



## Minutes - Final

### Water and Sewer Compliance Review Board

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Wednesday, November 16, 2022

5:00 PM

Council Chambers

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#### Roll Call: Chairperson Zucal

**Present** 3 - Arundhati (Tinku) Khanwalkar, Member Donald S. Lichty, and Member Joseph McMahon

#### 2023 Rate, Liesel Gross, LCA CEO

Ms. Liesel Gross stated that they will talk about water and sewer rates, but will start with some budget overview. She stated that the budget overview is the screen and what she is showing is the 2022 forecast. A budget overview provides a look at 2022 is landing and the 2023 budget that was approved by the Board of Directors in October. It was a sizable increase in operating revenue. That gets to the rate discussion. She highlighted items: significant increase in operating expenses this year. It is inflation related. Debt Service: is a key point in the financial structure that there is a significant debt load. The capital piece is also increasing. The revenues \$55 million need to cover all of that. At the end of the day, 2023 with \$2.5 or \$2.7 million in cash surplus which is great, but need to talk about the cash reserves for future funding. She stated that they need to talk about capital revenue. The report card for PA infrastructure for American Society Civil Engineers was released yesterday and once again drinking water got a grade of a D and wastewater a D -. That is not to say that Allentown water system is at that level, but some of the risks associated with water and wastewater do apply here. It is systems based on age and are below standards and approaching the end of their useful life and significant deterioration. We also have some condition capacity and challenges in Allentown that they are aware of and will talk about some of those. That is the backdrop for some of the points she wanted to make today. For several people in the audience, this is no new information. You know the system very well. The Water Plant can treat up to 30 million gallons a day. The city is treating about 22. About 33 million gallons per day of wastewater with 600 miles of water and sewer main and thousands of manholes. Much of the system is aging. They have components of the system that are over 100 years. They are performing well, but reaching the end or beyond the end of its useful life and needs to be replaced. The five-year outlook, is important when they talk about system improvements. About \$15 million of capital improvements in 2023 are planned. In 2022, they did about \$11 million worth of capital improvements. They can see

what the next five years looks like, looking from 2024 - 2028. They are really seeing a rapid progression of capital needs. Highlights on the water side: water main replacements are requirements to the Lease and really do need to be replaced at an increase level to meet with the replacement rate that is really expected for a system of this age. She stated that there are some major projects going on to replace aging equipment at the Water Plant. Electrical equipment and some funding that they are beginning to put into the Plan to do lead service line replacement. It is going to be an expensive and important project. On the sewer side, there is annual sewer lining projects that are required to reduce leakage and really stepping up the game related to that program. There are major projects at the treatment plant and there are experts in the room that can answer more questions. The regulatory requirements are a major push for some of these projects and again, the aging equipment and electrical components of the plant. Building the reserves in a single year is great, but trying to accumulate them to have the buffer to do these larger projects in the future years is really important. They pay for it those the rates. She took a minute to acknowledge that they are getting funding also from the suburban communities that use the service. Lehigh County Authority purchases water from the city system to serve the suburban communities and the 2023 budget for that \$3.1 million. \$2.7 million from revenues from other municipal contracts. From the sewer side, they expect to receive about \$8 million of revenue from the sewer signatories. That helps and offsets the capital improvements. The rates components for the Allentown water and sewer customers are kind of what she is here for. It is the highlight of today, but she wanted to give that background. There are two major components included in how the rates are calculated. She will get into the details of the formulas. The first components are what they call Schedule 3 rates which is a specific schedule within the Lease Agreement where the fixed charges and meter size and volume and flow charging by usage are set and increase annually by inflationary factors, plus 2 1/2 percent. Additional rates are added to the formula based on cost recovery mechanisms. Those are for projects that are eligible for capital cost recovery, change of law and other charges for Delaware River Basin Commission expenses and the Administrative Order fee. If you are not aware, the city of Allentown has some obligations related to sewer administrative order and they collect funds for that to reimburse the city for bonds and taking out of the obligations. All of that is wrapped up in the rate calculation. The first components that she calls Schedule 3 Lease Rates. Here we see both the fixed charges and the water volume charges. Showing the 2023 rates only and she will show a rate comparison to last year. A residential customer typically has a 5/8 inch meter and will have a fixed charge for their water service and in 2023 it will be \$66.95 per quarter and then a fixed charge for their sewer service which will be \$23.27 per quarter. The actual usage volume or flow charge is applied in the and

added together into the bill. For cost recovery for projects because that is a critical rate component of the rate structure. She went over the cumulative total which are all the different projects that they completed from 2016 forward when they started applying this charge through the Lease Agreement and how those projects have accumulated into the rate that is applied to the water and sewer bill today. When they look at the projects that were completed in the last year or the new components of the rates, there are a couple of key pieces here. For the water main replacements, she wanted to highlight and thank the city for the support through the American Rescue Plan Funding allocation for this project. They will complete one mile of water main replacement in 2022 and that is going to come in around \$3.9 million. The city funding the project with the allocation of ARPA funds is going to result in a rate of zero to apply to the customer for that project over the course of 30 years. That has a long-lasting cumulative impact to the customer over a \$6 million savings. It is really an important partnership and appreciated by LCA and by the customers as well. The Wastewater Treatment Plant boiler replacement is a more standard project that they are kicking off now. They are expecting to spend about \$3.4 million and you can see through the formula for 25 years. Customers will pay about four cents per thousand gallons to recover the cost of that project. The last one is the Administrative Order. She mentioned it briefly that the city has taken out bonds to pay for administrative order expenses. They did \$2.5 million in 2016, refinanced that in 2020 and took another \$4.2 million in 2020. The accumulation of both of those bonds over the debt service schedule equates to a customer rate of about 17 cents per thousand gallons. Those are the pieces that goes into the cumulative total and every year they have a process with the city Office of Compliance and they looked at the projects that were completed, calculate the charges, and make sure we are all on the same page on how the rate is calculated. She stated that she talks a lot about projects this year because when they look at over the horizon of the Lease Agreement with Allentown, the cumulative impact of the projects will have an impact on rates long-term. Any opportunity that we have to support those projects, and lower the cost recovery component at that rate is a huge help. She highlighted the city allocation of the American Rescue Plan Funds that provides direct, immediate and long-term rate relief for the customers. Water main replacements is an area that the city has committed. The city has also committed funding towards the water filter replacement project at the Filtration Plant. How old those filters are, 1962ish. It is probably time. It is the underdrain and the whole structure that needs to be done and having the support from the city with the American Rescue Plan is super helpful for the customers. The city is also applying some ARPA funding towards additional sewer improvements which will keep that AO (Administrative Order) Fee steady where it is rather than increase it as new projects are completed. They do have a line in the

2023 showing \$1.2 million of new borrowing. That is for a project at the Water Plant to replace the high lift pump VFDs. Using PennVest funding is a mechanism that they are working through the process on how to make that work for this Lease. This is kind of their test case project to do that with. They are getting a much lower rate for borrowing. Right now, in this environment where the interest rates are continuing to climb. That is a great way to continue to lower the rate impacted these projects. They will be able to do that. She stated that the last one is a little bit more speculative in process. Grant applications, if they are successful in achieving grant award for projects, that eliminates the rates impact for any project that is funded by a grant. They are actively seeking grant support for lead service line replacements, sewer system improvements and LCA and the city office of compliance are working together on pursuing any other opportunities that come about. She is sure that when it comes about, it will be brought back to City Council. They put all the rate components together into a full rate schedule. The board did adopt the rate schedule at a meeting earlier this month. The city Office of Compliance reviewed them. They are all in line with the formulas that are included in the Lease. They provided a rate example. This rate example is for a residential, average residential bill in Allentown which turns out to be 13,000 gallons per quarter. That is the current water used level, average water usage level. You will see that the quarterly bill for that customer in Allentown right now is about \$184 per quarterly. The new quarterly bill in 2023 is \$222 per quarter. As they work through the math and put all the pieces together, that works out to be about \$6 per month difference. If customers are budgeting monthly, that is kind of a way to think about it. She stated that she always shows this graph every year because she thinks it is important to show the rates in context to what other water utilities are charging across the Lehigh Valley. The yellow bar in the middle of the graph is where the city of Allentown water and sewer rates are. The around customer in Allentown pays around the middle of the whole continuum of what others pay in the Lehigh Valley. There are certainly some communities that pay less and there are a lot of communities that pay more. Every community that has water and sewer services have their own ways of doing rates. Generally speaking, this is a good comparison. She closed on how they try to support customers because it is a concern about the rising costs and the water bill is going up just like every other bill the household may face. They do have some opportunities to support customers. The first is a Customer Hardship Fund that LCA has funded. They have a funding level of \$500,000 of this fund and it is available for customers who has a certain income threshold that meet the 200 percent or less of the federal poverty income level and will support up to \$300,000 in grant money toward the water and sewer bill and help them avoid a shutoff or other actions. There is a new program. Last year, she thinks she mentioned the Low-Income Household Water Assistance Program. (LIHWAP) That program was extremely successful in

Pennsylvania that ended at the end of October. This new program was rolled out at the same time that Pennsylvania Homeowner Assistance Program and this once is specifically for homeowners, but it is eligible for water and sewer bills are eligible for the grants that are provided through this program. This is a really nice program with grants up to \$30,000 per household based on the income limits. They have this information linked to their website for customers who might apply for this. Some other ways that they are trying to help with the customer experience and the bill specifically, last year they rolled out a new option for payment plans and payment plans are administered by LCA. It is an in-house program, like the hardship fund. Customers who maybe facing a water shutoff or has a high bill do to a leak can contact LCA and go through a payment plan process that will also help them waive some penalties while they are paying off their payment plan. On LCA's website if you haven't been to it is [LehighCountyAuthority.org](http://LehighCountyAuthority.org). There is lots of great information about water conservation, some links to county support programs, and other resources there. She mentioned it before, but believe it is important to repeat the partnership with the city on grant applications is something that they are actively pursuing and really looking forward and certainly to get success in that area. The customer service piece and trying to continue that level of service with customers and be responsive to those needs. We do conduct a survey every year. It is actually done monthly, and sent out to customers who have contacted LCA within the prior month. They are tracking overall satisfaction. They keep shooting for that 90 percent level so they can say 9 out of 10 customers had a very satisfied or very satisfied with their service. They continue to monitor that. Employee courtesy is important to her and making sure the staff is treating all customers in Allentown with courtesy and respect and supporting the growth of the employee knowledge so they can provide the best service as possible. She closed with LCA's Mission Statement. They adopted the new Strategic Plan in December 2021 and really simplified our mission to be crystal clear with employees, with customers, with the community and what LCA stands for and what we are here for and that is to protect public health and the environment by providing high quality, safe and reliable water and wastewater service. They are proud of doing that in Allentown and will be happy to answer any questions they might have.

Mr. Ed Zucal asked if anybody from the committee that has any questions. He asked Mr. McMahon or Mr. Litchy if he had any questions.

Mr. Don Litchy stated no, he has none.

Mr. Ed Zucal thanked Mr. Litchy and asked if there were any questions from the public. He stated that it was a very good presentation. It sums it up and is what it is. We have the agreement. He stated hopefully and he inquired about this and there is no set answer. He is hoping to use some of the

ARPA funds to help offset something.

Ms. Liesel Gross stated that she looks forward to hearing about that.

[15-5447](#)

Compliance Rate Review  
2021 Annual Report

**Attachments:** [2023 LCA-Compliance Rate Review](#)  
[2021 Annual Report - Concession Lease Agreement](#)

**Adjourned: 5:24 PM**