

CITY DIVISION BOND CONSENT APPROVAL PROJECT

APRIL 28, 2025



BACKGROUND

- ▶ LCA is interested in using PennVest for grant and long-term financing.
- ▶ PennVest will not provide grants or long-term financing without a change in the Indenture.
- ▶ An Indenture change requires 51% of the bondholders to consent
- ▶ Two alternatives to obtaining consent:
 - ▶ 1. Refinance at least 51% of the outstanding debt (too cost prohibitive in current market)
 - ▶ 2. Obtain consent from 51% of current bondholders.

PROJECT DETAILS

- ▶ Bondholders are identified by Globic Advisors (selected through an RFP process). Globic would also be the official tally agent.
- ▶ The specific amendment would be electronically placed before the bondholders who would have a limited amount of time to respond.
- ▶ Goldman Sachs & Co. LLC, (also selected through an RFP process) would directly discuss the proposal with the bondholders.
- ▶ The bondholders would be offered a consent fee estimated at up to .25% of the amount of principal owned.
- ▶ Globic would tally the bondholder consent.

PROPOSED COSTS

Description	Cost
LCA Financial Advisor – Concord Public Financial Advisors, Inc.	\$ 50,000
LCA Bond Counsel – McNees, Wallace & Nurick	50,000
LCA Solicitor – King Spry	25,000
Solicitation Agent – Goldman Sachs & Co. LLC	400,000
Solicitation Agent Legal Counsel – Ballard Spahr	100,000
Information/Tabulation Agent – Globic Advisors	50,000
DTC Fees	85,800
Trustee's Legal Counsel – TBD	10,000
Dissemination Agent – DAC	5,000
Miscellaneous	25,000
Subtotal Cost of Services Provided	\$ 800,800
Bondholder Consent Fee @ 0.25%	1,010,808
Contingency (10% of Total Costs above)	181,161
GRAND TOTAL	\$1,992,769

BENEFITS

1. **Grant funding** – LCA has identified a potential of \$60 Million could be available from various grant funding programs to address new regulatory requirements such as lead pipe removal and treatment for PFAS chemicals.

Achieving just \$2 Million in grants will pay for the cost of the bondholder consent process.

2. **Low interest loans** – Assuming a blended interest rate of 1.20% from Pennvest compared to a tax-exempt bond rate of about 4.5%, significant saving potential could be achieved.

This interest rate comparison yields a net present value savings of \$367,000 for each \$1 Million borrowed. Therefore, a Pennvest loan of approximately \$5.4 Million will yield savings adequate to pay for the cost to achieve bondholder consent.

3. **Existing funding offers** – LCA has a funding offer in hand from Pennvest for \$6.3 Million in grant funding and \$5.7 Million in low-interest loan funding for the next phase of lead service line replacement projects. Achieving bondholder consent will allow LCA to accept this funding offer and immediately recoup the cost of the bondholder consent process.

4. **Overall lower net cost & rates** – Access to Pennvest funding will lower costs to the LCA Allentown Division for capital projects, providing rate savings for the customer base.

RISKS

1. If the team is not successful in achieving 51 percent approval from bondholders, the project cost may be at risk. Based on discussions with advisors, it is believed this is a low probability.
2. The bond consent fee of 0.25% is only an estimate, and a higher fee may be required depending on bondholder requirements. This may drive costs above the \$2 Million estimate provided.
3. Uncertainty of the bond market creates the risk around future debt service costs LCA may incur if the lower-cost financing and grant funding does not materialize, or if federal and state infrastructure funding availability changes.

TIMING

❖ Preparation (4-6 weeks)

- Draft amendment
- Negotiate amendment with PennVest and bond insurer, if needed
- Prepare investor presentation
- Identify bondholders and initiate conversation with same. The bondholders are large institutions and smaller holders, which might take more time to familiarize bondholders with the Project.
- Prepare information to be sent to bondholders to address ratings, additional subordinate debt, types of capital projects to be undertaken, change in revenue streams projected, any change to senior lien debt, etc.
- Post on EMMA a voluntary disclosure of consent initiative

❖ Consent Process (11 days)

- Launch consent, including posting to EMMA and distribute to identified bondholders
- Obtain bondholder feedback.
- End of Tenth Day - consent solicitation ends
- Day 11 – announcement of results and effective date, payment of consent fee