
L C A S t a t e m e n t

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Lehigh County Authority (LCA) Board of Directors voted unanimously today in favor of authorizing management staff to move forward with monthly rates and billing for all City of Allentown customers as soon as possible. In doing so, LCA will implement the monthly rate schedule adopted by City Ordinance and escalated annually by the terms of the 50-year lease agreement that LCA and the City signed in 2013.

This action is necessary to increase revenues as required to cover high debt service costs associated with the lease, in which LCA paid a sum of \$220 million to the City to address its growing pension liability at the time the agreement was finalized. LCA delayed implementation of the monthly rates for a period of five years in order to gain necessary operating experience with the system and to understand long-term needs of the aging water and sewer system. At a presentation to LCA's Board in April, experts from Jacobs (formerly CH2M) detailed long-term financial projections for LCA under the lease and a \$1.3 billion capital improvements plan for the system over the next 45 years.

Implementing the monthly billing rates included in the lease will result in an increase in fixed charges for Allentown ratepayers, equating to about \$13 per month additional for most customers. Options to address affordability concerns or change the rate structure to lessen the burden on fixed-income households would require an amendment to the lease agreement. LCA remains open to discussions with the City, but this seems unlikely to occur in the near term, given the City's recent public statements threatening legal action against LCA.

LCA has been in conversation with the City for more than two years in attempts to address the revenue shortfall and system needs, to no avail. LCA has concluded it must

move forward in the best interest of the system, its customers and the public's health. Securing LCA's financial viability under the lease is required in order to complete system upgrades that had been deferred for many years prior to the lease.

In a related but separate action, the LCA Board has authorized LCA management staff to file for arbitration on the claims it has raised regarding the lease and the accuracy of data provided as the City solicited bids for the 50-year lease of its water and sewer system. The outstanding questions relate to information on operating costs and revenue capacity of the City's wastewater system, as well as other disputes that impact LCA's financial viability under the terms of the lease. LCA has sought to resolve these disputes with the City for more than two years.

According to LCA's Chief Executive Officer, Liesel Gross, "We want customers to know this was not a decision the Board of Directors entered into lightly. We appreciate everyone who took the time to share their input with us over the past few weeks, and we will continue to reflect on the input provided as we make future decisions. Additionally, we will continue to be open to negotiating other possibilities for rate making with the City of Allentown."

Together, today's actions by LCA's Board signify the immediate need to increase revenues and address legal matters leading to the financial condition of the organization.

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