

BOROUGH OF LEMOYNE

"The little town that has it all!"

Lemoine Borough Council Lemoine Borough Municipal Authority Joint Meeting Minutes—August 31, 2017

A joint meeting of Lemoine Borough Council and the Lemoine Municipal Authority (LMA) was called to order at 6:00 p.m. on Thursday, August 31, 2017 at the Lemoine Borough Office. Present were Councilmembers Zachary Border, Daniel Green, Donna Hope, Dennis M. McGee, Robert Rapak, Michael Sadowski and Council President David G. Beasley. Mayor Gale Gallo arrived shortly after the meeting began. LMA members present were John Carroll, Lori Hegedus, Will Hesse, and Stacey Gromlich. Also present were Borough Solicitor Michael Cassidy, LMA Solicitor Henry Coyne, Borough Manager Cindy L. Foster, and West Shore Regional Police Department Chief Michael Hope.

Mr. Beasley opened the meeting and turned the floor over to Adrienne Vicari and Bruce Hulshizer of Herbert, Rowland & Grubic, Inc. (HRG) for a review of the report on the valuation of Lemoine's sanitary sewer system and corresponding cost-benefit analysis for potential sale of the asset.

Ms. Vacari reviewed the valuation report noting that three methods were considered before arriving at a fair market value for the system of \$22.4 million:

1. Book value (original value less depreciation of assets)--\$22.3 million
2. Market value (comparisons of similar sales)--\$22.3 million
3. Income approach (consideration of cash flow following sale)--\$22.7 million

Ms. Vacari reported that the market value was derived on a statewide basis looking at sale of municipal utilities of similar size. Mr. Cassidy asked if HRG is a certified valuation expert with the PUC which Ms. Vacari confirmed.

Overall costs and the benefits of going through the Act 12/Section 1329 process were discussed at length. Other discussion centered on rate stabilization, pending litigation that could eventually affect the rate base, the effects of rate blending and distribution across a larger customer base, the PUC's role in permitting rate increases, and effects a potential bidding war might have on Borough residents.

Ms. Vacari turned the floor over to Mr. Hulshizer for a review of the cost benefit analysis. The report stated that with a value of \$22.4 million and current debt of approximately \$16 million, the sale of the sewer system to an investor-owned utility would net approximately \$6 million. Discussion centered on a chart prepared by HRG comparing rate increases over a 20-year period should the system remain public compared to private ownership. The chart showed that sewer fees for residents and businesses would increase if the system was sold to an investor-owned utility and that those increases would likely be 60% over the next 20 years, whereas fees would likely increase by only 13% over 20 years if the Borough continued to operate the system. The projected 60% fee increase did not take into consideration the need for major capital projects nor did it consider the need to plan for future improvements should the asset remain public. The state of the system was discussed along with the need for capital improvements over the coming years and corresponding budgetary demands to support those improvements. Inflow and Infiltration (I&I) problems were discussed along with the need to televiser lines. It was noted that if the asset is retained the Act 537 plan must be updated.

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Discussion ensued on the necessity of taking a comprehensive look at expenses including the need to plan for upcoming capital projects, save for a rainy day fund, reprogram administrative staff salaries currently assigned to the sewer budget, and consider benefits and union considerations related to the collective bargaining agreement before making a decision on whether to sell the assets and turn the operation over to a private entity.

Mr. Hesse reported on the current \$16 million debt carried on the facility and pointed out that the Penn VEST loan will not be paid off for 26 years which is beyond the useful life expectancy of the facility. While the loan can be paid off early with no penalty, the importance of creating a capital improvement plan was noted.

Laurie Zimmerman, 46 North 8th Street, asked how the Borough's rates compare to other sewer customers in the area. Mr. Hulshizer explained that all rates are different. Patty Beasley, 409 Herman Avenue, stated that if the asset is not sold she would prefer rates go up in smaller increments to allow for future planning rather than to have no increase for several years followed by a larger increase.

Mr. Hulshizer agreed to update the table showing the present worth impact on customers from the system sale, but to do so they will need more information from the LMA on its capital planning over the coming ten years. In addition, a provision can be added to set aside a certain dollar amount determined by the LMA for future planning efforts.

Being no further discussion, the meeting unanimously adjourned at 7:51 p.m. upon which time Borough Council entered Executive Session to discuss a personnel matter.

Respectfully submitted,

Cindy L. Foster
Borough Manager/
Borough Secretary