

REGULAR MEETING MINUTES

October 23, 2017

The Regular Meeting of the Lehigh County Authority was called to order at 12:00 p.m. on Monday, October 23, 2017, Chairman Brian Nagle presiding. Other Members present at the commencement of the meeting were: Linda Rosenfeld, Jeff Morgan, Richard Bohner, Norma Cusick, and Scott Bieber. Authority Staff present were Liesel Gross, Brad Landon, Ed Klein, Pat Mandes, Chuck Volk, Chris Moughan, John Parsons, Susan Sampson, Phil DePoe, Andrew Moore and Lisa Miller.

REVIEW OF AGENDA

Chairman Nagle announced that there is an article in this month's PMAA magazine "The Authority" regarding Liesel Gross being named Employee of the Year.

Chairman Nagle also announced that today's Board meeting is being videotaped and streaming live and recordings will be posted to the Authority's website.

Liesel Gross noted the Agenda will be rearranged to discuss the Suburban Water Rate Study first with the rest of the regular Agenda to follow. Ms. Gross also noted there will be an Executive Session at the end of the regular agenda to discuss potential litigation and land acquisition.

APPROVAL OF MINUTES

October 9, 2017 Regular Meeting Minutes

On a motion by Richard Bohner, seconded by Norma Cusick, the Board approved the Minutes of the October 9, 2017 meeting (6-0).

PUBLIC COMMENTS

None.

ACTION AND DISCUSSION ITEMS

Suburban Water Rate Study

Liesel Gross introduced Dave Busch, the Authority's rate consultant from Keystone Alliance Consulting, Inc. Mr. Busch reviewed the provided copies of the Lehigh County Authority Cost of Service Study for the Suburban Water – Common Rate Division along with two handouts, Exhibit 15A and Exhibit 15B, and also a PowerPoint presentation. The goal of the study is to develop updated water rates that will generate an appropriate amount of revenue to sustain the Authority's operation and funding requirements and to also generate the appropriate amount of revenue from each customer group so that one customer group is not subsidizing the other, ensuring that all customers are paying for what they use.

Mr. Busch highlighted projected debt service requirements noting they will impact the rates again starting in 2021 when the Authority has projected a need to issue new financing to address future capital improvements. He reviewed additional "what if" scenarios that will be evaluated for the projected rates in 2019 through 2022, and this analysis will include varying levels of pay-as-you-go capital improvements versus additional borrowing.

Kevin Baker arrived at 12:11 p.m.

Mr. Busch stated that as part of this study, the Authority has reviewed the impact of going to monthly billing, and he presented a preliminary review of the monthly rates under current budget figures. With the rate model completed, there are additional analysis options for the Authority to explore and consider for monthly billing as it relates to other "what if" scenarios that will be modeled. The Board had some discussion regarding the financial and customer impacts of monthly billing.

2018 Budget

Ed Klein presented the 2018 Budget along with a PowerPoint presentation. Mr. Klein noted that the 2018 Final Budget documents are similar to the worksheets that have been reviewed previously at prior meetings.

Regarding the Suburban Water Division, Mr. Klein explained the cash available for debt service is only slightly higher than total debt service. Operating expenses will be increasing due to inflation, wages, material and services, and spending increases due to new programs and services being introduced. To meet the debt service requirements, there will be spending reductions in equipment, materials & supplies as well as purchased services. The budget also includes revenue increases to be generated from a combination of growth and rate increases, as discussed in the prior presentation with Mr. Busch.

Scott Bieber commented that he is not comfortable with cutting costs in important areas like equipment and supplies when the rates are so low and could be increased more to allow for proper maintenance. Liesel Gross noted the Authority is cutting costs in certain categories, but the overall operations budget for this division is increasing significantly, having nearly doubled in just three years. She explained that the staff will undertake some additional study to understand why these expenses are increasing and evaluate this prior to increasing rates above what is already projected.

In the Suburban Wastewater Division budget, Ed Klein noted the biggest variance is the additional capital works spending which is due to timing and permitting of projects. All primary performance indicators for this division are positive.

Mr. Klein then presented the City Division budget for 2018, which includes modest increases in revenue due to a 4 percent increase as allowed by the lease with the City of Allentown. He then explained that with the required refinancing of approximately \$19 million of lease bonds which are due in 2018, plus about \$1.7 million in borrowing for capital improvements, the operations budget had to be trimmed significantly in order to meet debt service coverage requirements. The capital improvements budget for 2018, which was also trimmed significantly, is more than \$12 million. Because the Authority's ability to finance the projects will be limited, most of this work will be funded by accumulated cash and reserves. He explained that this action will deplete the City Division reserves to minimum required levels, requiring significant new funding in the future to support future system improvements. Board discussion followed regarding financial sustainability of this system. Liesel Gross explained this issue will be discussed further in the next action item on the meeting agenda.

On a motion by Norma Cusick, seconded by Linda Rosenfeld, the Board approved the 2018 Budget (6-1). Scott Bieber voted no and explained he voted against the budget because he feels the rates are too low, particularly in the Suburban Water Division. Liesel Gross followed up by stating that at the November Board meeting, a complete packet of all rates and rate schedules that are incorporated into the budget will be presented for Board approval.

Chairman Nagle called a break at 1:42 p.m. The meeting reconvened at 1:50 p.m.

City Division Financial Condition Assessment & Planning Project

Liesel Gross gave an overview of the memorandum regarding the City Financial Condition Assessment and Planning Project. The project is intended to be a short-schedule, targeted team approach to developing a long-term financial model for the City Division, and to discover and evaluate alternatives that may be possible to improve financial performance, as discussed during the budget presentation. Ms. Gross introduced Dave Green, Senior Economist and Senior Financial Consultant from CH2M to share CH2M's expertise in this type of work. Mr. Green reviewed their services and presented a PowerPoint presentation. CH2M will lead the project and facilitate collaboration with several outside consultants on rates, legal, and funding options and issues, as they relate to the lease agreement and financial model development and analyses. Ms. Gross noted that the study is going to mostly use information that we already have, for example, the Water System Master Plan. Once the financial model is developed, the Authority will need to look at some details and alternatives like financing periods for existing lease debt or capital improvements funding alternatives. In response to a question, Mr. Green said that the Authority will have all rights to use the model in the future. Ms. Gross explained the project team and how it will function. She also explained that the short project schedule will result in a series of recommendations to be discussed with the Board in early 2018. If a revised 2018 budget is recommended to incorporate any specific strategies to be developed, a new budget will be developed and presented to the Board at that time.

Liesel Gross requested approval for the Professional Services Authorization in the amount of \$210,000.00 to CH2M.

On a motion by Linda Rosenfeld, seconded by Norma Cusick, the Board approved the Professional Services Authorization in the amount of \$210,000.00 to CH2M (7-0)

2018-2022 Capital Plan

Chuck Volk summarized the changes to date since the plans were initially published in August 2017 and asked for approval of the 2018-2022 Capital Plans. Phil DePoe reviewed the four main changes to the City Division 2018-2022 Capital Plan since its last review on September 25, 2017 highlighting the major changes to the plan that were required in order to meet targets within the 2018 budget, as presented earlier in the meeting. The Board discussed their concerns with cutting back on projects. Liesel Gross stated that the work with CH2M regarding the financial condition assessment and planning includes a review of the Authority's prioritization process for capital improvements to help the staff make these decisions in the future based on a risk-evaluation and business-case analysis.

On a motion by Jeff Morgan, seconded by Norma Cusick, the Board approved the 2018-2022 Capital Plan (7-0).

MONTHLY FINANCIAL REVIEW

The monthly financial review for September 2017 was prepared by Ed Klein and previously emailed to the Board. There were no questions or comments.

MONTHLY SYSTEM OPERATIONS OVERVIEW

John Parsons reviewed the Monthly System Operations Overview report for September 2017. Scott Bieber inquired about the reporting requirements for a Notice of Violation (NOV). Pat Mandes stated that an NOV is issued according to the regulating agency depending on the violation, and the NOV will list the response required by the Authority.

STAFF COMMENTS

Liesel Gross requested cancellation of the October 30th Board meeting considering all the actions that were taken at today's meeting. The Board agreed to cancel the meeting.

SOLICITOR'S COMMENTS

None.

PUBLIC COMMENTS / OTHER COMMENTS

None.

EXECUTIVE SESSION

An Executive Session was held at 2:38 p.m. to discuss land acquisition and potential litigation. The Executive Session ended at 3:12 p.m.

On a motion by Norma Cusick, seconded by Kevin Baker, the Board authorized the management staff to enter into negotiations and complete the transaction if the negotiations are successful, including executing documentation, with an owner adjoining the Authority's pretreatment plant to address future infrastructure needs (7-0).

ADJOURNMENT

There being no further business, the Chairman adjourned the meeting at 3:14 p.m.

Richard H. Bohner
Secretary