

REGULAR MEETING MINUTES

April 23, 2018

The Regular Meeting of the Lehigh County Authority was called to order at 12:00 p.m. on Monday, April 23, 2018, Chairman Brian Nagle presiding. Other Members present at the commencement of the meeting were: Linda Rosenfeld, Jeff Morgan, Richard Bohner, Norma Cusick, and Deana Zosky. Authority Staff present were Liesel Gross, Ed Klein, Chuck Volk, Chris Moughan, Susan Sampson, John Parsons, Phil DePoe, Jennifer Montero and Lisa Miller.

REVIEW OF AGENDA

Chairman Nagle 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 there will be an Executive Session at the end of the regular agenda to discuss potential litigation. The order of the agenda will be rearranged to have the presentation regarding the Allentown Water/Sewer System Financial Evaluation last under Action/Discussion Items due to the expected length of the discussion.

Chairman Nagle announced that the Board received their packets of meeting information prior to the meeting.

APPROVAL OF MINUTES

April 9, 2018 Regular Meeting Minutes

Richard Bohner and Chairman Nagle suggested minor corrections to the April 9, 2018 minutes.

Scott Bieber arrived at 12:03 p.m.

Liesel Gross clarified the motion regarding the Allentown Division – Water Filtration Plant: Roof Replacement Phase II project. A vote was taken but a motion had not been made; therefore, a motion needs to be made to complete the approval. Scott Bieber made a motion, seconded by Norma Cusick, to approve the Capital Project Authorization for the Construction Phase in the amount of \$356,325.00 which includes the Professional Services Authorization to D'Huy Engineering in the amount of \$21,400.00 and the General Contract Award to Alan Kunsman Roofing in the amount of \$309,925.00. Approval followed (7-0).

On a motion by Richard Bohner, seconded by Linda Rosenfeld, the Board approved the Minutes of the April 9, 2018 meeting as corrected (7-0).

PUBLIC COMMENTS

Kevin Harwick of Budget Storage and Lock, was present to inform the Board about a matter regarding a negative remark made while inquiring about his billing and a fire hydrant on his property. He said the situation has not been taken care of to his satisfaction. Mr. Harwick also inquired about a fire hydrant on his property and asked what he gets for the money he pays for this hydrant. Liesel Gross responded by asking Mr. Harwick for an accurate address so that a response can be delivered to him since the one that was sent to him was returned undeliverable. Ms. Gross explained that on the public fire hydrants, they are being maintained according to maintenance specifications and flushing guidelines according to operating standards. The service that he is being billed for is a capacity charge to provide private fire service protection to the property. Because it is a private fire

hydrant, the Authority does not own the fire hydrant, so maintenance is the responsibility of the owner. Mr. Harwick would like information on how to abandon the hydrant. Chairman Nagle stated that he would have Staff provide him with that information.

Robert Hamill of Lower Macungie Township, was present and read a letter that he addressed to the County Commissioners regarding the Authority's finances and charter extension.

Ted Lyons was present on the conference phone at 12:17 p.m.

Joe Hilliard of Allentown commented that he received only a partial answer to his Right-To-Know form that he handed to the Board at the April 9 meeting. He also commented on the Authority's finances stating that the Authority does not have a sense of urgency in addressing its deficiencies.

Dave Parsons of Orefield was present stating that the Board meeting was not advertised according to the Sunshine Law and he could not find the information anywhere. He also stated that there was no notification to residents regarding a recent boil alert in his neighborhood. Liesel Gross replied that meeting information is on the Authority's website and the meetings are advertised as required. As far as the boil alert, the Authority follows current state regulations for public notification and contacts as many residents as possible through the phone system and using the information provided by the residents. Additional outreach is required to identify phone numbers for some customers to improve response.

Deana Zosky commented to Mr. Hilliard's comments stating that she has always felt a sense of urgency both as it relates to the Authority's financials. Ms. Zosky stated her job is not to ask why the poor financial conditions exist from prior decisions that were made, but rather to find a way to resolve it to support future financial sustainability for the organization. Chairman Nagle stated the Board is fully aware of the urgency and has been addressing it and will continue to address it.

ACTION AND DISCUSSION ITEMS

Muhlenberg College Student Presentation – Senior Business Project

Liesel Gross thanked Phil DePoe as liaison for the project and introduced Colin Gavigan, Matt Musilli, and Mickey Schindler from Muhlenberg College who gave a presentation on dealing with Project Prioritization in an effective and efficient manner. The students developed a tool using a matrix that ranks the projects relative to each other and looks at them across the board. The tool is easy to use and adaptable for all types of projects and scenarios throughout the organization using key encompassing issues, such as cost of project, which will then be added up to 100 points using an assigned point value. Assigning point values will be given more specific instruction in a few weeks when delivered to LCA. The Board thanked the students for choosing the Authority for their project.

Suburban Division Mechanical Asset Management Upgrades – Design Phase Authorization

Chuck Volk explained the next phase of the Asset Management Upgrades project. As part of the project, some pumps, valves, and piping will be replaced at some Suburban Division facilities. Also part of the project is to perform inspections of the hydropneumatic tanks. Mr. Volk is asking for approval of the Capital Project Authorization for the Design & Bid Phase in the amount of \$112,600.00 which includes the Professional Services Authorization for the Design & Bid Phase to D'Huy Engineering, Inc. in the amount of \$87,600.00.

The project includes all the components at the water and wastewater facilities that have the highest risk rating through the asset management program.

On a motion by Norma Cusick, seconded by Scott Bieber, the Board approved the Capital Project Authorization for the Design & Bid Phase in the amount of \$112,600.00 which includes the Professional Services Authorization for the Design & Bid Phase to D'Huy Engineering, Inc. in the amount of \$87,600.00 (8-0).

Allentown Water / Sewer System Lease Financial Evaluation

Liesel Gross gave a brief overview of the presentation. Present were Joe Nattress and Dave Green from Jacobs, Rocky Craley from Raffelis, Joe Mason from Davenport, and Diana Heimbach the plant manager at the pretreatment plant, also with Jacobs.

Joe Nattress from Jacobs thanked the Authority staff for working with the group on the evaluation and also gave a Safety Moment regarding reverse parking. Mr. Nattress provided a PowerPoint presentation and gave an overview of the study reviewing key issues. The financial model developed through this project is extremely detailed and incorporates many features about how the system actually operates, improving reliability of Authority forecasts. The goal of the evaluation project is to provide analysis of key issues and develop recommendations to move forward on a financially sustainable path for the City Division. Through this evaluation, three critical issues were discovered to be primary drivers for the Authority's financial stability: debt management, capital improvements cost and planning, and revenue sustainability. The remainder of the presentation focused on these three elements and included recommendations. Primary recommendations presented by Jacobs included immediate efforts to refinance the Authority's 2013C bond issue, more detailed prioritization and capital improvements phasing to limit the need for future borrowing, and implementation of the monthly billing schedule and rates provided in the lease to immediately improve cash flows.

Deana Zosky questioned how to balance affordability to the customer and if there is flexibility in the model. Rocky Craley explained that what may be affordable for the customer may not be best benefit for the utility or the customer base as a whole. For example, the refinancing of debt may lower annual costs, but will cost more over the life of lease, which diminishes the Authority's ability to complete capital improvements.

Liesel Gross explained that the study included about 20 additional smaller revenue enhancements and methods to reduce operational costs. While they do not individually provide significant benefit on their own, they will all be reviewed and implemented if possible to collectively improve financial performance.

Deana Zosky thanked everyone for their work on the financial model commenting that monthly billing should have been done years ago and favors the scenario that maximizes all the recommendations presented, with the issuance of new debt being a last resort. Ms. Zosky asked how the Board can move forward with monthly billing and what the next procedural step should be. Liesel Gross explained that a public input meeting will be held in the evening in Allentown in May to give the public an opportunity to provide feedback. The Board will then make a decision at either the May 21 or June 11 meeting. As far as the refinancing of the 2013C Bond, this needs to be addressed immediately with the assistance of a financial advisor.

Deana Zosky commented that the Authority should also be utilizing the modeling for rates in all divisions all at one time; not piecemealing it. Liesel Gross explained the process and intricacies that are different from the city division and suburban division and using the model will take some time for the Suburban Division due to the variety of contractual and municipal obligations involved.

Joe Hilliard commented on the modeling tool and capital expense assumptions for new development, and suggested the Authority should look at every single option to improve financial

performance. Joe Nattress explained that Authority staff is committed to looking at each operational expense and revenue enhancement opportunity studied as part of this project. Ms. Gross added that projects that are related to specific development are paid for by the developer and the municipal service agreements also dictate how expansion of the treatment facilities are handled from a cost-sharing perspective.

Robert Hamill commented on assumptions made in the model regarding interest on new debt, stating the high interest rate indicates the new bonds would be junk status, and he asked questions regarding the employee pension program. Mr. Green explained that the interest rate used in the financial model for new debt was higher than what the Authority currently pays and was put into the model this way to be conservative based on unknown future interest rates, not to indicate any specific bond rating that is expected. Ms. Gross explained the Authority's pension program under the terms of the Pennsylvania Municipal Retirement System as well as the terms of the current union contracts.

John Donches questioned if the monthly billing will only apply to residents or will it apply to businesses as well. Dave Green explained the rates would be applied uniformly to all Allentown customers, and clarified that that customers with a meter larger than 1 inch are already on monthly billing.

MONTHLY FINANCIAL REVIEW

The monthly financial review for March 2018 was prepared by Ed Klein. Mr. Klein stated that the second quarter forecast is being compiled and will be presented at an upcoming meeting.

Scott Bieber left the meeting at 2:30 p.m.

MONTHLY SYSTEM OPERATIONS OVERVIEW

John Parsons reviewed the Monthly System Operations Overview report for March 2018.

STAFF COMMENTS

Liesel Gross informed the Board that the annual performance evaluations and merit increases for non-union employees have been completed and a summary of those was provided to the Board.

SOLICITOR'S COMMENTS

Not present.

Liesel Gross commented that Kathy Pape, Devin Chwastyk and Alessandra Hylander of McNees Wallace & Nurick LLC were also part of the team working on the Allentown Water / Sewer Lease Financial Evaluation project.

Ms. Gross reported that the County Commissioners at their April 11, 2018 meeting voted against extending the Authority's charter but there has been a lot of positive communication between the commissioners and Authority staff. Several commissioners have contacted Ms. Gross since the meeting to understand what the Authority is all about and also understand the finances. Ms. Gross expects communication will continue and the commissioners will provide recommendations on how to move forward towards a charter extension that they will support.

PUBLIC COMMENTS / OTHER COMMENTS

Chairman Nagle called a recess at 2:35 p.m. The meeting reconvened at 2:44.

EXECUTIVE SESSION

An Executive Session was held at 2:44 p.m. to discuss potential litigation. The Executive Session ended at 3:36 p.m.

ADJOURNMENT

There being no further business, the Chairman adjourned the meeting at 3:36 p.m.

Richard H. Bohner
Secretary