

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

SEPTEMBER 14, 2017

The regular meeting of the Board of Directors of the Bethlehem Authority (Authority) was held on Thursday, September 14, 2017 in Room B504 of the 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

APPROVAL OF MINUTES

V. Gower moved and T. Donchez seconded to approve the minutes of the August 10, 2017 regular meeting. Motion passed unanimously.

RECOGNITION OF VISITORS

- Mr. Stephen Antalics, private citizen
- Mr. Ed Boscola, City of Bethlehem Director of Water and Sewer Resources
- Mr. Gene Auman, City of Bethlehem Deputy Controller
- Mr. Ron Madison, Maser Consulting and Authority Consulting Engineer
- Mr. Dave Brong, City of Bethlehem Business Administrator
- Mr. Nate Jastremski, Bethlehem Press

COURTESY OF THE FLOOR

Mr. Stephen Antalics: He commented about the PA tort law that protects municipalities from liability unless negligence is proven, as two recent fires in Bethlehem and Fountain Hill cause him concern. Could the Authority and/or City be sued for additional damages established under the law if water was not available at the site of a fire? J. Broughal responded that the Tort Claims Act limits a municipality's liability responsibility to \$500,000. Even if there was negligence, a party might not be able to sue due to the very large list of exceptions. Mr. Antalics questioned if it would be wise for the City's planning and zoning to require all water supply infrastructure to be in place before construction commences on a project. S. Repasch responded that would have to be investigated by the City.

CITY/AUTHORITY REFUNDING.

Conferencing into the meeting via telephone were Mr. Scott Shearer from PFM, the City's financial advisor, and Mr. Pete Carlucci, the Authority's bond counsel. Mr. Shearer provided an update on the refinancing issue since PFM presented it to the Board in July:

- The initial discussion was for the Authority to refund the Series 2011A Lease Revenue bonds. The alternative structure was to have the City issue General Obligation (GO) bonds, which the City's bond counsel became comfortable with. This allows the City to get out of the lease structure and makes more economic sense.
- After due diligence by the City's Bond Counsel, the first reading of the debt ordinance to issue the GO bonds occurred at the City Council meeting on September 5. The second and final reading of the debt ordinance will occur on September 19.
- The City's bond rating is expected next week, the bonds can be priced and the interest rate and savings can be locked in by the first week of October, and finally bond closing can occur by the end of October or beginning of November.
- The anticipated savings is ~\$750,000 to \$770,000, the same as in July. The parameters of the ordinance have a net present value savings floor of at least \$500,000. There is conservativeness built into the numbers because of unknowns and there can sometimes be volatility in bond markets. There is confidence the City will be above the savings floor. The assumed net savings rate is ~2.77% and is currently at ~2.50%. If the transaction needs to be put on hold, that can be done.

D. Brong stated this issue does have some arbitrage obligations that will net the savings. The City is not in a position to roll the dice and hope that the market will change for the better in the near term. While the City has done well on its income statement, there are still financial pressures. From a debt service expense standpoint, the City would like to realize these savings now.

Mr. Carlucci provided information about the background of the 2011 bonds and what is required of the Board with regard to the refunding:

- The original 2011 issue was structured as a sale and leaseback of facilities. The City used the proceeds to cover some operational costs it had at the time that it was not able to cover from its General Fund.
- The bonds were issued under a trust indenture with BNY Mellon as trustee. The security of the bonds is the assignment of a lease agreement between the Authority (owner) and the City (lessee). The debt service on the bonds is funded from the lease rental payments made by the City.
- Given the current market conditions, interest rate savings can be realized through refinancing a series of GO bonds. The lease obligation will be prepaid under the lease agreement.
- The Authority will defease the rights of the 2011 bondholders by depositing the proceeds from the GO bonds with the trustee and investing them in an Irrevocable Escrow Agreement. The proceeds and earnings derived from investments will be in an amount necessary to pay the debt service and related expenses until the 2011 bonds are retired. Some of the bonds will be retired every year. All of the outstanding bonds as of June 1, 2021 will be subject to retirement by optional redemption.
- Once the monies are deposited under the Escrow Agreement and the lease agreement is terminated, title of the leased facilities is conveyed back to the City.

Mr. Carlucci concluded that the official action required by the Authority Board is to proceed to adopt a Resolution authorizing the execution and delivery of the necessary Irrevocable Escrow and Termination Agreements, contingent upon receipt of the monies from the City in the amount necessary to fund the debt service of the outstanding 2011 bonds until they are retired as of June 1, 2021. The Resolution is intended to approve the Agreements substantially in the form as presented at this meeting.

Mr. Shearer added that the purchase of the securities is dictated by the Escrow Agreement. An underwriter will be selected, the bonds will be priced in early October and on that date the securities (state and local government, open market or treasuries) will be purchased for the escrow. There will also be an independent verification agent triple-checking to make sure there are enough funds to defease the Authority's obligations on settlement date.

V. Gower moved and S. Zondag seconded to approve the Resolution for the execution of the necessary agreements to refund the 2011A Lease Revenue bonds substantially in the form as presented and discussed. Motion passed unanimously.

CHAIRMAN

PennEast Pipeline. J. Tallarico reported S. Repasch and R. Madison met with the technical representatives from PennEast. This matter will be discussed in Executive Session since it is related to on-going property negotiations and potential litigation.

McMichaels Hunting Club Request. J. Tallarico reported that S. Repasch provided information to the Club, to which the Club's chairman responded "thanks for considering our request." Since the proposed lease date is October 1, S. Repasch believes the club might not pursue its request to lease additional land.

PMAA Annual Conference. J. Tallarico reported that the Authority received a thank you letter for its \$100 contribution to the PMAA Annual Conference and 75th anniversary celebration. S. Repasch said that the Authority was the first municipal authority incorporated in PA and we wanted to be recognized as part of that celebration.

City Gift Policy. S. Repasch reported that he reviewed the City's new proposed gift policy and it is fundamentally the same as the Authority's policy. The City's proposed policy has a long list of definitions and includes penalties and disciplinary actions if the policy is violated. The Authority has a de minimis limit of \$100; the City does not have a limit, but that might be amended. The Mayor recently rescinded his (very restrictive) gift policy in the advent of the City's policy.

S. Repasch recommended that the Authority's policy not be changed. V. Gower expressed the Authority's objective should be congruent with the City's policy when finalized. J. Tallarico said the Authority thoroughly discussed its gift policy a few years ago and he is pleased with it; however, we will wait until the City's policy is finalized to make a decision.

EXECUTIVE DIRECTOR

LIBOR Settlement. S. Repasch reported a notice was received several months ago that the Authority potentially had a settlement coming from a class action suit filed with the U.S. District Court, Southern District of New York. The suit pertains to wide-spread allegations that banks and other financial institutions manipulated the U.S. dollar denominator (the LIBOR rate) during the financial crisis, artificially lowering the rates. The Authority's Financial Advisor investigated the following instruments and determined:

- The Lehman Bros. fixed to floating swap was effective during the specified period, but Lehman was not a specified bank and there would be no claim due to Lehman's bankruptcy.
- There was a forward delivery agreement in the DSRF with Wells Fargo, but Wells Fargo was not a specified bank, and the agreement with Nations Bank NA that merged with Bank of America, which was a specified bank but was not a specified instrument. There is no LIBOR payment due by the counter-party.

Several years ago, the Authority was involved in class action suits and received significant settlements. It is worth the time and resources to have these researched to make sure we are or are not involved.

Forestry Management. S. Repasch reported the carbon credits check totaling \$98,920 is forthcoming. The Authority had originally budgeted \$235,000 and planned to contribute \$200,000 to the City's Water Capital Fund. He would like the Board to consider how to allocate the \$98,920. The Board questioned the degree of hardship on the Water Capital budget in absence of the \$200,000. E. Boscola responded on average, \$2.5 million is budgeted per year on capital and it is not always all spent. There will be discussions on capital planning and consulting needs that are multi-years in the future. V. Gower said the Authority has a moral commitment to invest as much as it can in the infrastructure to help the City's budget. We should find the money to do that; however, this cannot be decided today but brought forth as part of the 2018 budget process.

UAV/GIS Update. S. Repasch reported the Authority received FAA authorization to fly the UAV. Officer Meixell officially used the UAV to check some areas of TNC property that were littered as a result of a racetrack-sponsored event and was prepared to cite the racetrack. Candlelit paper lanterns released into the air does not seem appropriate in a forested area. He intends to discuss this activity with TNC and the township and will provide a follow-up at next month's meeting.

Wind Energy Project. S. Repasch reported the arguments were heard in Carbon County court on August 22 and we are awaiting the judge's decision. He also announced that Tuesday, September 26 has been set aside for a tour of the Locust Ridge wind farm for the newest Board members and any other Board members who would like to go along.

Emergency Water Supply Study. S. Repasch reported that eight engineering firms were solicited and proposals were received from the following six firms: ARRO, AECOM, D'Huy who is partnering with Borton-Lawson, BCM, GHD, and SSM. The fees for the work range from \$35,000 to \$88,000 and \$70,000 was budgeted. T. Donchez and J. Tallarico volunteered to be on the review team along with S. Repasch and E. Boscola. Maser may be a part of the final review after the in-house review process produces two or three firms to interview.

Microwave Tower Proposal. S. Repasch reported that the TNC conservation easement prohibits erecting a microwave tower on the property, unless there is mutual consent between the parties that there is an added environmental benefit or it does not cause significant or environmental impacts. TNC concluded that it will not consent to the proposed McKay Brothers tower since it is a for-profit enterprise. It appears from initial research on microwave towers that they are not much different from cell towers from a market perspective. The internet is littered with a lot of information on health effects, similar to what one would find on cell towers and wind turbines. V. Gower questioned how this is different from the proposed PennEast and other pipelines that traverse underground and are commercial enterprises. Some push-back is warranted. There was considerable discussion, and S. Repasch indicated that since McKay has dealt with TNC in the past, they will be asked to work and negotiate with TNC on its microwave tower proposal.

S. Zondag expressed that the Authority does not have a policy, mission or strategic plan on the use of the land. Perhaps one should be developed to apply to these situations without inventing responses as questions are raised. V. Gower said that we have a history and are of the mindset that we do not want a fence around our land. S. Repasch indicated that a land use policy was established many years ago and he will provide it to the Board.

Dishonesty Bonds/Authority By-Laws. S. Repasch reported that he recently shopped the market for and received better Auto and Worker's Compensation insurance rates. It came to light that he and S. Reppert, who mostly handle the day-to-day finances and transactions of the Authority, are not covered under its dishonesty bond policy; only the Treasurer and Assistant Treasurer and for \$10,000 in accordance with the By-Laws. However, there is blanket coverage under the City's policy for the Authority staff for \$50,000 but not the Board members. D. Domchek said that the By-Laws must be adhered to until or if they are amended. This needs to be rectified. G. Auman added that from an auditing standpoint, it is a matter of the correct division of duties, and obviously the City has more people handling the duties than just two. After further discussion, the Board agreed it will purchase bond insurance to cover the Authority Board, staff and Controller in an amount equal to the maximum amount of money that can be handled at any given time.

3Q17 Income and Expense Projections. The 3Q17 Income and Expense Projections report was circulated and filed. There were no comments.

Expense Budget Comparative. The Expense Budget Comparative report for the eight months ended August 31, 2017 was circulated and filed. There were no comments.

TREASURER

Investment Summary. D. Domchek reported the investment summary is essentially the same as last month and there are no issues. There were no comments.

Controller. J. Filipos's report for the month ending August 31, 2017 was circulated and filed. There were no comments.

Resolution 410 – Approval of Expenses. J. Tallarico presented Resolution 410 to the Board for the payment of expenses from the General and Capital Reserve accounts totaling \$38,444.36. D. Domchek moved and T. Donchez seconded to approve Resolution 410. Motion passed unanimously.

Pension Plan 2018 MMO. J. Tallarico presented a memo to the Board on the Authority's pension plan obligation for 2018. S. Reppert indicated the memo is required by the plan to inform the Board of the following year's pension obligation. The obligation totals \$11,267 and will be included in the 2018 budget.

The Solicitor and the Consulting Engineer had no reports.

SPECIAL POLICE

Officer Meixell's report for the month of September, 2017 was circulated and filed. S. Repasch indicated it has been a busy month for ATV activity.

WATER REPORT

The Water Report for the month of August, 2017 was circulated and filed. The reservoirs are at an average combined capacity of 90.43%. E. Boscola noted that the storage curve indicates the current levels are identical to last year's levels at this time, with a downward trend and obviously require close monitoring as it approaches the "watch area". The Wild Creek overflow has been reduced as much as legally possible since a minimum amount of water flow must be maintained to Beltzville Lake.

CITY OF BETHLEHEM DIRECTOR OF WATER AND SEWER RESOURCES

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

- Finances are on target and the Water Fund is in good shape to make the November 15 debt service payment.
- The 2018 Operating budget is being developed.
- The DSIC is almost ready for submission to the PUC. The IT department is working on the DSIC charge calculation in the water billing system for correctness.
- Currently in discussions with Sensus on the AMR central tower receiver stations and progress is being made with installing radio-read end points. This project will help with the required rate study before the City can apply for its next rate hike.
- Earlier this year, the bond money was depleted. The only money remaining for capital is the surplus from the Water Fund and the BRIF. The 2018 Capital Budget is being developed and the City would like to again budget ~\$1 million from the BRIF into the Water Capital Fund. It appears there will be another \$1 million moved from the Water Fund into the Water Capital Fund for 2018.
- The water main projects are completed for this year.
- The Southside Pump Station is being upgraded with new pumps, valves, and an emergency diesel generator. There are three main pump stations on the Southside. One was upgraded a few years ago and the remaining one is being considered for upgrade in 2018. S. Repasch mentioned that every year, the Authority Consulting Engineer inspects the water system facilities. If any Board member is interested in going along on this year's inspections, please let him know.

There was no Other Business.

COURTESY OF THE FLOOR

Mr. Stephen Antalics: He questioned how many hydrants are in the water system and how can just one hydrant go dry. Response was it could depend on the size of the line supplying the hydrant. The age of the system must also be considered. There are many old lines that are small and possibly experiencing internal corrosion, or tuberculation, that impedes the flow.

NEXT MEETING

The next regular meeting of the Board is scheduled for October 12, 2017.

ADJOURNMENT

J. Tallarico moved and V. Gower seconded to adjourn the regular meeting at 5:00 PM and convene an Executive Session to discuss litigation matters.

Sharon J. Zondag
Board Secretary