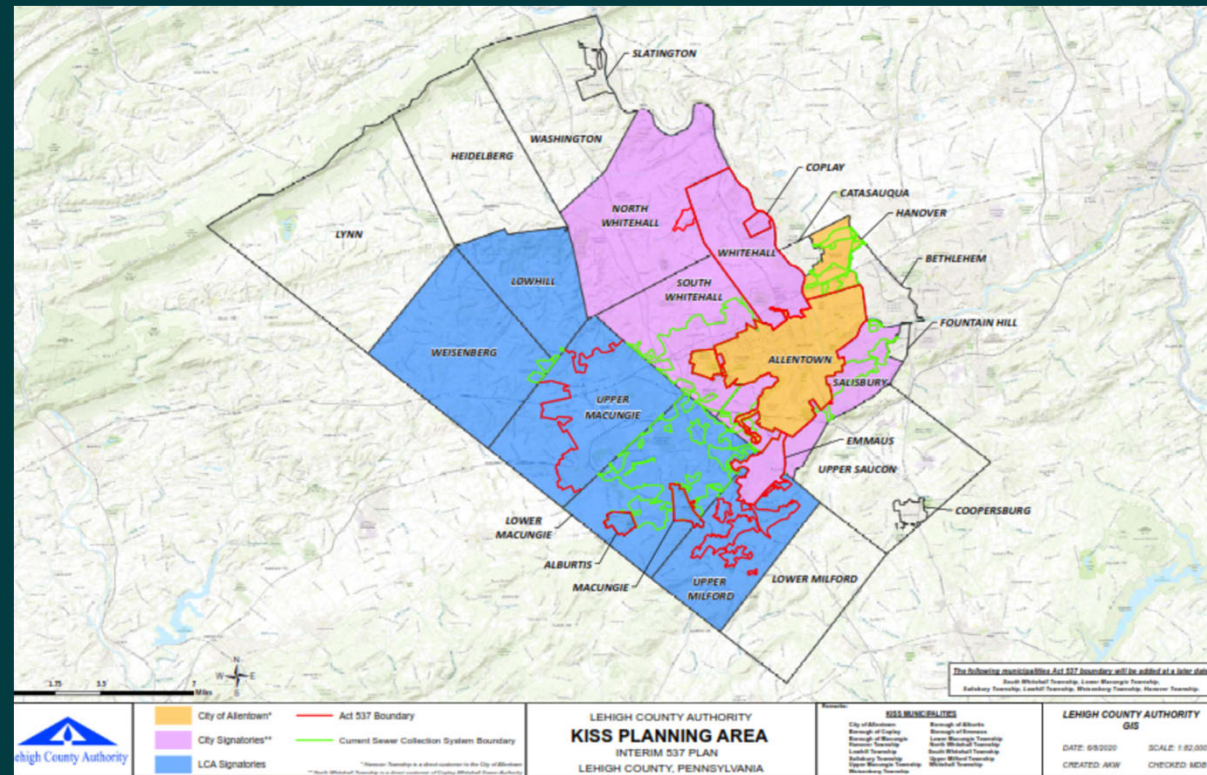
**Act 537 Financial & Institutional Evaluation –
Phase 1: Financial Data Collection and High-Level Analysis**

Final Board Presentation, July 10th, 2023



Agenda

1. Scope Review
2. Analysis Overview
3. Results
4. Discussion
5. Next Steps



Scope Review



Phase 1 Overview

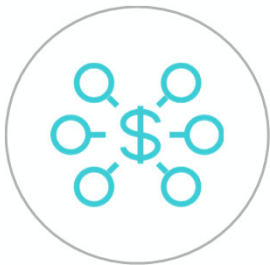
- **Purpose:** Conduct a high-level Financial & Institutional Evaluation to support the regional Act 537 Plan for the Kline's Island Sewer System (KISS).
 - › **Preliminary Steps:**
 1. Gather and review financial information for each community / utility to identify model inputs
 2. Summarize and project revenue, O&M, and capital expenditures and calculate cash flows
 3. Incorporate KISS capital investment needs to understand impacts
 4. Develop a high-level projection of rate and affordability impacts resulting from KISS investments
 5. Refine and carry this modeling forward in future phases to develop Act 537 chapters summarizing financial impacts for each community

Phase 1 Scope of Work



Task 1: Data Collection and Review

- Request for Information (attached)
- Coordinate with community representatives for data collection
- Compile and catalog all data received and make available to LCA and the City
- Establish data framework for municipalities for future updates



Task 2: Current State Cost Analysis

- Identify the current KISS system related costs
 - Operations and maintenance, existing debt service
 - Revenue recovery, including current intermunicipal agreements
- Summarize each Municipality's collection and conveyance system costs for high-level understanding of full sewer service cost for the KISS service area

Phase 1 Scope of Work, Cont'd



Task 3: Current State Financial Projection and High-Level Rate Analysis

- Summarize KISS system project costs
- Consider KISS system capital plan cost and potential financing assumptions, including financing capacities of municipalities
- Identify current rates charged by municipalities to customer base
- Determine high-level cost and rate implications for the municipalities for the KISS system upgrades



Task 4: Report Out

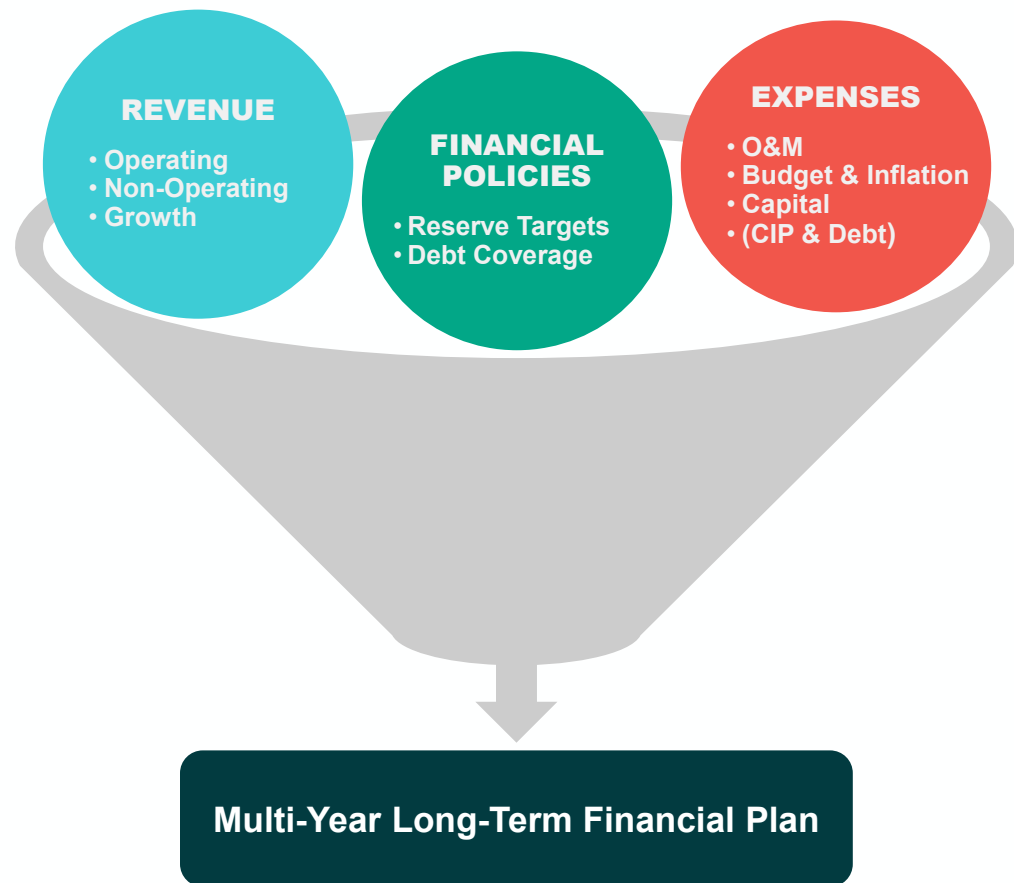
- Communicate results of findings via presentation to the signatories

Analysis Overview



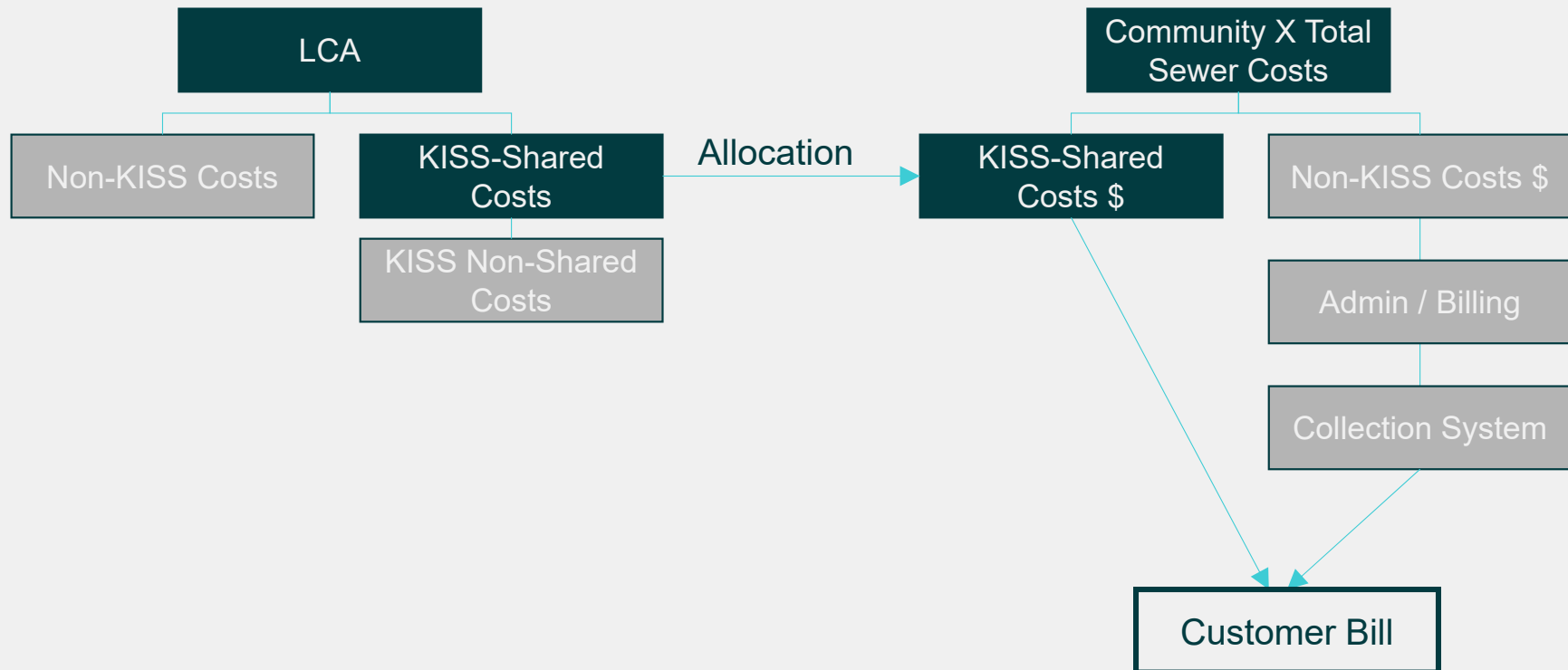
Phase 1 Financial Modeling

Projections of yearly
cash flows for each
Signatory



Phase 1 – Act 537 Financial Analysis

Goal is to determine what the high-level rate impact of wastewater investments will be for customers of each utility / municipality. To do that we do need to understand KISS related costs, but also need to understand how the rest of the revenue requirement is projected to evolve over the forecast period.



Shared City and Non-City KISS Costs: Recovered by Signatories

Kline's
Island
WWTP

Western
Lehigh
Interceptor

Little Lehigh
Relief
Interceptor

Pretreatment
Plant

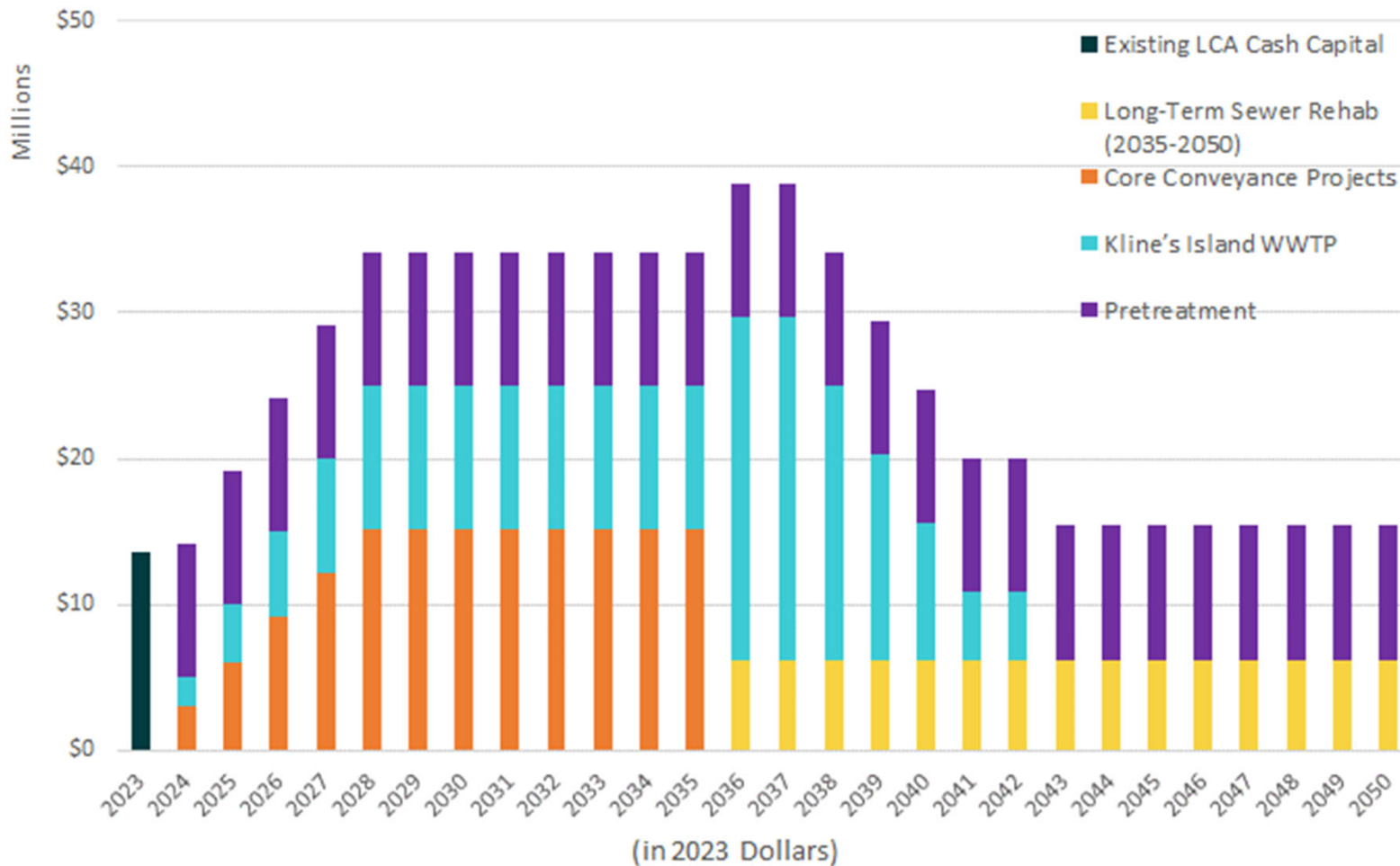
Preliminary Financial Analysis

Key Assumptions and Qualifiers

1. Financial analysis starts with the 2023 budgets for LCA and Signatories
 - › Cost allocations in base year were based on current agreements.
 - › Increases in LCA costs were applied proportionally to signatories.
 - › In future tasks, modifications to current cost allocations will be considered.
2. No state or federal grants were assumed in the analysis
3. No borrowing capacity constraints were considered yet
4. Preliminary capital plan for the KISS System is subject to change
 - › Also, revisions to Signatory capital plans (not KISS-related) may impact the overall results

Preliminary KISS Capital Improvement Plan

*In 2023 Dollars (Uninflated)

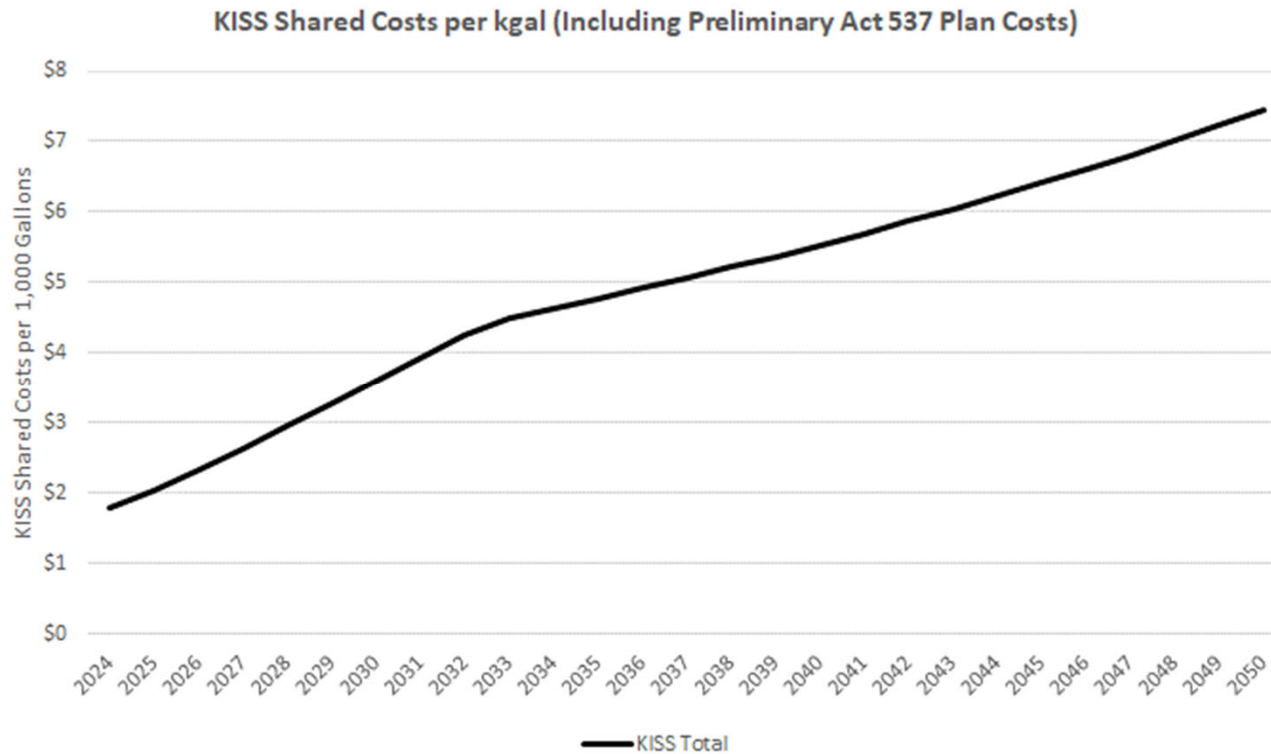


Preliminary Financial Analysis

Other Assumptions

Item	Assumption
Growth	Assume 0% revenue growth from consumption behavior and population. Conservative assumption that won't risk over-escalating revenues.
Inflation	3% cost inflation for operating expenses and median household incomes.
CIP Inflation	As trends in construction cost indices are consistently higher than baseline inflation, we assume 4.5% annual CIP inflation.
Funding	Assumes 50% cash and 50% debt financing (PENNVEST)
Coverage	120% for Senior Lien Debt (Revenue Bonds), 110% for Subordinate Lien Debt (PENNVEST, and General Obligation Bonds)

Projected Shared KISS Costs Per 1,000 gallons

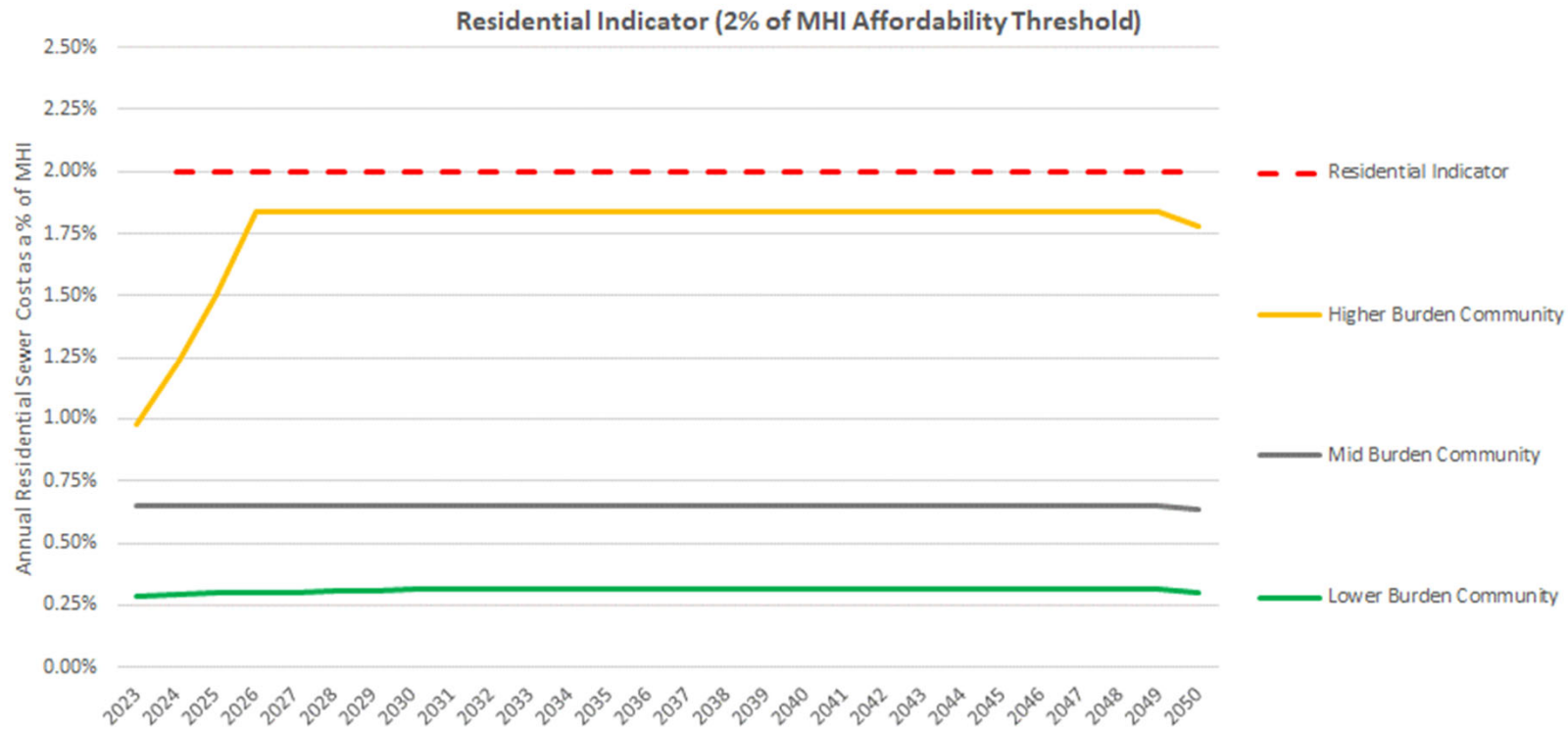


- KISS shared costs are projected to steadily increase more sharply through 2030 (3% min assumed to 2050) due to the Act 537 Plan capital improvements

2023 Typical Annual Residential Sewer Bills

<u>KISS Signatories</u>	<u>Typical Bill Based on 13,000 gal per quarter</u>
Macungie	\$555
North Whitehall	\$549
Alburtis	\$480
South Whitehall Township	\$448
Hanover	\$390
Upper Macungie Township	\$356
Lower Macungie Township	\$351
LCA - UMiT, Weis, Lowhill	\$320
Salisbury Township	\$300
Emmaus	\$295
City of Allentown	\$282
CWSA	\$220

Preliminary Affordability Analysis Results

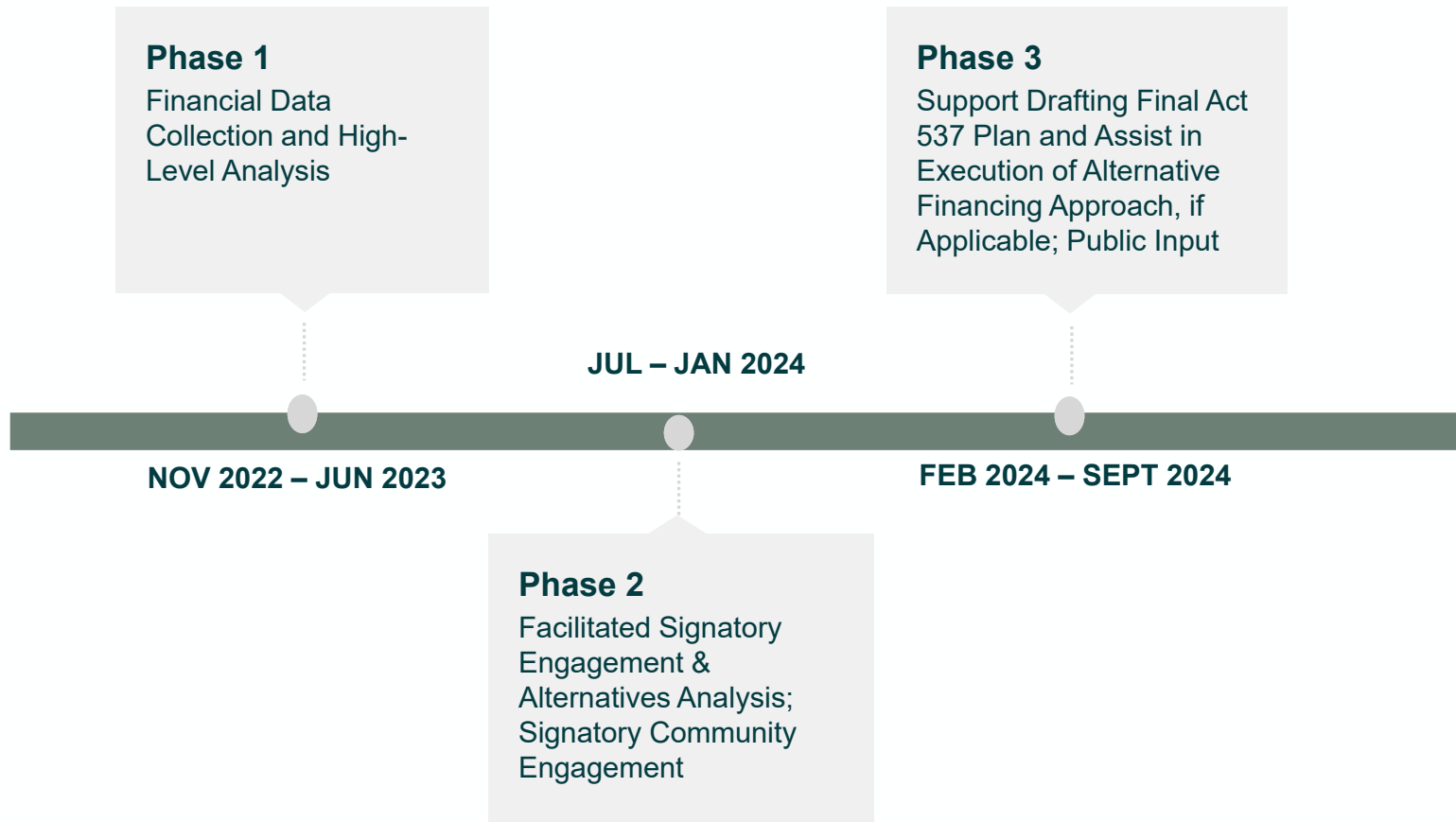


- The chart reflects a preliminary estimate of the range of results across LCA customers
- Metric divides typical annual bill based on 13kgal per quarter by MHI.
- 2% is considered a high affordability burden.
- Plateau is due to 3% min rate increase paired with 3% MHI inflation.
- Preliminary results indicate an overall ability to pay for the Act 537 Plan capital improvements

Key Takeaways

1. **Rate increases are highest during the first 10 years** as costs build up to investment peak system levels.
2. Preliminary KISS costs generally **appear to be affordable** based on a commonly used financial capability measure (2% residential indicator).
3. Preliminary financial feasibility conclusion **sets the stage for future phases of more detailed analysis** on governance, agreement terms, and financial impacts.
4. Key variables to success include **outside funding support**, **financing flexibility**, and a **spirit of fairness and creativity** in agreement setting.

Timeline for Financial & Institutional Analyses



Q&A



Thank you!

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