

City of Allentown & Lehigh County Authority

July 22, 2020 Allentown City Council Committee of the Whole



Allentown Water & Sewer Lease: A Renewed Partnership Approach

Challenge: Fund necessary Capital Improvements over the next 10 years

Important to remember... The public's health, the quality of our local waterways, and our region's economic future all depend on having a sustainable water and sewer system!



City Water / Sewer System Projects Needed (10-Year Outlook: 2021-2030)

- Water Filtration Plant = \$47M
- Wastewater Treatment Plant = \$39M
- Water Distribution System = \$49M
- Sewer Collection System = \$15M
- Total System Need = \$150M

Capital Improvements to the Water and Sewer Systems are vital to the future of the City and its residents.



Dispute Resolution

Reject Settlement

Disputes go to Arbitration/Courts

- Significant Legal and Consultant Costs
- Financial Risks:
 - Potential impacts on General Fund and potential tax increase to resolve 2 lawsuits: ~ \$41M
- Loss of productivity as disputes monopolize City staff time

Approve Settlement

Disputes Withdrawn

- No legal and consultant costs
- Financial Risk Eliminated
- City employees work on primary job functions

Dispute Resolution

Reject Settlement

Immediate Rate Increase

- Full Monthly billing begins 1/1/2021
- Rate increase = ~ \$176 in 2021

Approve Settlement

Phase in Rate Increase

- Fixed charges phased-in over 4 years
 - ~\$88 / year in 2021
 - ~ \$176/ year in 2024
- Billing frequency remains quarterly

Dispute Resolution

Capital Improvements Outlook

Reject Settlement

- With only monthly billing rate, it is questionable if LCA can continually make necessary capital improvements in a timely manner
- If LCA loses monthly dispute, necessary capital improvements will very likely not be made in a timely manner

Approve Settlement

- All necessary capital improvements are made in a timely manner

Dispute Resolution

Additional Benefits Received

Reject Settlement

- No Benefits received

Approve Settlement

- Benefits detailed in this presentation

MAJOR BUILDING BLOCKS OF SETTLEMENT



Addressing Financial Issues

- City Rates
- Future Rate Relief
- Water Supply Agreement
- Annual City Payment

Upgrading Water & Sewer Systems

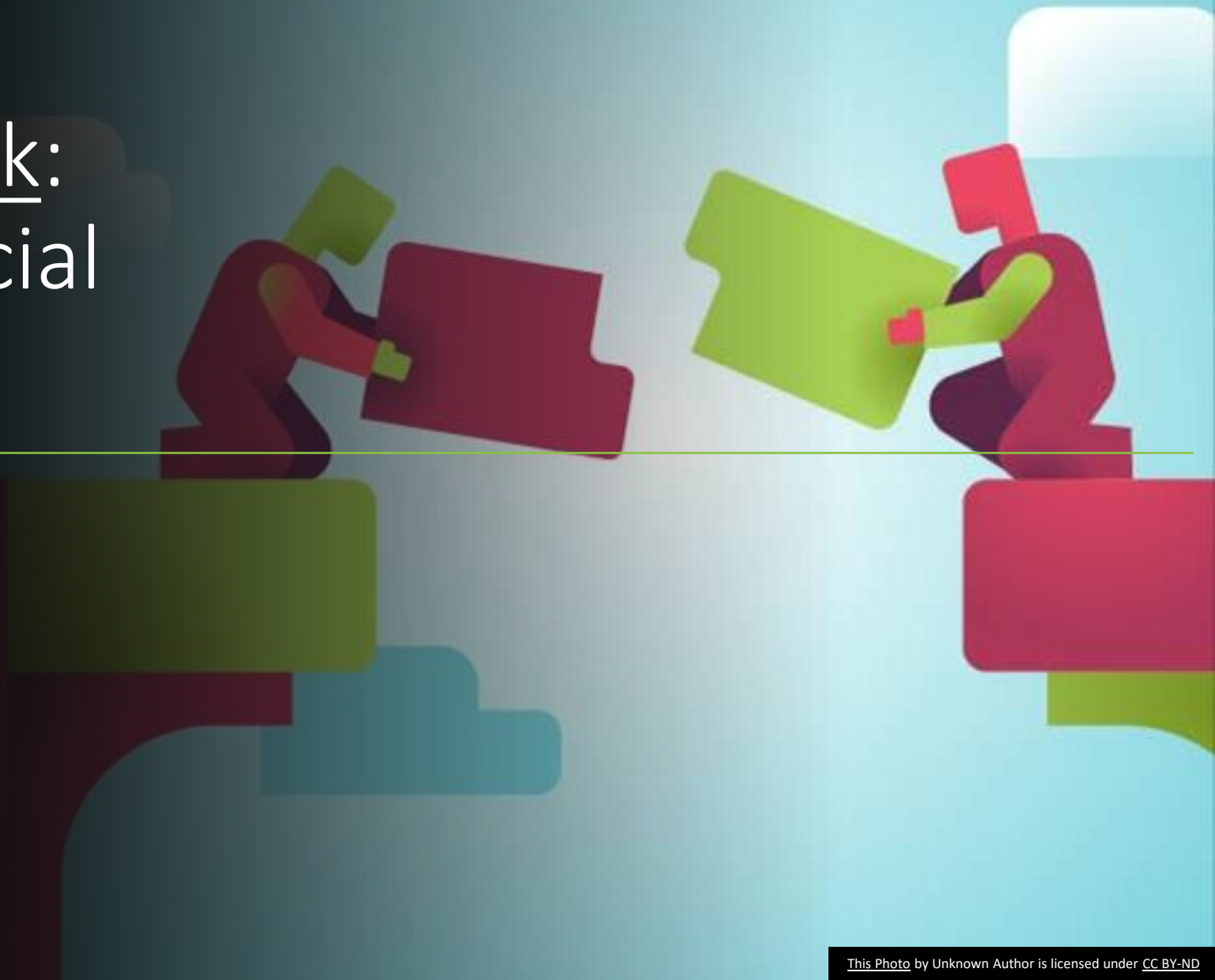
- Capital Improvements
- Reduced Equity Rate of Return

Enhancing our Partnership

- Dispute Resolution
- Financial Benefits
- Focus on the Future



First Building Block: Addressing Financial Issues





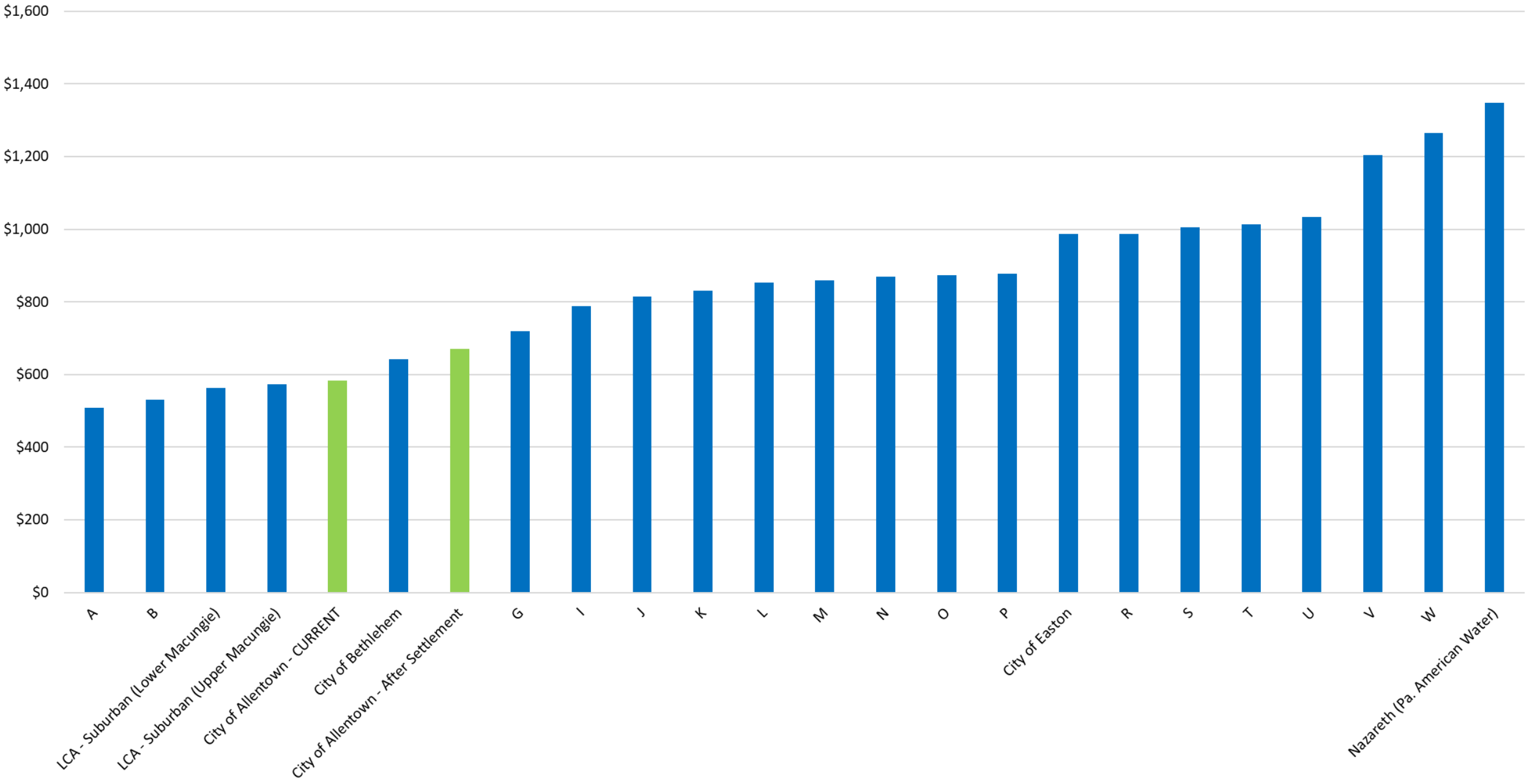
City Rates – Phased Increases, Future Relief

Part 1 – Phased Rate Increases

- Phase-in fixed charge over 4-year transition period (50%, 75%, 75%, 100%)
 - First phase begins October 1, 2020 → \$88 per year for residential ratepayer
 - Future annual increases → ~\$176 per year total impact by 2024
 - Billing frequency will remain quarterly during transition
 - Even with increases, Allentown's rates will remain among the lowest in the Lehigh Valley
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Lehigh Valley Water & Sewer Rate Comparison (Data from 2019-2020)

24 communities in Lehigh Valley - average annual residential water & sewer bill (5000 gallons per month)





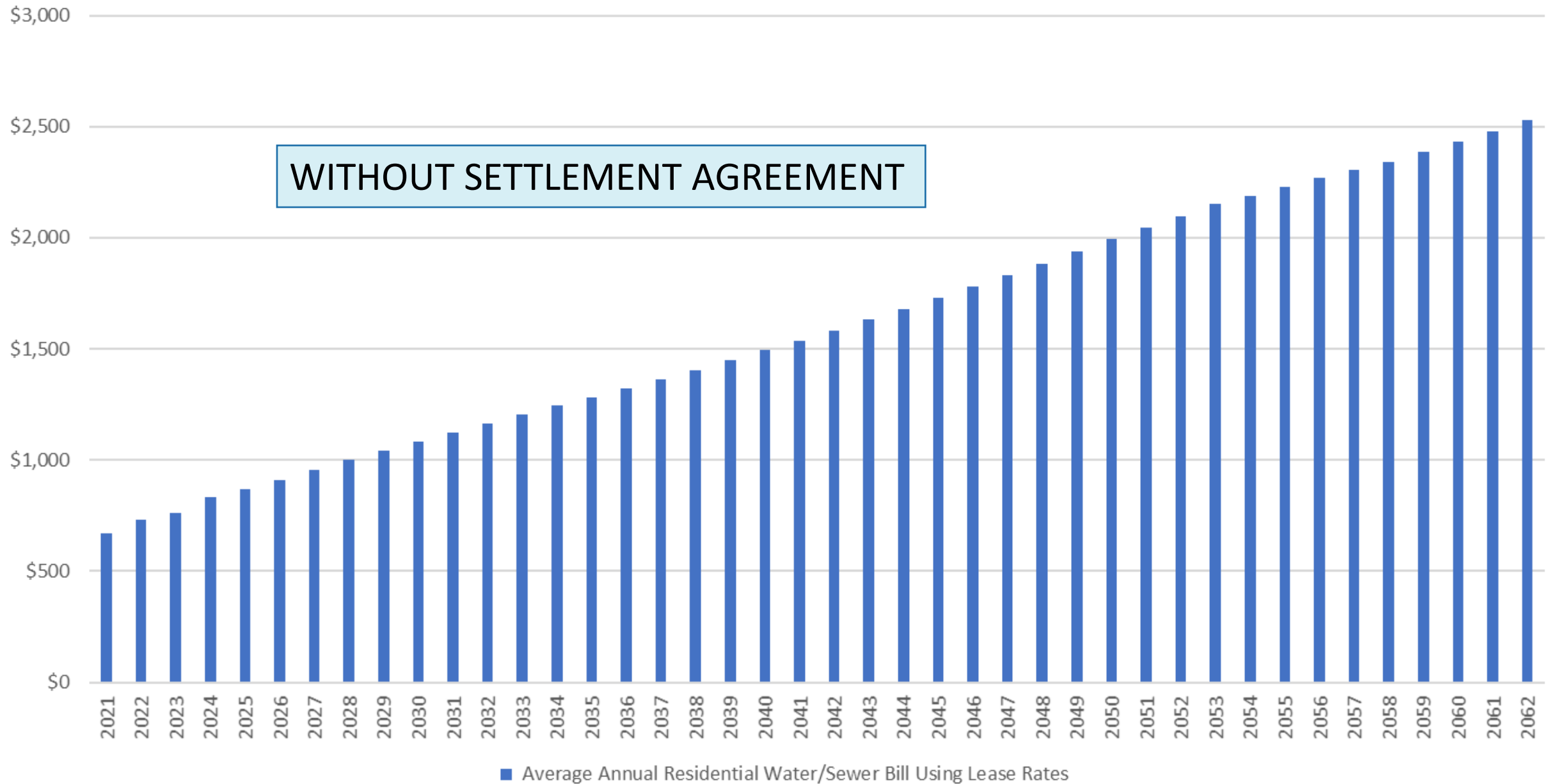
City Rates – Phased Increases, Future Relief

Part 2 – Future Rate Relief

- Rates to City customers will be frozen or reduced after LCA hits key financial targets
 - Anticipated to begin in 2031
 - City and LCA will review dollar amount of Rate Relief annually
 - Determination of Rate Relief is based on defined criteria and financial information taken directly from LCA's audited CAFR
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Projected Customer Water / Sewer Bill Using Lease Rates

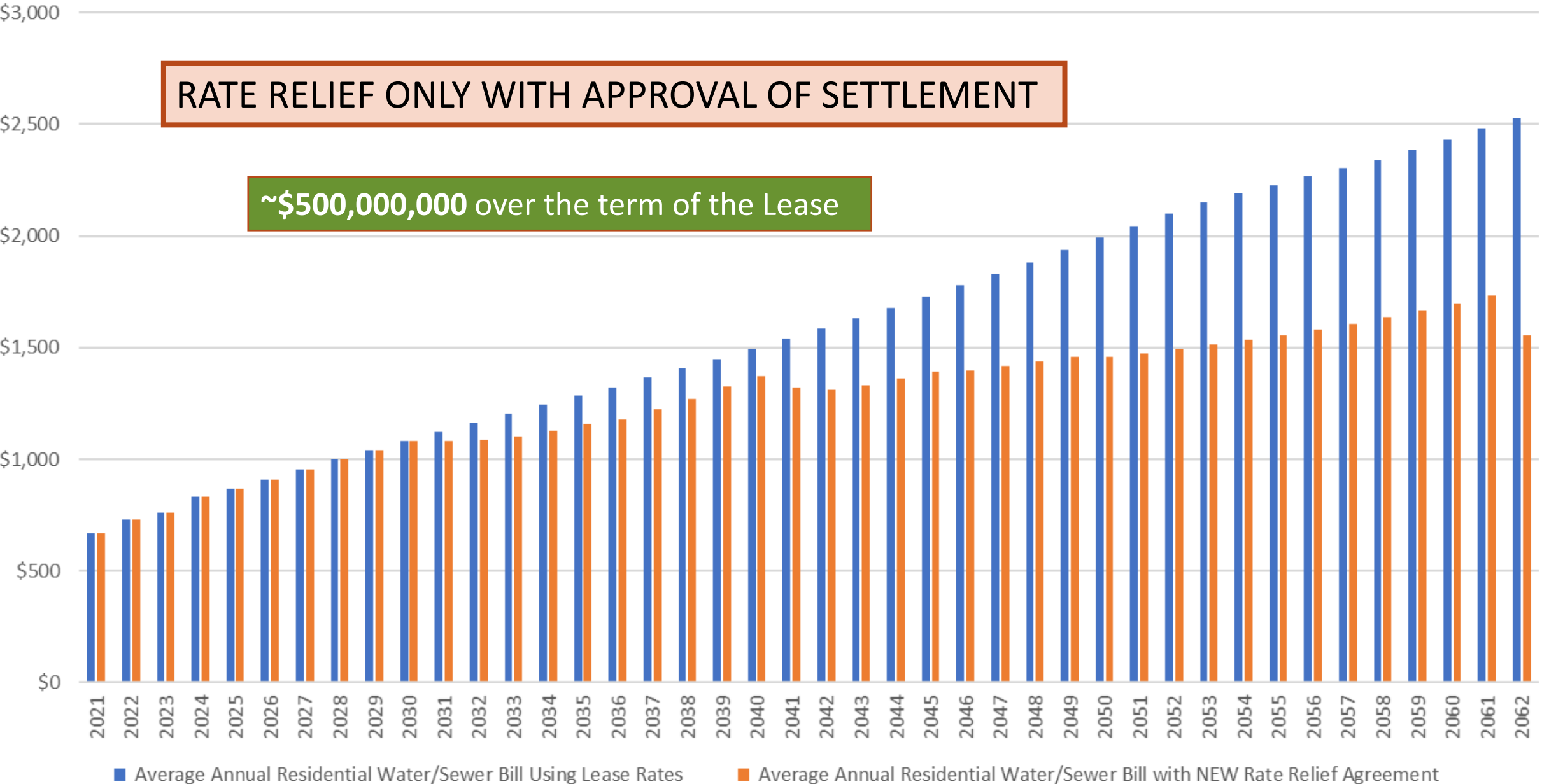
WITHOUT SETTLEMENT AGREEMENT



Projected Water / Sewer Bill with Future Rate Relief

RATE RELIEF ONLY WITH APPROVAL OF SETTLEMENT

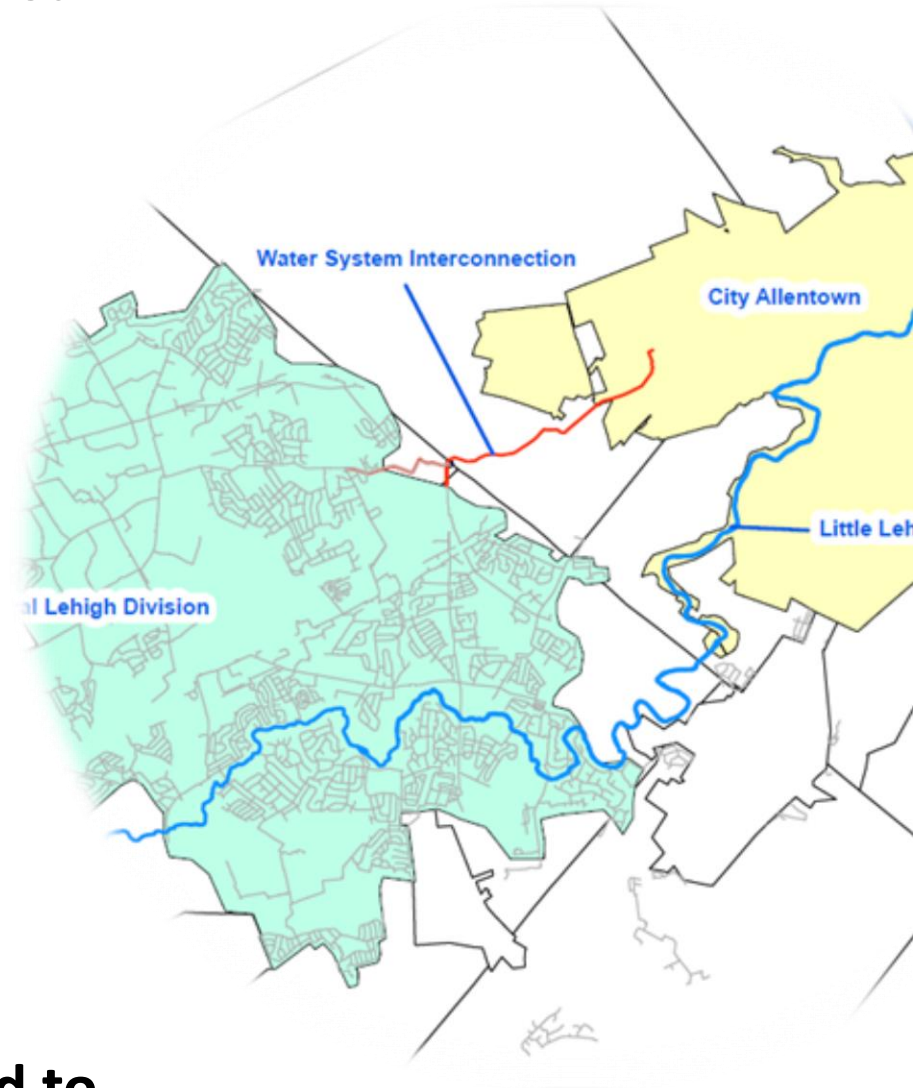
~\$500,000,000 over the term of the Lease



Increased Contribution from LCA's Suburban Division

2009 Water Supply Agreement as Amended

- LCA's Suburban Division will begin to pay for water purchases based on average production costs; presently based on marginal production costs
- LCA's Suburban Division will begin to pay proportionate share of major capital costs as a percentage of LCA's water sales to total water sales
~ 7mgd / 18mgd = 39% (LCA's proportionate share)
- City Ratepayers will only be responsible for ~60% of major capital costs in the future.

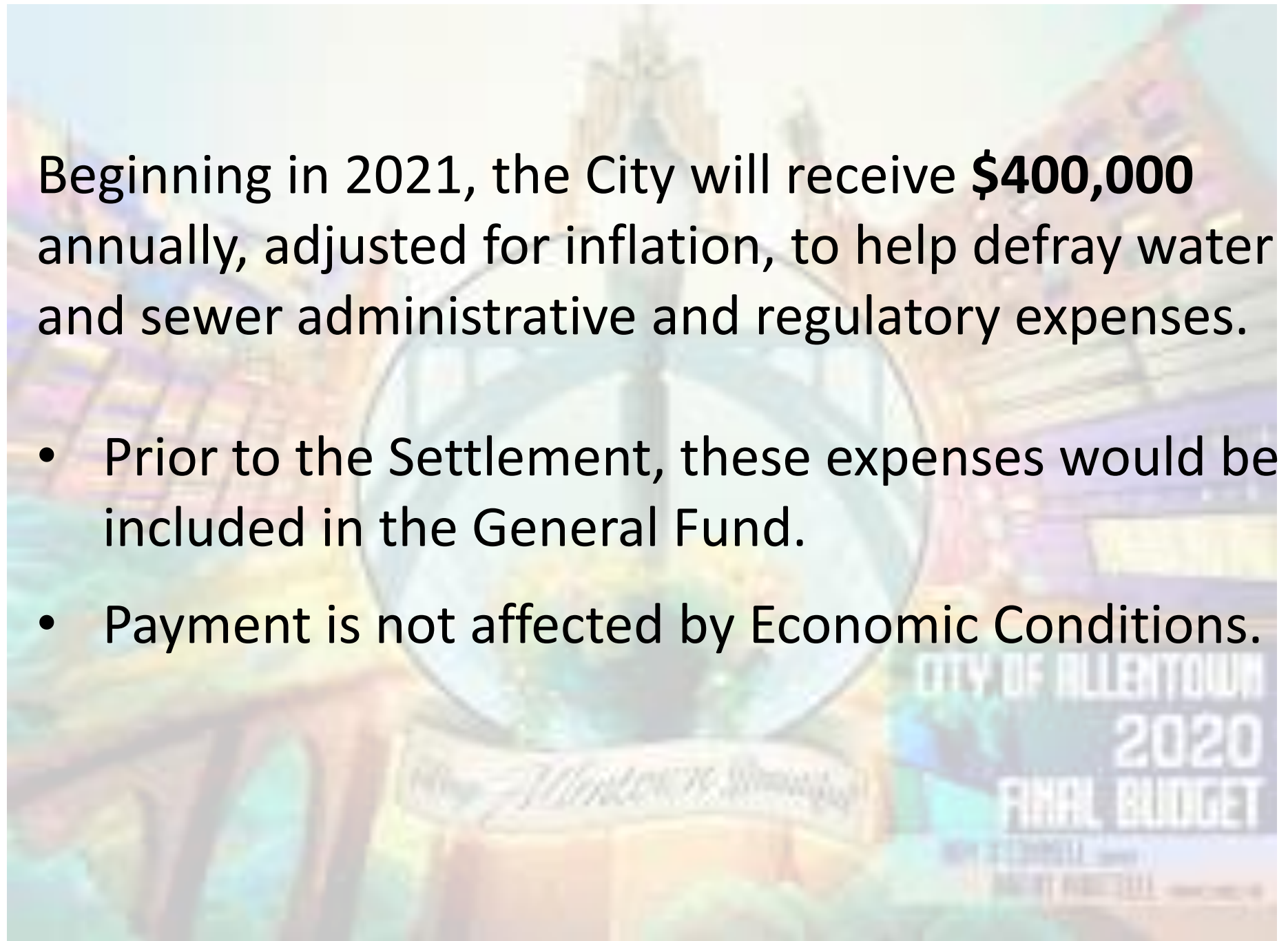


Increased revenue from LCA's Suburban Division will be used to fund water treatment capital improvements

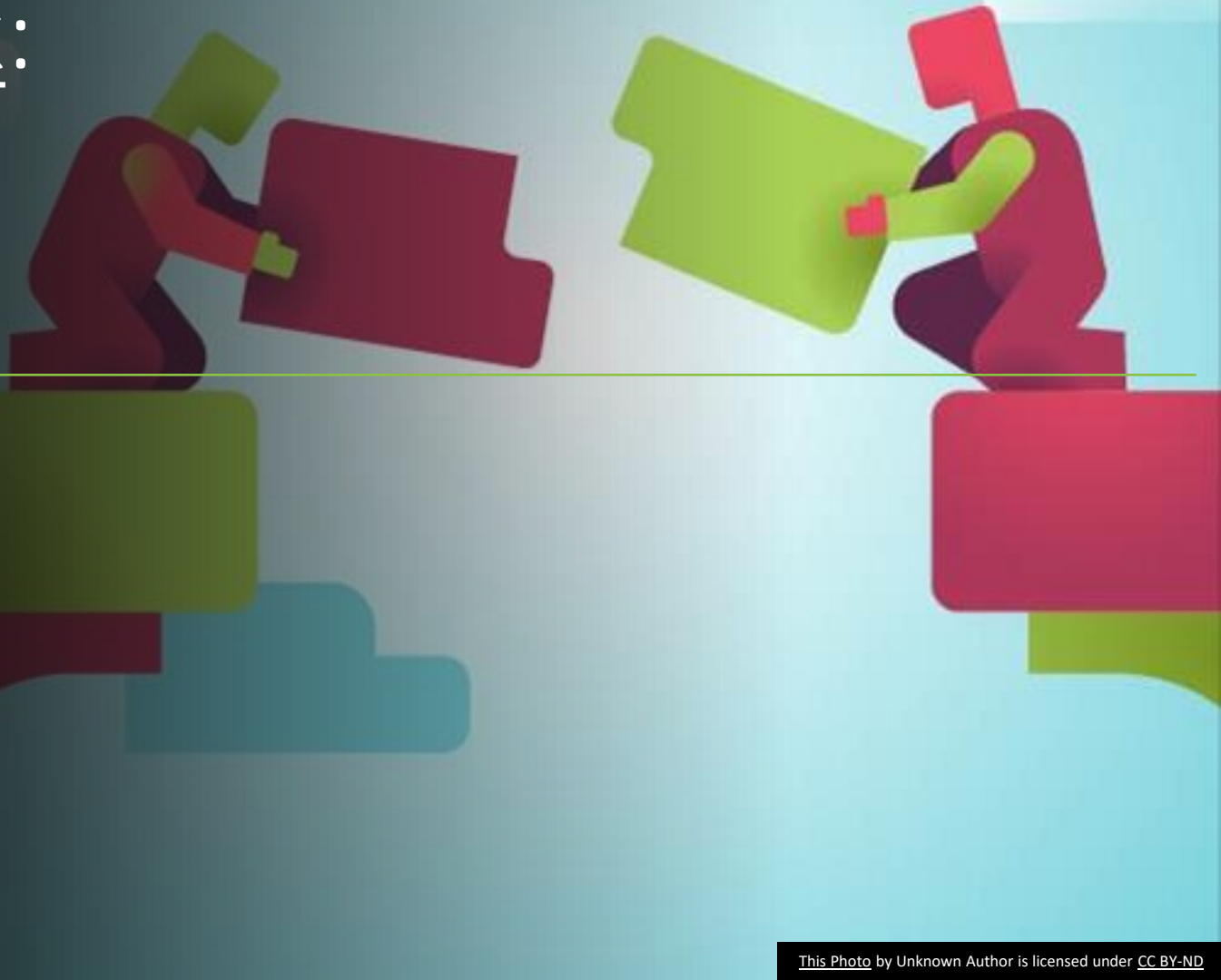
Financial support for City's water and sewer expenses

Beginning in 2021, the City will receive **\$400,000** annually, adjusted for inflation, to help defray water and sewer administrative and regulatory expenses.

- Prior to the Settlement, these expenses would be included in the General Fund.
- Payment is not affected by Economic Conditions.



Second Building Block: Upgrading the Water & Sewer Systems



Positive Impacts:

Capital improvement programs ensure protection of City assets, quality of drinking water, and protection of the environment

- Funding will be available to make all necessary capital improvements on the water and sewer systems in a timely manner.
- Ensures quality of drinking water and sewage effluent (Allentown Standards)
- Protects and maintains for the duration of the Lease the treatment facilities and infrastructure which the City owns

Positive Impacts:

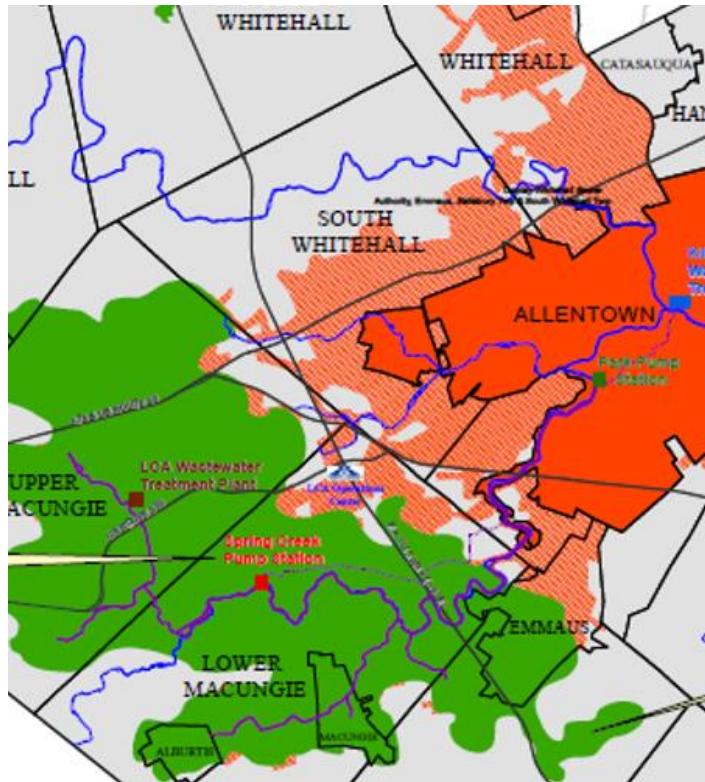
Establishment of Cost Effective and Efficient Program for Water Distribution System Maintenance



Pipeline Replacement Program

- Annual pipeline replacement will be reduced to 1 mile/year; savings of ~\$2M/year
- Annual Leak Detection Program mileage will be increased by 50%; entire system checked every 2 years
- Cost effective to find and repair leaks before they become main breaks
- Program will be evaluated and modified if necessary- every 4 years.

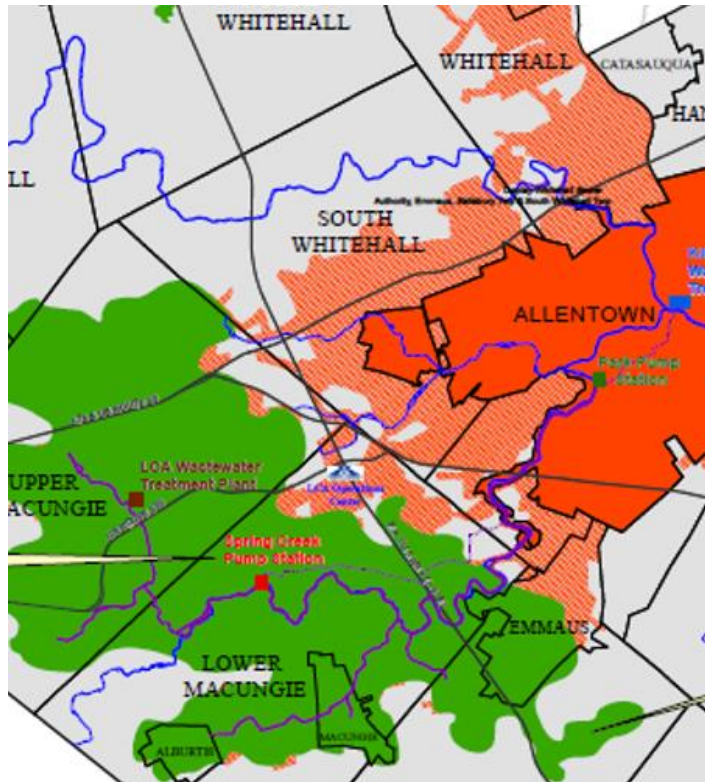
Positive Impacts: Sewer System Criticality



Sewer System Criticality

- City and LCA partnership has been providing leadership role in developing strategies and management of sewer system issues.
- With hydraulic overloading of Wastewater Treatment Plant in 2018-19, PaDEP is allowing development to continue pending submission of Act 537 Plans to address current and future sewage flows.

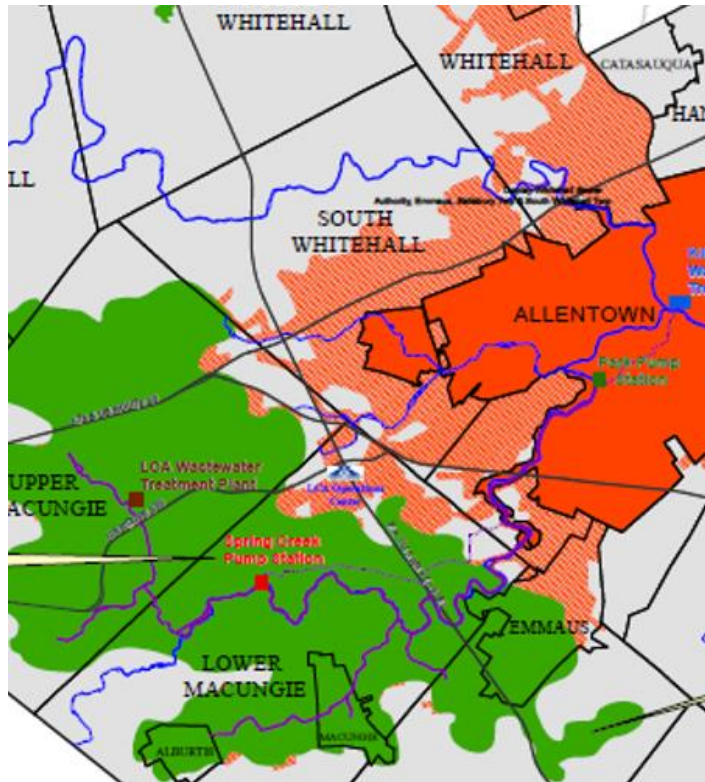
Positive Impacts: Sewer System Criticality



Sewer System Criticality

- Continued success of the partnership is absolutely critical to all regional economic development as sewage treatment and conveyance systems capacities are the 'weak link' to development proceeding.
- Development creates a stable tax base and promotes employment opportunities for Allentonians.

Positive Impacts: Commitment to Sewer System Rehabilitation



Sewer System Rehabilitation

- Through 2024-5, Lease requires City to complete Inflow and Infiltration(I&I)* remediation projects committed to EPA and PaDEP
- After 2024-5, LCA will contribute up to \$650,000/year to continue I&I remediation projects on City's collection system

*Extraneous flows that enter the sewer system during wet-weather events.

Positive Impacts:

Capital improvement programs ensure protection of City assets, quality of drinking water, and protection of the environment



- LCA will establish a Reserve Fund of up to \$2M to address preliminary tasks associated with costly regulatory mandates such as treatment of pharmaceuticals
- Reserve Fund expenditures not subject to Capital Cost Recovery Charge; LCA will replenish Reserve Fund through annual contributions

Positive Impacts: Reduction of Equity Rate of Return*



- Currently: Equity Rate of Return is equal to PUC rate, ~9.75%
- LCA will reduce the Equity Rate of Return on major projects by 4.3% to 5.45%, the interest rate of bonds for the Lease
- Over the remaining life of the Lease, the cost of financing Major Capital Improvements will be reduced by ~\$220M.

Allentown's portion of these savings is in addition to Rate Relief

*Equity Rate of Return is the interest cost associated with using cash (equity) to finance major projects.

Third Building Block: Enhancing our Partnership





Dispute Resolution

- All legal disputes withdrawn & resolved
 - Eliminates financial risk to the City and LCA
 - Avoids significant legal and consultant costs
 - Frees up staff time to focus on primary task functions.
 - Defines Aggregation of Major Capital Improvements
 - **LCA pays \$306,000 per year for 2021-2024 to cover City's future Retiree health benefits liability**



Dispute Resolution (Continued)

Additional Benefits Received

Reject Settlement

- No benefits received

Approve Settlement

- \$400,000+ annual City payments
\$4,000,000+ over 10 years
\$16,800,000+ over life of Lease
- \$306,000/year health benefits 2021-24
\$1,224,000 total
- Future rate relief; ~ \$500,000,000 over life of Lease
- \$250,000- \$500,000 contribution to Reserve Fund;
\$2,000,000 over 10 years.

Dispute Resolution (Continued)

Options

Reject Settlement

- No benefits received

Approve Settlement

- Reduction in Water Plant major capital expenses
~\$18,300,000 over 10 years
- Reduction in pipeline replacement costs
~\$2,000,000/year; ~\$20,000,000 over 10 years
- Reduction in Equity Rate of Return
~\$8,9000,000 over 10 years
~\$220,000,000 over life of Lease
- \$650,000/ year sewer system rehabilitation
\$3,900,000 over 10 years
\$650,000/year until completion

Focus on the Future

Approval of the Settlement

- Ensures Water and Sewer system improvements progress expeditiously to:
 - Continue providing high quality water and sewer services
 - Protect the City's investment in its water and sewer systems
 - Ensure development can proceed without interruption
 - Create a stable tax base and promote employment opportunities for Allentonians
- Strengthens partnership to guide and coordinate Act 537 Regional Planning





Next Steps: Making it Happen



Four Integrated Legal Documents Equals One Settlement Agreement

1

Lease
Agreement:
Amendment

2

Capital Cost
Recovery Charge
MOU:
Amendment

3

LCA Water
Supply
Agreement:
Amendment

4

Stand Alone
Agreement

PROCESS FOR APPROVAL

1. Allentown City Council
2. LCA Board of Directors
3. LCA is developing plans for bond refinancing and/or bondholder consent



Discussion & Questions

Thank you!

