

## 2024 BUDGET – EXECUTIVE SUMMARY

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Each year, the development of the upcoming year’s annual budget provides an opportunity to reflect upon the progress made on key organizational strategies and goals and to envision the future. When the staff at Lehigh County Authority (LCA) look back on 2022 and 2023, we see many success stories along with indications of new challenges that may lie ahead. As proposed, the 2024 Budget offers support for the organization to continue the momentum achieved in key areas of our 2022-2027 Strategic Plan, and additional resources to address the twists and turns on the horizon.

Support will be needed to propel our progress in the year ahead in these key areas:

**Kline’s Island Sewer System (KISS) Act 537 Plan Development** – With the support of municipal partners throughout the service area, all key schedule targets have been met toward developing a regional Act 537 Plan by early 2025. This long-term regional sewage facilities plan will be the first of its kind in Lehigh County and will shape the way we provide sewer service for decades to come. Primary goals relate to reducing inflow and infiltration, addressing sanitary sewer overflows, and expanding system capacity. In 2024, significant internal and external support will be needed to ensure this positive progress continues.

**Small System Compliance** – Through careful planning and attention to detail, LCA’s operations staff have adjusted standard operating procedures and added technology aids at our small “satellite” systems to achieve improved water quality and wastewater permit compliance in the past year. Customers of these small systems, no matter how remotely situated from LCA’s main operations center, expect and deserve high-quality utility services. There is more work to do to continue improvements in this area, which will continue in 2024.

**Strategic Asset Management Planning** – Throughout 2023, significant progress has been made toward developing standards and processes to begin managing LCA’s water and sewer assets in a more comprehensive, standardized way. A Strategic Asset Management Plan (or “SAMP”) is on schedule for completion by the end of 2023. Then the real work begins to standardize how LCA manages its preventive maintenance programs, capital investments, and technology in a way that decreases life-cycle costs and lowers the risk or consequence of system failures over time. This cross-organizational teamwork will continue in 2024 and for the foreseeable future.

**Employee Engagement & Safety** – A new Employee Health & Safety (EHS) Steering Committee was formed in early 2023, tasked with raising the profile of LCA’s safety program across the organization. At the same time, broad efforts have been made to foster increased employee engagement in LCA’s mission and strategic goals. These efforts will continue in the years ahead. In 2024, additional resources will be needed to shore up training programs related to specific safety topics and supervisory skill development.

The progress made in these areas, and many others, illustrates the dedication and commitment of LCA’s strong team of water professionals.

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### Addressing Shifting Priorities in 2024

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Some adjustments to LCA's goals, timing, and priorities have been required to address a variety of challenges encountered in 2022 and 2023. In particular, unfavorable economic conditions in 2022 resulted in significant inflationary pressures and cost increases. Supply-chain constraints that began in the early days of the COVID-19 pandemic have continued in certain areas of the industry. Notably, treatment chemical price increases have significantly outpaced inflation. In addition, materials and equipment deliveries have continued to be delayed, so that project schedules must be adjusted outward. These economic factors are included in the proposed 2024 Budget, which places additional pressure on customer rates.

Like many organizations in our region, LCA also faced significant workforce shortages in 2023, with high turnover rates affecting nearly every department across the organization. LCA has historically enjoyed a highly stable workforce due to offering competitive wages and benefits, and the long-term job security and mission-focused work provided by the water / sewer utility industry. In 2023, utilities across the nation began to see some erosion in this historical stability within the workforce, as new workers seek higher wages, greater workplace flexibility, and career advancement opportunities at a more rapid pace. LCA experienced some of these pressures as well, but adjusted throughout the year by rolling out a new Remote Workplace Policy, and working with operational teams on solutions to address short-term staffing shortages and training needs. Currently, staffing levels have rebounded to a significant degree.

To support workforce needs identified through the past year, the 2024 Budget includes additional resources for staff development needs, focusing on supporting career development programs, and a new internship program that will support long-term staff recruitment goals. In addition, the budget proposal includes funding to fill all existing vacant positions, along with the addition of new positions as described in this Executive Summary.

Another area that has been changing rapidly in the water industry relates to evolving regulatory requirements. In 2024, LCA will require new budgetary resources to address proposed regulations related to perfluoroalkyl and polyfluoroalkyl substances (PFAS) in drinking water. These chemicals have been found in water supplies far and wide around the world due to their prevalence in regular household products such as cosmetics, clothing, cookware, and paper products. As the U.S. Environmental Protection Agency (EPA) contemplates setting new standards for PFAS in drinking water and wastewater, LCA will dedicate a portion of its capital budget to ensure an appropriate response.

Similarly, new EPA requirements for the removal of lead service lines are forthcoming, which will impact LCA's water customers. In July 2023, LCA was awarded \$3.4 Million in grant funding from the PENNVEST program to begin a lead service line replacement program in Allentown. As this program kicks off in 2024, LCA staff will develop protocols for a long-term program and will seek additional grant funding to support the program via the Infrastructure Investment and Jobs Act.

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### Staff Support for Key Strategies

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As described above, LCA has made significant progress on key initiatives outlined in the 2022-2027 Strategic Plan, but new challenges have required a shift in certain priorities. To support this new mix of strategic initiatives in 2024, additional staff support has been incorporated into the proposed 2024 Budget as described below:

**Planning Engineer** – As new sewer projects and programs are developed for the region's Act 537 Plan, additional staff support will be needed to ensure projects are planned and designed properly and on schedule.

**Lead / Compliance Program Manager** – New EPA requirements related to lead service line removal and lead water testing will require dedicated staffing to manage the program in 2024 and beyond and ensure compliance with other regulatory changes.

**Maintenance Technicians** – LCA’s asset management program is driving an increased focus on preventive maintenance programs, and highlighting the need to address historically under-resourced maintenance programs within the Suburban Division water and sewer systems. Two staff positions will be added in 2024 to address this need.

**Operational Support & Service** – Additional staffing requirements have been identified in LCA’s field inspection and customer service areas to maintain the high workload associated with new development activity and increased customer interactions.

**Internship Program** – To address long-term staff recruiting needs for the organization, an internship program will be developed in 2024. This program is expected to focus on recruiting emerging talent for operational / technical roles, with expansion into other professional areas in future years.

These proposed staff additions in 2024 will support both near-term goals and long-term strategies as LCA seeks to increase professionalism and internal capacity across the organization. In addition, a Staffing Analysis & Benchmarking project was initiated in September 2023 to assist LCA with understanding future staffing needs and organizational structure. The Board of Directors will review results of this work in early 2024.

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### Capital Budget Overview

This year’s budget proposal includes a significant increase in capital spending, driven by many of the items described in the sections above. It is notable that the 2024-2028 Capital Plan, which was approved by LCA’s Board of Directors on October 9, 2023, includes more than \$261 Million in capital projects over the next five years. For 2024, this equates to approximately \$51 Million in project funding, which is a 77 percent increase from the 2023 capital budget.

Projects in LCA’s Suburban Wastewater Division and City Division are driving the overall increase in 2024. Notable projects included in the 2024 Budget include:

- Construction on the Upper Western Lehigh Interceptor Pump Station & Force Main project will commence in 2024 to address flow-restricted areas of the interceptor.
- The Lynn Township Wastewater Treatment Plant will be upgraded with a new second clarifier to increase plant performance.
- In Allentown, the Lead Service Line Replacement Program will kick off in 2024, which will be partially funded by a grant from PENNVEST, as described above.
- Construction of Filter Upgrades at the Allentown Water Filtration Plant will begin in 2024.
- Major programs to reduce inflow and infiltration in the Allentown sewer collection system and rehabilitate leaking manholes will kick off in 2024.

These projects, and many more outlined in the 2024-2028 Capital Plan, are required to address aging infrastructure and enhance system performance in all LCA service areas. To support this expanded capital program, approximately \$21 Million in new borrowing is anticipated in 2024.

## 2024 Rates

In this Executive Summary, we have described some of the key features of LCA’s 2024 Budget proposal relating to updated strategic initiatives and responses to inflationary and personnel challenges. The 2024 Budget proposal also includes more than \$51 million in capital improvements, which will result in additional borrowing and rate impacts. The following summary illustrates the proposed rate changes included in this year’s budget proposal:

City Division: 11.6% (Average residential customer impact: \$25.47 per quarter, water & sewer)

Suburban Water Division: 3.9% (Average residential customer impact: \$3.30 per quarter, water only)

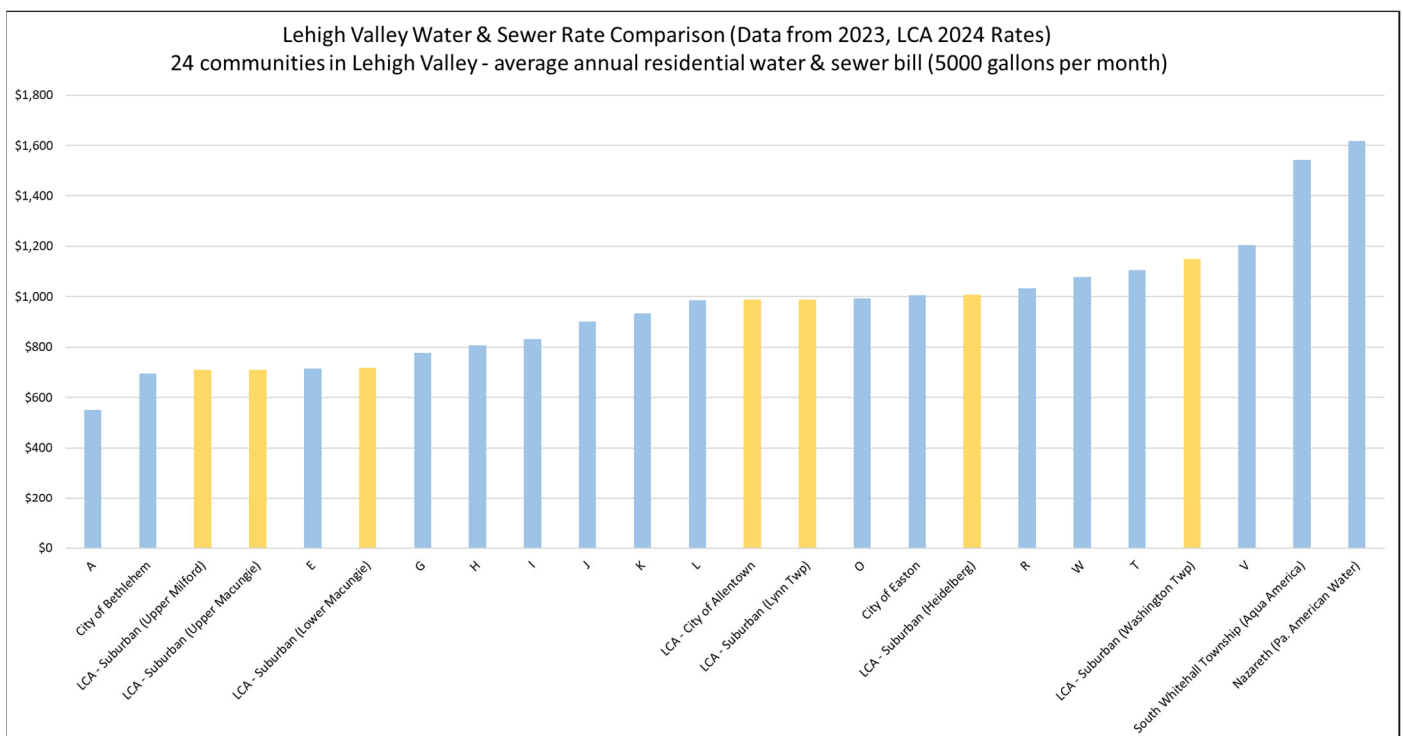
Suburban Wastewater Division: 0.1% (Average residential customer impact: varies by municipality)

The differences in rate changes between LCA’s various divisions are driven primarily by contractual requirements including the Water & Sewer Lease Agreement between LCA and the City Allentown, and LCA’s wastewater signatory agreements with the municipalities served by the Kline’s Island Sewer System and Western Lehigh Interceptor.

While incorporated into this budget proposal to calculate revenue impacts to the 2024 Budget, the proposed water and sewer rates for 2024 will be subject to a separate public input process and approval by LCA’s Board of Directors later in 2023. If approved, new rates will be effective January 1, 2024.

## Regional Rate Comparisons:

While LCA would always prefer to keep rates as low as possible, the increases described above are necessary. The graph below illustrates how LCA’s 2024 proposed rates compare to other communities in the Lehigh Valley. With the 2024 increases included, LCA customers will continue to enjoy reasonable water and sewer rates that are well aligned with the cost of these services across our region.



### 2024 BUDGET – SUMMARY OF EXPECTED RESULTS

The sections above describe the breadth of issues that were evaluated and discussed through the development of the 2024 Budget. The summary below shows that the 2024 Budget is presented with positive cash flows, meeting debt service requirements, and providing alternative funding for capital improvements that limits the borrowing required to pay for these investments. In 2024, we will also achieve strong operational cash balances, which supports overall financial sustainability of the organization.

<b>Budget Overview</b>	<b>Suburban Water</b>	<b>Suburban Wastewater</b>	<b>City Division</b>	<b>Total</b>
Operating, Non-Operating & Other Revenue	\$ 18,744,327	\$ 20,823,478	\$ 68,973,678	\$ 108,541,483
Operating Expenses (net of depreciation)	\$ 12,040,243	\$ 15,238,763	\$ 25,563,784	\$ 52,842,790
Net Revenues Available for Debt Service	\$ 6,704,084	\$ 5,584,715	\$ 43,409,894	\$ 55,698,693
Debt Service	\$ 3,421,486	\$ 1,196,420	\$ 16,260,397	\$ 20,878,303
Debt Service Coverage Ratio (indenture based)	1.96	4.67	2.67	2.67
<b>Capital Budget Overview</b>	<b>Suburban Water</b>	<b>Suburban Wastewater</b>	<b>City Division</b>	<b>Total</b>
Capital Expenses	\$ 7,065,750	\$ 11,516,250	\$ 32,628,500	\$ 51,210,500
Funding from 2024 Revenue & Operating Reserves	\$ 1,835,750	\$ 4,341,250	\$ 24,072,992	\$ 30,249,992
Funding from Existing Project Reserves	-	-	-	-
Funding from New Borrowing	\$ 5,230,000	\$ 7,175,000	\$ 8,555,508	\$ 20,960,508
Year-End Project Reserve Balance	\$ 319,718	\$ 455,385	\$ 322,601	\$ 1,097,704
<b>Total Cash Flow</b>	<b>Suburban Water</b>	<b>Suburban Wastewater</b>	<b>City Division</b>	<b>Total</b>
Beginning Operations Cash Balance (2023 forecast)	\$ 9,658,387	\$ 9,142,990	\$ 15,055,488	\$ 33,856,865
2024 Surplus	\$ 3,282,599	\$ 4,688,294	\$ 27,013,498	\$ 34,984,391
Provided From (To) Capital	\$(1,835,750)	\$(4,341,250)	\$(24,072,992)	\$(30,249,992)
Ending Operations Cash Balance	\$ 11,105,236	\$ 9,490,034	\$ 17,995,994	\$ 38,591,264
Operating Days Cash on Hand	337	227	271	273
Project Reserve Balance	\$ 319,718	\$ 455,385	\$ 322,601	\$ 1,097,704
Other Reserves & Investments (includes restricted)	\$ 4,820,525	\$ 6,923,301	\$ 61,306,220	\$ 73,050,046
<b>Ending Total Fund Balance – 2024 Budget</b>	<b>\$ 16,245,479</b>	<b>\$ 16,868,720</b>	<b>\$ 79,624,815</b>	<b>\$ 112,739,014</b>