

**MINUTES OF THE REGULAR MEETING
OF THE BOARD OF DIRECTORS
OF THE BETHLEHEM AUTHORITY**

JULY 13, 2017

The regular meeting of the Board of Directors of the Bethlehem Authority (Authority) was held on Thursday, July 13, 2017 in Room B504, City Administration Building, 10 E. Church Street, Bethlehem, PA and called to order at 3:30 PM by Mr. John Tallarico, Chairman. Also in attendance were:

- Mr. Vaughn Gower, Vice Chairman
- Ms. Sharon Zondag, Secretary
- Mr. Dennis Domchek, Treasurer
- Mr. Thomas Donchez, Assistant Secretary/Treasurer
- Mr. James Broughal, Esq., Solicitor
- Mr. John Filipos, CPA, Controller
- Mr. Stephen Repasch, Executive Director
- Ms. Sandra Reppert, Administrative Assistant
- Mr. Daniel Meixell, Special Police Officer

APPROVAL OF MINUTES

V. Gower moved and T. Donchez seconded to approve the minutes from the June 8, 2017 regular meeting. Motion passed unanimously.

RECOGNITION OF VISITORS

- Mr. Stephen Antalics, private citizen
- Ms. Linda Christman from the anti-pipeline group Save Carbon County
- Mr. Gene Auman, City of Bethlehem Deputy Controller
- Mr. Ron Madison, Maser Consulting and Authority Consulting Engineer
- Mr. Mark Sivak, City of Bethlehem Director of Budget and Finance
- Mr. Chris Bamber, PFM and City of Bethlehem Financial Advisor
- Mr. Ed Boscola, City of Bethlehem Director of Water and Sewer Resources

COURTESY OF THE FLOOR

Ms. Christman: She provided the Board with a memo from her group that suggests discussion points in negotiations with PennEast:

- Withdraw from negotiations and force the use of eminent domain.
- Continue negotiations but have the HDD completed first to ensure it can realistically be accomplished.
- Negotiate a firm commitment for full responsibility if water delivery or quality is compromised or caused by the pipeline.
- Negotiate a penalty for failure to utilize HDD through Beltzville as promised.
- Negotiate a prohibition against tree cutting on Authority lands until every permit for the pipeline is awarded, including NJDEP and the DRBC.
- Send a letter to FERC stating that routing this pipeline through the watershed is wrong. Send a copy to the DRBC since it is more likely to listen.

She provided an estimated timeline from her group for the project. They now believe it to be two, and perhaps three, years behind schedule. NJDEP recently rejected PennEast's application, refused to grant a time extension and raised the possibility of requiring two growing seasons for data

acceptance. PennEast already lost one partner in this process and could easily lose another. Her group is optimistic the pipeline can be stopped.

J. Tallarico thanked Ms. Christman for the information.

Mr. Antalics: He commented that he is very impressed with Ms. Christman and her involvement. She is an asset to the Authority and should be recognized.

CHAIRMAN

PennEast Pipeline. J. Tallarico reported there has been no meaningful communication from PennEast on the pipeline situation since we reached out to them in April.

City/Authority 2011 Bonds Refunding Presentation. Mr. Chris Bamber from PFM presented an analysis on the potential refunding opportunity of the 2011 Lease Revenue Bonds issued by the Authority that are paid from the City's General Fund. The Authority acquired certain municipal assets of the City through a leaseback: municipal ice rink, Stefko Blvd. garage, Rodgers St. and Eaton Ave. maintenance buildings, and E. North St. electrical maintenance building. Topics for discussion:

- Market Update. Since the 2016 election, long term (borrowing) interest rates are lower and short term (investing) interest rates are rising. Both of these affect the financial economics of refunding and have been moving in right direction over the past six months.
- Refunding Opportunities. The outstanding principal on the bonds is \$17,415,000, the average existing rate is ~5.9% and they are callable on June 1, 2021. The IRS permits a one-time advance refunding. Proceeds would be set aside in an escrow fund and invested in treasuries so that from now until the call date, there is enough to pay the principal and interest on the old (legally and economically defeased) bonds. Bondholders would be secured by payments from the escrow. The new bonds would still be tax exempt.
- The current estimated interest rates produce net debt service savings of ~\$759,000, or 4.63% of refunded principal. One-time use of advance refunding is done only when most efficient and savings exceed a certain nominal amount, at least 3% of the refunded par. Savings would be realized in 2018 and 2019 based on the current market conditions. Estimated negative arbitrage is ~\$780,000 due to the inefficient escrow.
- The financing team is exploring the possibility of a reacquisition, where the City would issue General Obligation (GO) Bonds rather than Lease Revenue Bonds through the Authority. The benefit of a reacquisition is the bonds are solely on the City's financials and not on the Authority's. The Authority's financial advisor floated this idea to the City's team.
- Next steps and preliminary timeline. Details, documents and timelines are still being discussed. More information will become known as the issues are worked through. PFM will come back in August with an update on the route to be taken. City ordinances and resolutions would be read in August. Pricing and settlement of the bonds would be in September/October.

J. Broughal stated his concern is the numerous supplemental leases involving numerous assets. The Authority stepped in as a financing agency for the City. If the Authority sells one of those assets, it may need bondholder and trustee approval. This needs to be investigated.

V. Gower said the Authority has to approve of this as obligor of the Bonds. We agreed to take on the responsibility of debt for City assets. He can approve only if these obligations are removed from the Authority. This is important to fix. We have fixed other things that have benefited the Water Fund and the Authority, and that momentum should continue. Mr. Bamber responded that the goal is to bring this issue back to the City. The City's credit rating has improved substantially over the last five years. From a marketing aspect, GO bonds secured by the City trade a bit better than lease or water revenue bonds. They are working through the logistics and legalities.

According to Mr. Sivak, the City would rather get the Authority out from under the transaction, as long as it can be done.

D. Domchek questioned the assumed interest rates compared to the existing rates. Mr. Bamber responded the assumed rates are comparable to the City's recent GO refunding in March. The trading difference between GO and revenue bonds might be five basis points (.05%), a relatively small amount but it adds up. The overall arbitrage yield for the March refunding, which included some new money, was ~3.25%.

Mr. Antalics opined that the term "and" in the City of Bethlehem and Bethlehem Authority Topics for Discussion implies equal. However, he has gathered from the discussion there could be adversarial relationships in the overall picture. If there is a difference of opinion between the two parties, who is the most powerful and would the Authority be better as an independent authority?

V. Gower responded the relationship is not adversarial, it is structural. Becoming an independent operating authority has already been evaluated. The biggest obstacle is the City would have to approve it. In doing so, it would be giving up current control of the watershed and water system assets, which it may not want to do. The City is at the top and in charge. S. Repasch added the City formed the Authority and could dissolve it as well. The relationship is somewhat unique.

The Board thanked Mr. Bamber for his time and presentation.

McMichaels Hunting Club Request. Arriving after the start of today's meeting were Mr. Rusty Johnson, Mr. Andy Pero and Mr. Dale Johnson from McMichaels Hunting Club (the Club). As reported last month, J. Tallarico said he and D. Meixell met with the Club members. He was impressed and enjoyed the meeting and taking a tour. The Club, in existence for 76 years, currently leases 313 acres and would like to expand and bring in younger members. It is interested in leasing an additional 371 acres not far from the current land lease. However, access to the area is over two miles back from Hyspie Gap Road. A vehicle is almost necessary, especially if there is a kill to bring out. There is a gate on Hyspie Gap Road that would accommodate access to the proposed area.

Mr. Rusty Johnson said it has become very hard to have hunting land in Pennsylvania; it is either owned or leased. The Club has been in existence for 76 years and is committed to exist for another 100 years. The current membership is ~30 and securing more land would allow an additional six members. The current hunter versus land formula is one hunter per 15 acres. The Club has had an excellent relationship with the Authority, has been eyes and ears for Officer Meixell and has a presence on the property.

J. Tallarico said there is an existing access road in disrepair with a lot of potholes, ruts, washouts and some clearing to be done. Perhaps with a lease, the Club could take over maintenance of the road, which would be a help. It is a lot for the City to take care of a road to nowhere. According to Mr. Rusty Johnson, they have access to heavy equipment and have offered use of the clubhouse to the Authority for meetings in the area. The Club does clean-ups and other community events. It is willing to give back even more to the community. No other lessees are doing these things.

T. Donchez questioned if there is a lot of public hunting on the land now and what happens to those hunters if the land is leased. S. Repasch responded he has several concerns:

- The Authority has taken flak from Tunkhannock Township for leasing property exclusively to clubs and not paying taxes on the income from the leases. This larger lease area puts the Authority in a position of taking more flak from the township.

- There is a hunting club in the same general area that we had trouble with in the past and where vehicle traffic was allowed. That lease was revised to disallow vehicle traffic. He does not want the Authority to be in a position where one club is allowed vehicle access and another club is not. The standard lease does not allow vehicle traffic.
- Several of the Authority's leases were inherited from long-ago. The newer leases are generally for areas that are difficult to access so we have eyes and ears on the property. This property is not entirely inaccessible. The only thing we are gaining would be the additional revenue.

D. Meixell said the Club is excellent in keeping that section of Hypsie Gap Road very clean. His only reservation is access through the Huckleberry gate. Huckleberry and Grass Lake gates are the two most popular gates in Long Pond for parking. There is TNC land in the way of a contiguous land lease.

J. Tallarico said the benefits he sees are the area is in a remote spot and it would help to have the road repaired and maintained. There would have to be something in the lease about limited vehicle traffic, obviously during hunting season or times spent fixing the road. V. Gower added we are disposed to help and try to make this work; however there cannot be a decision right now.

The Club members thanked the Board for their time.

EXECUTIVE DIRECTOR

Forestry Management. S. Repasch reported:

- The Cottontail Lane timbering project in Long Pond has been completed. ~\$21,000 was received last year from Wagner Millwork, who sub-contracted the work to Macalla Lumbering. This project was the last stage of a regeneration cut and went very well.
- One plantation stand in Long Pond has been marked and is ready to bid or offer as a unit sale.
- One plantation stand in Wild Creek is currently being marked.

A good percentage of our timber projects are pulpwood-related. A big problem we are facing is finding contractors or buyers because the pulpwood market is saturated. He is confident that these projects will be sold eventually.

Wind Energy Project. S. Repasch reported that the Penn Forest Zoning Hearing Board issued its final ruling several months ago and final documentation on June 28. Atlantic Wind filed a notice of deemed approval, which has been appealed. He believes there will be a hearing for the appeal. He spoke to Atlantic Wind last week and additional information will be shared with the Board in Executive Session after adjournment of the regular meeting. He mentioned that there was an article in today's Morning Call about the wind energy project.

UAV/GIS Update. S. Repasch reported the certificate of authorization for the UAV is imminent. The GIS is completed and will be published on-line for use next week. He is proposing a demonstration of the GIS platform at the August meeting and showing a video using the UAV to demonstrate its potential uses. The Authority Forester requested a fly-over of a certain section of the watershed to check the condition of the foliage since the recent spraying.

Emergency Water Supply Study. S. Repasch reported comments and suggestions from E. Boscola and J. Andrews were added to the RFP for an Emergency Water Supply Study. He will send it to the Board for review and comment. He would like to have the RFP on Penn Bid before next month's meeting. The Board feels that allowing the RFP to be open to any and all consultants makes the process difficult to manage. A decision on qualifications would have to be made either

way. It is better to be upfront and send the RFP to select firms. S. Repasch will discuss a list with E. Boscola.

3Q17 Income and Expense Projections. S. Repasch reviewed the 3Q17 Income and Expense Projections as circulated and filed. He noted carbon credits revenue of \$96,000 is anticipated (down from the \$235,000 budgeted as discussed last month). The invoice for property improvements at the security office was just received and totals \$2,850, slightly higher than the projected \$2,500.

Expense Budget Comparative. S. Repasch reviewed the Expenses Budget Comparative as circulated and filed. Through June, 2017 operating revenues and expenses overall are 31% and 36% respectively. Capital/Reserve revenues and expenses are 24% and 35% respectively. PennEast expenses are \$35,000 above the escrow monies received in 2015.

TREASURER

Investment Summary. D. Domchek reported that the total investments are essentially unchanged since last month and in compliance with our policy. He pointed out that the current overall interest rate is ~1.1% and much better than a year ago. The government notes in the DSRF are currently yielding ~2.7% and are a significant portion of our total yearly interest.

Controller. J Filipos's report for the month of June, 2017 was circulated and filed. He reported:

- \$116,000 came into the Revenue Fund from the City and was paid out to Pennvest. The transaction is not reflected on the summary page;
- The interest payment of \$516,000 for 2011 Bonds was made
- The DCED report was submitted in June.

Resolution 408 – Approval of Expenses. J. Tallarico presented Resolution 408 to the Board for approval. The resolution totals \$ 35,924.38 for the payment of expenses from the General and Capital/Reserve accounts. T. Donchez moved and V. Gower seconded to approve Resolution 408 as presented. Motion passed unanimously.

The Solicitor had no report.

CONSULTING ENGINEER

Annual Report Revised Final Draft. R. Madison reported revisions were made to the draft Annual Report based on last month's comments from the City and the Board. A highlighted version was distributed via email. The final copy will contain editorial changes and clarification of technical information about the treatment plant and other facilities. If the Board is satisfied with the revisions and recommendations cited, he recommends acceptance of the report pending remaining edits in cooperation with S. Repasch.

Regarding the key 22 recommendations, D. Domchek said it would be helpful to know if there is a plan in place to execute when they will be done, how much they will cost and how they will be paid for. He questioned if the LTIIP includes these recommendations. E. Boscola responded that there may be some overlap, but the LTIIP submitted to the PUC is very specific to the DSIC application. An update on the 22 recommendations will be provided at a future meeting. Some are complete, some in progress or some to be completed.

R. Madison said the comprehensive plan partly focused on expanding the service territory north into East Allen Township, some of which is in 22 recommendations (booster stations and infrastructure replacement). The DSIC has a specific focus of trying to justify a PUC-allowed revenue stream.

V. Gower said the former CE repeated recommendations that either were not addressed or not addressed for good reasons. What is the value of this report if it does not lead to some results? There is a need for planning that incorporates the recommendations into the overall capital spending plan.

S. Zondag said we need to have a distillation of what the projects are. These would be what the City has already included in the long term plan so we know what the overlap is and have a balance of the projects that are required, with the result that we can put together a timeline and study the financing.

T. Donchez said the near term and longer term components and a list of priorities and activities are needed so there are no surprises. If we don't have anything to work from and discuss together in terms of a structure, we are wasting our time.

D. Domchek moved and T. Donchez seconded to accept the Consulting Engineer Annual Report, with provisions as discussed. Motion passed unanimously.

SPECIAL POLICE

D. Meixell's report for July, 2017 was circulated and filed. He reported:

- The cut trees by PA DOT noted in #8 of his report do have value. The Authority Forester is working on this.
- The 100' fire tower is in very poor condition, is no longer used or necessary and is adjacent to a youth summer camp which poses a liability. According to E. Boscola, when there was a more robust staff in the watershed years ago, the tower was used. It was also a part of the State fire system. J. Broughal said the tower should be secured, moved or torn down.
- There was an article in the Morning Call about crowds of people from NY and NJ at Beltzville State Park. These people are parking near the water transmission line and directly across from the Wild Creek buildings. He is concerned the parking will spill over onto the Authority's side, and the fronts of our buildings are wide open. This is a growing problem and we will have to do something regarding security soon or in the very near future. He is waiting to see how Beltzville plans on handling this problem.

WATER REPORT

The Water Report for the month of June, 2017 was circulated and filed. The graph shows the reservoir levels at a combined 9.2 billion gallons and stable. The levels are monitored daily.

CITY OF BETHLEHEM DIRECTOR OF WATER AND SEWER RESOURCES

E. Boscola's report on the Water Fund and Major Initiatives for the month of June, 2017 was circulated and filed.

- Water fund: Revenues are slightly behind projected and expenses slightly below projected. There is a lot of cash on hand.
- The Upper Saucon Township agreement will be submitted to City Council for approval at the next meeting.
- The PUC-required demand study is currently being developed. It involves 200-300 customers within the different rate categories. Consumption needs to be measured on an hourly basis for a full year, and the current metering infrastructure cannot handle this. They are looking at the opportunity to jump into the full automatic meter infrastructure program, which includes a central tower that can collect the data automatically. There is an existing City tower on South Mountain that will be able to pick up ~90% of the service territory. Another tower near NCC

may be needed. It might not be as difficult as was once thought and will help with the demand study.

- Goepf Street update: All customers are on the new water main. Trench restoration is all that is left to complete.

OTHER BUSINESS

S. Repasch reported he received a call from and met with a representative from McKay Brothers, a company from California that handles communications for stock exchanges through the use of microwaves. One of our properties on Old Stage Road near the Mt. Pocahontas development is in the direct line of a microwave beam between Chicago and Wall Street. McKay would like to submit a proposal to install a 100-foot tall microwave tower. Currently their leases pay \$1,000 per month until tower is constructed, \$2,500 per month when in operation with an escalator, and reimbursement of attorney fees for work on the lease agreement. He will review the conservation easement to make sure this would be allowed and report back next month.

COURTESY OF THE FLOOR

Mr. Antalics: He opined it has been reported the last few months that the need for pulpwood is diminishing dramatically. He thinks this will continue to get worse because technology and nano-composites will eventually destroy the need for wood products. Wood and food are two commodities in this world. Would the Authority consider using the land in a more productive way long-term by producing food? It might be more profitable than lumber. V. Gower responded he is not sure about the extinction of lumber for paper, he does not think the alternative is food and the forest is thinned to keep it healthy.

NEXT MEETING

The next Board meeting is scheduled for August 10, 2017.

ADJOURNMENT

J. Tallarico moved and D. Domchek seconded to adjourn the regular meeting at 5:11 PM and convene an Executive Session to discuss litigation matters.

Sharon J. Zondag
Board Secretary