

Lehigh County Authority

Allentown Water/Sewer Lease - Financial Analysis

1. Revenue Assumptions

Calculate revenue generated from in-City customers, using rate caps included in agreement.

- 0% years 1-3
- CPI plus 2.5% years 4-17
- CPI plus 2.0% years 18-50
- CPI estimated at 2.5% through life of lease.

Calculate revenue generated from suburban communities calculated based on contractual requirements and excludes concession costs:

- **Municipal wastewater agreements** allow only incremental operational cost increases & capital improvements tied to provision of regional services
- **Municipal water agreements** vary, but LCA's agreement (serving most suburban communities) allows only incremental operational cost increases & capital improvements tied to provision of regional services
- **Exception:** South Whitehall and Salisbury township water agreements tied to percentage of in-City rate.

Revenue calculations also included minimal increases due to population growth, based on Lehigh Valley Planning Commission estimates for in-City and suburban communities.

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2. Expense Assumptions

- Operational expenses would increase using combination of CPI, contractual requirements for labor costs, estimated increases for health care costs, industry specific benchmarks for chemicals, materials and supplies; then indexed for volume increases based on population growth.
- Well-regarded industry experts have reviewed operational expenses for reasonableness.
- Upfront borrowing for capital expenditures would be required to pre-fund capital improvements, and remainder of these capital expenditures would be paid via pay-as-you-go funding using revenues calculated as above.
- Annual city payment begins in year 4 and increases annually based on inflation.

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3. Borrowing Assumptions

- All calculations based on an all-in current market rates
- Minimum Debt Service Coverage ratios of 1.25 were employed in the modeling.
- Term of bonds will vary, up to 35 years.

Summary

- In developing LCA's bid and financing structure, we looked at:
 - Revenues available through the city's concession agreement
 - Estimated expenses, including future capital improvements
- LCA's bid of an upfront payment of \$220 million plus the \$500,000 annual city payment was calculated using conservative borrowing rates and debt service coverage assumptions, vetted by financial experts.
- Beyond paying debt service, surplus revenues are available to build reserves that will fund future capital projects and provide future rate relief to city customers.