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# L C A M e d i a S t a t e m e n t

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**From:** Asa Hughes, Chairman of the Board

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**RE:** LCA Authorized to Bid on Allentown Water / Sewer Lease

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Following more than six months of deliberations, and significant public debate on the issue, Lehigh County Authority's Board of Directors voted today to submit a bid to the City of Allentown for the lease of the city's water and sewer systems. Details of LCA's bid, which is due by 2 p.m. on Thursday, will not be made public until the city discloses the information through their bidding and procurement process.

LCA's decision was made after a lengthy Board meeting today which included dedicated time for public input. Included in the public comments were statements submitted by Renew Lehigh Valley, the Lehigh Valley Partnership, the East Penn Chamber of Commerce and Upper Milford Township, encouraging the LCA Board to approve the submittal of the bid.

Most of the meeting, however, was held in executive session so the Board could review the confidential details of the bid. After breaking from executive session, the Board reviewed a detailed resolution to authorize the bid, along with several other details related to the bid, such as the submission of a letter of credit for bid security. The Board approved the resolution by a 6-1 vote.

LCA was pre-qualified by the city through a request for qualifications process that was conducted last summer. Since that time, LCA's staff, Board and team of professional experts have been reviewing the city's lease agreement to determine whether to bid. Today, LCA's Board concluded that there are many reasons for LCA to be involved in the City's bid process.

First and foremost, LCA is a non-profit, tax-exempt municipal authority, which translates into lower borrowing costs for the concession's upfront expenses and ongoing

capital improvements, and ultimately the lowest cost of service to the customers through low and stable rates.

Secondly, LCA has a proven track record of not only providing excellent service to our existing customers, but also providing local, regional and national leadership on issues that are important to the sustainability of the water and wastewater industry. LCA's Board and staff have a long history of working with Allentown's systems, forming partnerships to address regional issues, and administering long-term service agreements that are vital to our respective communities' well-being. LCA's familiarity with the City's water and sewer assets would provide significant benefits to the region in terms of a smooth transition for employees, customers and suburban communities.

Finally, because LCA is interconnected with the City systems and is dependent on City facilities and operations for service, LCA is highly incentivized to ensure the ongoing reliability, sustainability and affordability of City services. This sense of focus is strengthened by LCA's non-profit structure, which ensures that LCA has no incentive to generate excess lease revenues. Instead, LCA can reduce or offset revenues to mitigate the impact of future rate increases to Allentown users.

In short, LCA cares about the outcome of the lease bid process because no matter what, our customers will be affected.

While details of the bid cannot be disclosed at this time, LCA has stated that its approach to formulating the bid will be based on the revenue stream available through the contract, so LCA's bid price would automatically account for the annual debt payment associated with the upfront concession payment it would offer. The revenue stream that would be included in the bid formulation is based on the revenues generated by in-City customers, and the added concession financing cost would be fully funded by Allentown's ratepayers.

Under LCA, the existing customers in the suburban communities are protected through our administration of the municipal contracts that govern how water and wastewater service is provided to those communities. LCA believes the concession costs are a City cost, and we would plan to keep the cost recovery mechanism limited to the City users to the full extent possible.

The issue of how rates will be calculated in the future for city customers is fundamentally different under the LCA scenario because LCA's rate will always be tied to the actual cost of service. The value of this municipal authority feature cannot be

stressed enough to LCA's customers, who currently enjoy some of the lowest water rates across the Commonwealth.

To help us with the evaluation of the Allentown systems, we have assembled a very capable team including McNeese Wallace & Nurick LLC (legal), Goldman Sachs (financial), CH2MHill (technical) and Flamm Walton PC (labor). The professional strength of this team has helped LCA's capable staff assess the risk associated with the concession, and to develop strategies to manage the risk.

It is important for all parties to understand that LCA has no incentive to bid more than can be justified, and that includes an assessment of risk. LCA's process in evaluating the city's request for bids is to formulate a solution that minimizes risk, increases bondholder confidence, and protects current and future customers.

In the weeks and months ahead, LCA will look forward to sharing more details publicly as soon as the process allows this to happen. We believe the public will appreciate the care and attention LCA has paid to this important issue, in ensuring the best interests of our customers are protected.

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