

REGULAR MEETING MINUTES
September 12, 2016

The Regular Meeting of the Lehigh County Authority was called to order at 11:03 a.m. on Monday, September 12, 2016, Chairman Brian Nagle presiding. Other Members present at the commencement of the meeting were: Linda Rosenfeld, Kevin Baker, Norma Cusick, Scott Bieber, Ted Lyons and Deana Zosky. Authority Staff present were Liesel Gross, Ed Klein, Frank Leist, Brad Landon, Chuck Volk, John Parsons, Phil DePoe and Lisa Miller.

REVIEW OF AGENDA

Liesel Gross stated that there are no additional items to the Agenda and reviewed the order of the agenda, which was adjusted due to the length of the agenda and early start time.

APPROVAL OF MINUTES

August 8, 2016 Regular Meeting Minutes

On a motion by Linda Rosenfeld, seconded by Ted Lyons, the Board approved the Minutes of the August 8, 2016 meeting (7-0).

PUBLIC COMMENTS

None.

ACTION AND DISCUSSION ITEMS

Wastewater Pretreatment Plant – Operations Report & Discussion of Contract Extension

CH2M, the Authority's contract operator at the Pretreatment Plant, was present and gave a presentation and overview of their operations at the Pretreatment Plant. Liesel Gross explained that the staff and CH2M have begun discussions about negotiating a 10-year contract extension. The current contract includes provisions for two additional extensions of five years each; however, when the Board approved the last 5-year extension in 2013, the Board consensus was to pursue a longer-term extension, which would allow for more opportunities to invest in capital improvements that have a payback period longer than five years. Ms. Gross explained that CH2M and Authority staff are seeking confirmation of the Board's desire to pursue this long-term contract extension prior to investing significant time in the negotiation process. Discussion followed, focusing on how costs are shared and how CH2M is held accountable for the condition of the facility they are operating. Chuck Volk explained that CH2M conducts a condition assessment annually as part of the asset management program of the pretreatment plant, and a more detailed capital improvements plan is developed and rolled into the Authority's 5-year capital plan. A summary of the condition assessment will be provided to the Authority Board. Mr. Volk also explained that preventative maintenance is a required element of the work completed by CH2M, and is included in the base price of their operations contract. Board members expressed interest in understanding more about the pricing of the contract should a 10-year extension be proposed, including competitiveness and incentives for efficiency and conservation of electricity.

Emergency Declarations – WL20 Pump Repair & City Division Sewer Repair

John Parsons reviewed the emergency sewer repair that occurred at E. Cedar Street and Wahneta Street in Allentown and also the emergency pump repair for Well #20 in the Suburban Division. Because both repairs were required on an immediate basis to restore service to customers, and the cost of the repairs exceed the Authority's purchasing threshold requiring the work to be formally bid, an emergency was declared administratively to allow the work to be completed without bids. The Board was requested to declare an emergency retroactively as required by the Authority's purchasing guidelines.

On a motion by Ted Lyons, seconded by Linda Rosenfeld, the Board declared an Emergency for both situations (7-0).

Liesel Gross gave an update on the internal process controls for these types of situations and asked the Board to discuss the staff authorization level. Currently, the purchasing guidelines require three quotes for expenses over \$10,500.00 and bids for expenses over \$19,400.00. Some discussion followed and the Board agreed some administrative authority to declare an Emergency would be appropriate, as long as the Board is aware of the incidents that occur. Ms. Gross suggested that the Staff prepare an update to the Purchasing Guidelines at the next meeting to capture the Board discussion.

The meeting paused for lunch at 12:10 p.m. The meeting resumed at 12:30 p.m.

2015 Audit & Financial Statements

Liesel Gross recommended the Board accept the 2015 Audit as presented in August. Deana Zosky stated her concerns regarding the negative trends in the variances from the prior year. Some discussion followed.

On a motion by Linda Rosenfeld, seconded by Norma Cusick, the Board approved the 2015 Audit & Financial Statements (7-0).

Suburban Division – Capece Tract, WL#20 and Reservoir #3 Improvements

Frank Leist gave an overview of the project stating the purpose of the improvements is to divert more water flow to the southeastern section of the service area rather than to Reservoir #3 which allows Reservoir #2 to reach optimum storage level. The installations of a Variable Frequency Drive (VFD) on WL#20 will minimize wasting water discharges. Mr. Leist is asking for approval of the Capital Project Authorization – Construction Phase in the amount of \$78,300.00 which includes the Professional Services Authorization – Amendment No. 1 in the amount of \$14,400.00 to ARRO Consulting Inc. and awarding the construction contract to Blooming Glen Contractors, Inc. in the amount of \$47,900.00.

On a motion by Ted Lyons, seconded by Linda Rosenfeld, the Board approved the Capital Project Authorization – Construction Phase in the amount of \$78,300.00 which includes the Professional Services Authorization – Amendment No. 1 in the amount of \$14,400.00 to ARRO Consulting Inc. and awarding the construction contract to Blooming Glen Contractors, Inc. in the amount of \$47,900.00 (7-0).

Suburban Division – Pine Lakes Pumping Station Improvements

Frank Leist gave an overview of the project. He is asking the Board to reject both the general construction and electrical bids because the general construction bids were considerably higher than the engineer's estimate. Mr. Leist said the project will be re-evaluated then re-bid in January of 2017.

On a motion by Linda Rosenfeld, seconded by Norma Cusick, the Board rejected all bids received for the Pine Lakes Pumping Station Improvements (7-0).

2017 Budget Assumptions

Liesel Gross gave an overview of the 2017 budget development process and assumptions along with the anticipated timeline of final budget approval. She noted that a third Board meeting in October has been scheduled for October 31, 2016, in the event that additional time is needed to review and approve the budget by the November 1 deadline.

Deana Zosky commented that the format of the budget assumptions was not what she would traditionally want to see. She suggested that the budget assumptions should be presented with the draft budget so variances from the prior budget can be examined. Ms. Gross explained that the Authority's process has historically included an early review of the overarching assumptions for staffing, inflationary factors, key initiatives and other conceptual-level changes so the Board could weigh in on these issues very early in the process prior to the detailed budget being developed. Board approval of the budget assumptions is not required, but the Staff values the Board's input at the conceptual level to ensure the budget is being

developed according to the Board's overall desired direction. The Board should discuss whether they would no longer wish to participate in this step of the budget development.

Ed Klein explained the status of the 2017 budget development, and noted that because the August 22, 2016 meeting was canceled, the budget assumptions outlined in the Board agenda packet have already been incorporated into the preliminary 2017 budget, which he is comparing to projected 2016 performance. A more detailed review of the preliminary 2017 budget would be provided at the September 26, 2016 meeting.

2017-2021 Capital Plan

Liesel Gross reviewed the memo and other attachments to the Board agenda packet, explaining that comments had been received from the City of Allentown and the Lehigh Valley Planning Commission. Staff will respond directly to the City of Allentown regarding their questions and comments.

Staff provided a detailed presentation including overview of the capital plan presented by Liesel Gross, project details provided by Frank Leist and Phil DePoe, financial analysis provided by Ed Klein, and additional commentary on financial scenarios provided by Liesel Gross. The presentation was divided into sections encompassing Administration, Suburban Division water projects, Suburban Division wastewater projects, and Allentown Division projects. Overall the 5-year plan includes 89 projects with a total cost of \$146 million. The plan would be funded primarily through future borrowing, although actual borrowing requirements would be based on impacts of customer growth, specific project feasibility and other factors.

Discussion followed, with Board members asking questions about individual projects. Kevin Baker asked about the Document Management project and how this technology program would be justified. Frank Leist explained that the first step of the project is to complete a needs assessment to analyze the Authority's document management needs more closely to determine the overall benefit of the program prior to authorizing additional phases of the project. Scott Bieber asked for details of the water system improvements in the Upper Milford Central Division. Frank Leist explained the challenges in this small water system as it relates to radon, pumping capacity, and lack of redundancy. The project will further analyze options to improve the sustainability of this system operation.

Deana Zosky commented that the capital plan as presented does not meet her expectations for fully justifying the projects with a return-on-investment (ROI) analysis, key metrics for performance, or cohesive illustration of the financial impact in concert with the financial statements and budget. Liesel Gross explained that the 2017 projects would be reviewed in more detail as part of the 2017 budget development process. Ed Klein noted that this plan should be viewed as a high-level strategy to complete the work that the Authority is generally required to do, and that an ROI analysis cannot be done on every project in advance of presenting the plan. Frank Leist explained that most of the projects included in the plan are required in some form to ensure the sustainable operation of the Authority's systems, or to meet regulatory requirements such as the US EPA's Administrative Order to eliminate sanitary sewer overflows. Very little of the Authority's work is discretionary or will provide a return on investment, other than the ability to continue to serve customers with high quality utility services.

Ted Lyons suggested that the Finance Committee should reconvene to discuss Ms. Zosky's suggestions and work with the Authority staff on any adjustments that may be required to improve the presentation of the Authority's financial information.

On a motion by Scott Bieber, seconded by Linda Rosenfeld, the Board approved the 2017-2021 Capital Plan as presented (6-1). Deana Zosky opposed.

PROJECT UPDATES/INFORMATION ITEMS

Liesel Gross brought to the attention of the Board items listed in the report for upcoming meetings.

EXECUTIVE SESSION

Chairman Nagle called an Executive Session at 2:28 p.m. to discuss potential litigation.

The Executive Session ended at 2:47 p.m.

STAFF COMMENTS

Liesel Gross commented that the Authority Staff and Board have undergone tremendous change in the past year. In addition to changes in staff and Board members, several new strategic programs have been initiated, and several team members are new in their roles and continue to learn in those new roles. As it relates to the presentation of the Authority's financial information, Ms. Gross acknowledged that there have been many requests for changes, and the Staff has been working to be responsive to these sometimes-competing requests. She requested the Board work through the Finance Committee to develop a more cohesive understanding of what the Board would like to see in the financial reporting, and she requested the Board's patience as the Staff works through this challenging transition. Brian Nagle thanked Ms. Gross for her comments and reiterated that the Finance Committee was the appropriate vehicle to address this issue. He asked Deana Zosky if she would be willing to provide her input to the Finance Committee and participate in those discussions, and she agreed to do so.

SOLICITOR'S COMMENTS

None.

PUBLIC COMMENTS / OTHER COMMENTS

None.

ADJOURNMENT

There being no further business, the Chairman adjourned the meeting at 2:50 p.m.

Norma A. Cusick
Assistant Secretary