

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

The regular meeting of the Board of Directors of the Bethlehem Authority (Authority) was held on August 19, 2014 in Room B504, City Administration Building, 10 E. Church Street, Bethlehem, PA and called to order at 4:00 by Mr. Vaughn Gower, Chairman. Also in attendance were:

- Mr. John Tallarico, Vice Chairman
- Ms. Laurie Hackett, Secretary
- Mr. Jack Abel, 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

J. Abel moved and L. Hackett seconded to approve the minutes from the regular meeting held on July 10, 2014. Motion passed unanimously.

RECOGNITION OF VISITORS

- Mr. Stephen Antalics, Bethlehem citizen
- Mr. Steven Goldfield, Authority Financial Advisor
- Mr. David Brong, City of Bethlehem Business Administrator
- Mr. Ed Boscola, City of Bethlehem Director of Water and Sewer Resources
- Mr. Scott Shearer, City of Bethlehem Financial Advisor

There were no comments during Courtesy of the Floor. The Chairman's agenda items were deferred until the Authority's Bond Counsel arrived and all legal and financial professionals could take part in the financing discussion.

EXECUTIVE DIRECTOR

Bank of New York Mellon Arbitrage Engagement Letter. S. Repasch reported on an engagement letter from BNY Mellon to perform a final arbitrage analysis on the 2004 Bonds for the period 8/18/14 to 11/15/2014. The analyses for the 2010 Bonds and the 1997 Emmaus Loan should also be included. Once BNY Mellon's scope of work is revised and reviewed, action on this item will follow at a later date. The Authority has funds set aside in an arbitrage account in the event arbitrage is due to the IRS.

3rd Quarter 2014 Income and Expense Projections. The 3rd Quarter Income and Expense Projections report was presented as circulated and filed. S. Repasch noted that Northampton Area School District taxes (due to the acquisition of the EATMA water system properties) are included in the expenses. The exemption hearing with Northampton County has not been scheduled yet, but is anticipated to be held soon.

Mr. Eric Evans, City of Bethlehem Councilman, entered the meeting at 4:10 PM.

Expense Budget Comparative. The Budget Expense Comparative for the seven months ended July 31, 2014 was presented as circulated and filed.

CONTROLLER

J. Filipos's report for the month of July, 2014 was circulated and filed. He noted that the principal, interest and coverage for the August Emmaus Loan payment was received from the City, the Authority's total debt is \$98 million, and the balance in the arbitrage account is \$195,000.

Resolution 368. V. Gower presented Resolution 368 to the Board in the total amount of \$120,631.26 for payment of water capital expenses from the BRIF in the amount of \$83,382.87 and administrative/professional expenses in the amount of \$37,248.39.

L. Hackett moved and J. Abel seconded to approve Resolution 368 as presented. Motion passed unanimously.

CD Investments Ratification. S. Reppert presented the following CD investments approved via email for ratification:

- \$250,000 with American Bank, 0.27% for 12 months (July 18, 2014)
- \$250,000 with Lafayette Ambassador Bank, 0.20% for 12 months (July 28, 2014)

J. Tallarico moved and J. Abel seconded to ratify the approval of the CD investments as presented. Motion passed unanimously.

SOLICITOR

No report.

CONSULTING ENGINEER

S. Repasch reported the Consulting Engineer's report indicated he has been working on the self-liquidating debt report related to the bond refinancing, which will be reviewed by the legal and financial professionals.

Mr. Daniel Meixell, Authority Special Police Officer, entered the meeting at 4:15 PM.

BETHLEHEM AUTHORITY SPECIAL POLICE

Officer D. Meixell's report for the month of August was circulated and filed. He also reported that he is investigating recent ATV activity in the Penn Forest area.

S. Repasch informed the Board that the Authority received a letter from Penn East Pipeline about a proposed gas pipeline from Wilkes-Barre to Trenton, New Jersey that would pass through Authority property in Carbon County. A meeting with Penn East will be scheduled in the near future.

V. Gower queried if the trash issue in Long Pond needs more attention. D. Meixell responded the trash is an ongoing issue along the entire corridor and not just on Authority property. Snowfall this past winter hampered clean up efforts as well.

Mr. Peter Carlucci, Authority Bond Counsel, entered the meeting at 4:25 PM.

WATER REPORT

The Water Report indicated the reservoirs are at 100% capacity.

CITY OF BETHLEHEM DIRECTOR OF WATER AND SEWER RESOURCES

E. Boscola's report on the Water Fund and Water Capital projects was circulated and filed. The financial status of the utility is in good shape. Major projects are in progress, under contract or out for bid and most should be completed this year. Discussions between the City and Northampton Borough Municipal Authority are favorable for the City to provide water service to the proposed FedEx facility, which was approved by Allen Township. Discussions between the City and Easton Suburban Water Authority continue on the language in the City's PUC application to provide water service to the Prologis development in Lower Nazareth Township.

CHAIRMAN

PFM Engagement Letter Ratification. V. Gower reported that PFM was engaged as Investment Advisor to the Authority to help accomplish the bond refinancing as related to two forward delivery agreements in the Debt Service Reserve Fund. The costs were \$2,500 per agreement to review and evaluate, and \$7,500 per agreement to amend and/or terminate. This action was approved by the Board via email.

S. Shearer said the investments in the Debt Service Reserve Fund (currently \$8 million) must remain in place for the life of the bonds. For this bond refinancing, the agreement with Bank of America will be transferred and the agreement with Wells Fargo will be terminated.

J. Abel moved and L. Hackett seconded to ratify approval of the engagement of PFM as Investment Advisor to the Authority as discussed. Motion passed unanimously.

Bond Offering. S. Goldfield reviewed some of the details related to the bond offering and a chart depicting the restructuring of water debt and new money debt:

- Bond Underwriting: Janney, PNC and BAML won bid at under \$5/bond, a reasonable compensation level;
- Bond Insurance: Build America (BAM) won bid over Assured Guaranty (AGM) at a savings of ~\$400,000;
- Interest rates since July have become more favorable. The present value savings on the old to new bonds is now at \$2.78 million;
- Total annual debt service is reduced and availability of new money for capital is increased;
- The investments in the DSRF currently earning ~\$400,000 will earn ~\$250,000. The refinancing makes up the difference.
- The Capital Appreciation Bonds (2022 to 2028) can not be refinanced and are not callable, so some of the debt is restructured to fall after 2028. There is an 8 year call on the new bonds, so if rates go down, they can be refunded in 2022.

The Preliminary Official Statement (POS) was prepared and went to market to offer the bonds. He recommended that the Board accept the Bond Purchase Agreement. The purchase date is August 19, 2014. The next steps are tax certifications, closing certifications, the City ordinance approving the City's guarantee and the self liquidating debt report. Closing date is scheduled for September 25, 2014.

P. Carlucci presented a Resolution to the Board for adoption. The purpose of the resolution is to:

- Accept the Bond Purchase Agreement from Janney;
- Authorize the incurrence of debt in the principal amount of \$67,785,000;
- Approve the form of the 6th Supplemental Trust Indenture and 8th Supplemental Contract and Lease;
- Exercise the option to redeem the outstanding 2004 and 2010 Bonds and prepay the 1997 Emmaus Loan
- Accept the Bond Insurance from BAM;
- Authorize the appropriate officers to execute and deliver all necessary documents to bring transaction to a successful close.
- Recommend City Council proceed to enact a debt ordinance and agree to guarantee the debt;
- Empower the Authority Consulting Engineer to prepare the necessary self-liquidating debt report to file with DCED. This insures the City's borrowing capacity is not affected going forward.

Additionally, P. Carlucci said they are trying to make filing of Continuing Disclosure less burdensome for the Authority going forward. The possibility of eliminating the Maintenance Reserve Fund was investigated, and a provision was added to the new bond offering for the bondholders to vote for that elimination. Changing the trustee

was also investigated. To make that change in conjunction with the refinancing is not possible. Bondholders must approve of a new trustee by vote. However, the BNY Mellon trust business is for sale so there could be a change in trustee regardless.

D. Brong thanked everyone for the many months of hard work. To be certain, he wanted clarification that debt service typically paid will continue on all existing issues until November 15. S. Shearer responded yes, and interest was built in to be paid from the proceeds to allow for cash flow for the remainder of 2014. Emmaus Loan payments will continue until it is paid off either October 1 or October 8.

J. Abel queried the confidence that this plan will play out as projected, considering the economy and inflation. P. Carlucci responded that the bonds are fixed for the life of the deal. The only time that could change is if the Authority refunded at a certain time in the future.

J. Abel moved and J. Tallarico seconded to accept the Bond Purchase Agreement and adopt the Resolution as presented and discussed. Motion passed unanimously.

There was no Other Business or Courtesy of the Floor.

NEXT MEETING

The next Board meeting is scheduled for September 11, 2014.

ADJOURNMENT

J. Abel moved and J. Tallarico seconded to adjourn the meeting. Motion passed unanimously and the meeting adjourned at 5:10 PM.

Laurie G. Hackett, Secretary