

PENN TOWNSHIP MUNICIPAL AUTHORITY
PERRY COUNTY
102 Municipal Building Road
Duncannon, PA 17020

May 9, 2006

The Penn Township Municipal Authority (Authority) met on Tuesday, May 9, 2006 in the Penn Township Municipal Building. The meeting was called to order at 6:00 p.m. by Chairman Robert E. Shaffer, Sr., who then announced that the meeting was being recorded to aid in the preparation of the minutes.

Authority members present:

Robert E. Shaffer, Sr., Chairman
Franklin Reidlinger, Vice-Chairman
Irene Graybill, Executive Secretary/Treasurer
Henry Holman, III, Secretary
Lee Wright, Assistant Secretary/Assistant Treasurer

Professional staff present:

Dennis Shatto, Esq., Cleckner and Fearen, (CF), Solicitor

Authority staff present:

Edward Chism, Plant Operator
Susan Long, Billing and Payroll Clerk, and Recording Secretary

Visitors present:

John Myers Paul Soltis
Elmer Knaub Henry Holman, Jr.

Petersburg Commons Exploratory Digging

Chairman Shaffer asked for an update on the status of locating the utility lines in the area proposed for installation of the water meter vault. Irene responded that Buchart Horn will do the PA One Call and Herman Deimler will do the test dig, with digging anticipated the week of May 15, 2006. Chairman Shaffer requested that Inspector Sam Auxt be present during the exploratory work.

Chairman Shaffer then turned the meeting over to Mark Derr, who had been retained to conduct a review of the Authority's financial condition. Mr. Derr stated that he would give an overview of his draft report, after which he would like to have a work session to discuss his spreadsheet and assumptions.

PENNVEST and Other Loans

Mr. Derr presented a brief history of the current loans borrowed by the Authority. He reported that \$2,004,000 was obtained from PENNVEST in 1991 to finance the original lines in Penn Township. A \$380,000 loan was obtained from PENNVEST in 2002 for an engineering study and advanced funding of the Penn Manor and Susquenita Hills sewer extensions. A \$1.5 million bond anticipation note (line of credit) was obtained from the Marysville bank in November 2002

to provide interim financing for the Penn Manor and Susquenita Hills sewer project. A \$6,598,500 million loan was obtained from PENNVEST in September 2004. This loan was to be used for three purposes – to finance construction of sewer facilities in Lower Cove and Perdix. To pay off the \$380,000 loan, which was accomplished in June 2005. To pay off the balance due on the \$1.5 million line of credit at the Marysville Bank, which was not accomplished and, as a result of the delay in paring down the line of credit, approximately \$18,000 in extra interest charges were incurred. Lee asked if Mr. Derr recommended paying the \$1.5 million loan off as soon as possible. Mr. Derr responded that it makes no sense to have an outstanding balance since it is an open line-of-credit and can be paid down at any time.

Assumptions Concerning the \$6,598,500 PENNVEST Loan

Mr. Derr stated that previous engineers anticipated the use of tapping fees as part of the revenue stream to pay construction and operating costs through 2007, when principal payments would begin and rates would need to be increased. He offered that their intention probably was to delay a rate increase until as many customers as possible were connected to the system. Mr. Derr stated that the project is being completed one year ahead of schedule with the corresponding rate increase due one year ahead of schedule.

Mr. Derr noted that tapping fees are not being received as soon as expected, an issue that will have to be addressed. He stated that only 80 out of 190 tapping fees have been received, with 110 tapping fees remaining that must be collected. He suggested that the Authority enter into a five-year, \$50 per month payment installment loan arrangement with those 110 customers. He also recommended that the Authority consider billing sewer and water rentals on a monthly basis, to make it easier for the customers and to provide a steady revenue stream.

Harrisburg Catholic Diocese (Diocese) Arrangement

Mr. Derr explained that the Authority entered into an agreement with the Diocese in 1989 whereby the Diocese would pay 10% of the cost of their capacity requirements in the upgraded Duncannon Borough (Borough) wastewater treatment plant (WWTP), estimated to be \$326,040. The Diocese paid \$32,604 in 1989. The agreement stated that, once construction bids were received, the Diocese would pay 25% of the recomputed cost, less any amount previous paid. The Diocese paid \$48,906 at that time, for a total of \$81,510 paid through 1992, leaving a balance due of \$271,564. At this point the Diocese had the option of paying off the balance, or making annual reservation of capacity payments of \$33,44 for ten years. The Diocese chose the latter until 2003 when the agreement expired. Mr. Derr stated that the total amount paid to the Authority was \$434,584.

Mr. Derr reported that during the length of the agreement, the Authority's definition of an EDU changed from 250 gallons per day to 175 gallons per day. He stated that an adjustment of the reservation of capacity due to the EDU gallonage charge was never made. If it had been, the Authority could have received an additional \$71,655.

Resolutions for Rates

Mr. Derr stated that it was difficult for him to track when rate changes were adopted and their amounts. He suggested that, when sewer and water rates are adjusted in the future, a resolution be prepared establishing the new rates, and defining the gallonage associated with an EDU.

EDU Definition

Mr. Derr noted that Buchart Horn's *Flow Analysis Report for 2005* shows an adjusted average flow per EDU as 150 gallons per day. He explained that EDUs are the means by which the

Authority equates non-residential to residential customers. He suggested that, to keep them both equal for billing purposes, the Authority should adjust its EDU definition from 175 gallons per day to 150 gallons per day, in accordance with the Bucharth Horn report. He stated that the result would mean an increase of revenue from the non-residential customers. He noted that, in his projections for cash flow later in his report, he used the 150 gallons per day as the EDU definition. Lee asked if he had made an adjustment for non-residential customers who had purchased more EDUs for reservation of capacity than they were using. Mr. Derr responded that he did not make adjustments for the amount of EDUs purchased. Chairman Shaffer noted that the Authority's *Rules and Regulations* provides the guidelines for the number of EDUs of capacity that non-residential customers must purchase.

Accounting for Loans

Mr. Derr reported that it was difficult to identify the costs to be reimbursed by PENNVEST because they were not being accounted for properly. As a result, some of the interest expenses were not captured for submission to PENNVEST until recently.

PENNVEST Loan/Tapping Fees

Mr. Derr stressed that collection of all remaining tapping fees is a key ingredient to re-payment of the PENNVEST loan. He stated that, additionally, the Authority lost \$37,000 in revenue by offering 20% discounts for pre-payment of the \$2,650 tapping fee. The Solicitor responded that, in offering the discount, the Authority was consistent in following past practice.

Previous Rate Projection

Mr. Derr noted that in 2003, rates were projected to increase to \$600 - \$660 per year. In 2004 it was recognized that, if no PENNVEST grants were received, rates would need to be increased to approximately \$830 per year. He offered that it should be no surprise when reviewing the financial information that rates will have to be in that range.

Uncollected Tapping Fees

Mr. Derr again stressed the importance of collecting the remaining tapping fees, stating that the 80 customers who have paid will have even higher sewer rental rates if they are not collected, and that the Authority would be setting an unwanted precedent by not collecting them. Lee agreed with the fact that they needed to be collected and stated that he was in favor of an installment schedule for payment of the remaining fees. Mr. Derr stated that the advantage to the customers would be the lower interest rate offered by the Authority and the disadvantage to the Authority would be the fact that the Authority would be the collector. The Solicitor noted that installment payments had been offered in the past and that, eventually, all money was collected.

Significant One-Time Costs

Mr. Derr noted two significant expenses budgeted for 2006 - \$23,000 to Susquenita School District for a developer's refund and \$50,000 for a meter vault at Petersburg Commons. He suggested amortizing the costs over 5 years, noting that when annual water revenue is \$28,000, it is difficult to budget a \$50,000 expenditure in one year.

Budgeted Revenues and Expenses

Mr. Derr reported that, from 1999 through 2005, expenses have exceeded revenue, a deficit which was noted in the annual audit reports. He added that the Authority can no longer depend on tapping fees for cash flow as it has during the construction period.

Financial Reporting

Mr. Derr then noted his recommendation of what should be included in the treasurer's monthly financial report, stating that he had taken it from the publication, *Municipal Authorities in Pennsylvania*.

Delinquent Account

Mr. Derr noted that there are several customers with significant delinquent balances, collection of which should be diligently pursued.

Projection of Rates

Mr. Derr then presented a "financial summary and projected cash flow" which included actual revenues and expenses from the past six years and projected amounts for the next five years. He explained that he based predicted revenue on the number of EDUs for each distinct system, with the definition of an EDU being 150 gallons per day. He explained that he based predicted expenses on the increase in inflation and EDU growth on the Chapter 94 Report. He stated that the three schedules are based on inflation rates of 0%, 2.5% and 5%.

Mr. Derr's presentation then consisted of a review of the projected revenues and expenses. He noted that a significant portion of the Authority's expenses, loan repayments, are fixed expenses, and the per-unit costs would decrease if the amount of customers would increase. He noted that a development such as the one proposed for the Warden property would significantly reduce the amount of rate increase necessary for a balanced budget.

When asked when the PENNVEST portion of the loan for the Borough WWTP would be paid off, Mr. Derr replied it would be 2012. The Solicitor offered his opinion that, once paid, it would offer an opportunity for a significant rate decrease. Mr. Derr stated that there is an option of refinancing that loan over a ten to fifteen year period, but his calculations for that refinancing resulted in only a few dollars decrease in the customer rate per quarter.

Mr. Derr reviewed the projected revenue. He again noted that he based the gallonage per EDU at 150 for non-residential customers and explained his projection for connection of the new Lower Cove/Perdix customers. Ed Chism asked what the impact on the budget would be if the gallonage for an EDU was not lowered to 150. Chairman Shaffer estimated that the difference would only be several dollars per quarter. Mr. Derr repeated that this is the way to equate non-residential to residential customers so that both are paying an equal share of the system costs.

Chairman Shaffer stated that it is anticipated that connection notices will be issued in three groups of 60 – 65 customers each, with all notices issued by October 1, 2006. Mr. Derr noted the importance of connecting as many new customers as possible, since that revenue is needed to offset expenses and keep rates down. Mr. Derr stated that he projected 135 new customers through 2007, with the remaining 55 added through 2008. Chairman Shaffer stated that, in the past, the Authority was aggressive in getting all new connections made as soon as possible, and felt the Authority would follow the same procedure this time.

Mr. Derr offered that, based on an inflation rate of 2.5%, rates for 2006 should be \$185 per quarter for sewer and \$65 per quarter for water. Upon questioning, he agreed that the \$185 rate for sewer was based on obtaining 55 customers in addition to the 80 who have prepaid their connection fees.

Lee noted that there was no provision in the expenses for emergency costs. Mr. Derr stated that money should be set aside for capital costs, and had it been done all along, the \$50,000 for the water meter vault would be available. He explained that two ways to set money aside are either through depreciation, or set aside a portion of the rates being charged in a capital reserve

fund. Chairman Shaffer noted that the Authority has been setting aside money in a capital reserve account, with Irene reporting that there was approximately \$13,000 currently in the account.

Mr. Derr concluded by stating that the Authority should inform him of what changes it wants to make to the assumptions. He stated that the increase in rates that he has projected is in line with the documentation filed for project funding.

Asked by the Solicitor if he noticed any gross mismanagement issues or waste of funds, Mr. Derr replied that there were no significant changes that could have been made. He did note that the Authority could have raised rates earlier. The Solicitor asked if that was the biggest issue. Mr. Derr reiterated that rates could have been adjusted earlier and, although the Authority got by with relying on tapping fees, smaller increase in rates over a period of time might have been easier for the ratepayers to accept. The Solicitor asked if Mr. Derr noticed anything that would warrant a more intense financial audit, with Mr. Derr answering that he did not.

Lee asked if tapping fees should have been put aside and not used to subsidize sewer rates. Mr. Derr noted that, initially, PPENNVEST required the use of tapping fees to offset construction costs, although the requirement has since been changed. He offered that the Authority did not have much choice, either use the tapping fees to help pay for construction costs or else raise sewer rates.

The Solicitor asked if could be summarized that the large increase in sewer rates is almost completely attributable to the new project, with Mr. Derr agreeing and Chairman Shaffer adding that it could also be attributed to the lack of grants. Lee noted in the report that rates should have increased 11% in 2003. Mr. Derr explained that increase was due to the loss of revenue from the Diocese.

Mr. Holman asked if there was any money available for the Authority to pay off the loan at the Marysville Bank, with Mr. Derr responding that he had included a page in his report listing available funds. Irene noted that she had already transferred the \$35,694 listed as being available from the Newport Bank checking account. Mr. Derr stated he would update his calculations as a result of money being paid on the loan in the past week. It was then discussed that there may be more expenses that could be turned in to PENNVEST and that possibly some of the PENNVEST reimbursement could be used to pay off the loan.

Paul Soltis raised the possibility that there may be an interest by developers in purchasing capacity in the Cove WWTP.

Lee noted that Mr. Derr said that development of the Warden property could drastically reduce rates and asked what he meant by drastically. Mr. Derr responded that it would depend on the rate of development. Chairman Shaffer asked what an assumption of 12 connections per year starting in 2008 would do to rates. Mr. Derr said it would be easy enough to enter the assumptions into his spreadsheet. Lee wondered if it would be worth the effort to find out the intentions of the developer.

The Solicitor noted that he did not like to belabor the Perdix project, but, it seemed strange that such a large increase in rates could be generated by one project, and offered it suggested to him that it must have been an awfully expensive project. Mr. Derr stated that, based on the number of users picked up, it was expensive. He added that the \$60 projected increase in sewer rates amounted to a 50% increase in rates, but that 10% of the increase was due to the revenue no longer being received from the Diocese.

Lee stated that he had spoken to the director of the PA State Association of Township Supervisors, who recommended the Authority meet with senators Corman and Santorum for a discussion of funding needs. Chairman Shaffer asked if Franklin and Lee would arrange those meetings.

The Solicitor noted that water rates were projected to increase and asked if they were projected to decrease after 5 years when the \$50,000 cost of the water meter vault was amortized. Mr. Derr recommended that, instead of reducing the rates, money be put aside in a capital reserve fund. Lee asked what the impact to the budget would be if the cost of the water meter vault was removed and the 70 Petersburg Commons customers were turned over to the Borough. Mr. Derr asked if that would be an option with the Borough. John Myers stated that it might be an option. He then advised that Authority that the Borough would be filing for a rate increase with the PUC. Irene stated that the Authority would have to figure out the value of the pipes and meters in Petersburg Commons. Mr. Holman noted that those assets did not cost the Authority anything. Irene responded that did not matter, they had value and belong to the Authority.

Lee stated that he is a huge fan of capital budgets, which include extra money that is not contributed to working income, like the revenue from the Diocese and tapping fees. He asked how the Lower Cove/Perdix project would have been affected if that revenue had set aside from the beginning. Mr. Derr responded that the Authority would have had approximately \$520,000 in tapping fees and the Diocese revenue to apply to the cost of the project. He noted that the Authority spent \$4.2 million to connect 200 customers and enlarge the Cove WWTP.

Henry asked if it would have saved money to complete the project in phases, with Mr. Derr responding he did not think it would have saved a lot of money because the Authority would have "paid now or paid later". Franklin offered that, if it had been constructed in phases, the Authority could have stopped after the first phase when it realized how expensive it would be to continue.

Lee asked Mr. Myers what the Borough's water rates were. Mr. Myers responded that water rates were \$75 per quarter for 7,500 gallons and sewer rates were \$125 per quarter.

Henry offered that the Budget Committee did a good job in projecting the increase in rates and thanked them for their time and effort. Lee thanked Mr. Derr for the quality of his report.

Mr. Holman reported that has received several phone calls from customers who received their May 2006 sewer bills with the rate increase included. He questioned if the Authority could legally raise the rates retroactively. The billing clerk explained that, at its April meeting, the Authority approved a rate increase effective with the May billing. She reported that the Authority bills in arrears, and that the May billing included service for the months of February, March and April. Lee stated that he did not think the rate increase would be for the first quarter. The Solicitor stated that he was not aware that the increase would be implemented so quickly and would review the issue for legal ramifications.

Next Meeting

It was agreed to schedule another meeting on May 24, 2006 at 6:00 p.m. for further discussion of the financial review.

Adjournment

With all business completed, a Wright/Holman motion for adjournment was made at 8:17 p.m. Motion passed by unanimous vote of the Authority.

Submitted by Susan E. Long
Recording Secretary