

**PENN TOWNSHIP MUNICIPAL AUTHORITY
PERRY COUNTY**

102 Municipal Building Road
Duncannon, PA 17020

May 24, 2006

The Penn Township Municipal Authority (Authority) met on Wednesday, May 24, 2006 in the Penn Township Municipal Building for a presentation of the financial review performed by Mark Derr. 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
Mark Derr

Authority staff present:

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

Visitors present:

John Myers
Helen Klinepeter, Penn Township Secretary
Jeff McGaw, Patriot News

Chairman Shaffer turned the meeting over to Mark Derr, who had been retained to conduct a review of the Authority's financial condition. Mr. Derr noted that the Authority was to review the information presented at the May 9, 2006 meeting for further discussion this evening. He stated that one subject to be discussed is the projection of the number of new sewer connections that would be made by the end of 2006. He presented summaries of the projected cash flow through 2010, based on 3% and 5% rates of inflation, indicating the quarterly sewer and water rates necessary to produce a positive cash flow.

Mr. Derr noted that raising sewer rates to \$190 for the last two quarters of 2006 would produce revenue of \$434,660, almost \$39,000 less than operating expenses. This revenue is based upon realizing 80 new customers, who have pre-paid their connection fees, plus an estimated additional 55 customers, who will pay their connection fees on an installment plan. Lee offered that he does not think that an additional 55 customers will connect by the end of 2006, with Mr. Derr stating that if the number of connections decrease, sewer rates would need to increase. Discussion was then held on the number of new connections the Authority thought could be reasonably expected to connect, with Mr. Derr demonstrating how each number impacts the financial condition.

Chairman Shaffer asked how the Marysville Line of Credit (LOC) enters into Mr. Derr's projections. Mr. Derr presented a spreadsheet depicting the funds available for repayment of the \$1.473 million LOC and stated that the PENNVEST reimbursements, additional tapping fees received, and cash currently available could be used to pay it off. Lee asked if the \$204,296 currently available in PNC Bank from prepaid connection fees should be paid on the LOC at this time, with Mr. Derr responding that it should. Mr. Derr stated that there was \$135,000 in legal fees and interest still to be reimbursed from PENNVEST, with Ed noting that PENNVEST needs additional documentation before some of the reimbursement will be received. Mr. Derr stated that he would contact Don Lavine to discuss what documentation still needs to be presented to PENNVEST concerning interest and legal fees paid. Lee also offered to contact Mr. Lavine to discuss what additional information is needed concerning archeological study reimbursement. Mr. Derr stated that his rate projections assume that the LOC is paid off, otherwise the interest payment due will increase the sewer rates. He noted that after the LOC is paid off there would still be \$148,000 in the Authority's accounts.

Mr. Derr noted that the Authority still owed Duncannon Borough (Borough) six annual payments of \$105,600, for a total of \$633,600, for the original project connected in the early 1990's. He presented a spreadsheet showing the results of the Authority borrowing \$532,582 to invest at 6% interest and amortizing the loan payments over 20 years. He stated that monthly payments of \$3,816 would total \$45,787 per year, for a savings of \$59,813 per year. This savings is equal to a \$17.80 reduction in sewer rates per quarter per EDU. Irene offered that the Penn Township Supervisors (PTS) might not agree to sign-off on additional borrowing by the Authority. Chairman Shaffer offered that the PTS might be agreeable if the loan would lower sewer rates by \$65 to \$70 per year. Lee asked for the total amount that would be paid by the Authority over the course of the loan. Mr. Derr responded that the Authority would pay \$633,600 without the loan and \$915,740 with the loan, a difference of \$282,140. The Solicitor noted that the difference would be spread over 20 years and Chairman Shaffer offered that the loan would buy the Authority time until developments, like the one planned by Mr. Warden, would occur. Lee asked Mr. Derr for his opinion on whether the loan would be a good thing to do. Mr. Derr responded that he has personal trouble with it and that it would depend on the difference it made in customer rates. Irene asked if the Authority should spend \$282,000 for a \$5 or \$6 per month decrease in rates. Lee noted that if the Borough loan is not paid off early, instead of saving \$17.80 per quarter the Authority would be spending more per quarter in the next ten years. Ed noted that it is not saving, it is deferring. Irene stated that it is "robbing Peter to pay Paul" and offered that it would be better to bite the bullet for the next six years and be finished with the loan. The Solicitor added that, once the Borough loan was paid off in 2012, the Authority would be in a position to significantly decrease sewer rates.

Henry asked what would have happened if the Authority had balanced the budget and increased sewer rates at the beginning of 2006 with Mr. Derr responding that the Authority would be in better financial shape.

Ed asked what the sewer rates would have to be increased to if the Perdix sewer project had not happened. Mr. Derr stated that \$57,400 in interest was scheduled to be paid on the PENNVEST Loan II in 2006, and added that he did not have available the amount of that loan attributable to the Perdix sewer project. Chairman Shaffer cautioned that the calculation would not be as easy as it appears, citing the difficulty of factoring in the expansion of the wastewater treatment plant to handle organic loading. Lee asked if the Perdix project was responsible for approximately 10% of the 68% increase, with Mr. Derr agreeing to that statement.

Ed asked if, in addition to the 80 pre-paid connection customers, it was realistic to expect perhaps 30 customers versus 55 for the remainder of 2006, with Franklin offering that he felt 30

was a high expectation. After discussion, it was the consensus that 25 would be a more realistic number for additional connections in 2006, with 40 additional connections to be made in 2007, and 15 additional connections to be made in 2008.

Discussion was then held on installment payments for tapping fees. Lee noted that all tapping fees received through installment payments will be used to pay the Marysville LOC. Chairman Shaffer offered that he felt the length of time allowed for payments should be 10 years. Mr. Derr calculated that the amortized monthly payment for a 5-year installment schedule would be \$50, and the monthly payment for a 10-year schedule would be \$30. He stated that he would revise the current spreadsheet to include 10-year installment payments.

Chairman Shaffer then offered that he felt the Authority should switch from quarterly billing of sewer and water charges to monthly billing. Lee noted that, according to the billing clerk's projection, administrative costs would increase approximately \$7,000 per year for monthly billing. He asked if the Authority could continue to bill quarterly but allow the customers to pay monthly if they so desired. Mr. Derr wondered if monthly "coupons" could be inserted with the quarterly bills. Chairman Shaffer also wondered if a discount would be given for paying for a year at a time. Chairman Shaffer suggested a separate spreadsheet be designed that included how monthly and quarterly billing would impact the assumptions discussed this evening.

Lee noted that base water rates were projected to increase from the current rate of \$45 per quarter to \$80 per quarter. He asked if water rates needed to increase that amount, with Mr. Derr responding in the affirmative. Henry asked if the cost of the water meter vault at Petersburg Commons was spread over a 5-year period, with Mr. Derr again responding in the affirmative. A discussion was then held on the spreadsheet that detailed water system expenses with, and without, Petersburg Commons customers, with suggestions made on revisions of some of the expenses to make it more realistic.

Mr. Derr then summarized all the changes requested by the Authority and asked if any other assumptions should be included in his study. Chairman Shaffer stated that he would like to have included the calculations of borrowing to pay off the amount owed to the Borough over a 20-year period, since it would save the customers \$60-\$70 per year. Henry noted that would save them less than \$10 per month and Lee noted that it would necessitate the Authority paying for an additional 10 years.

Mr. Derr concluded by cautioning the Authority against establishing separate rate districts. He was requested to present a final report of his financial study at 6:00 p.m. at the June 7, 2006 meeting.

Connection Letter

Chairman Shaffer reported that Don Lavine had notified the PTS that it could begin to send out connection letters to the Lower Cove/Perdix property owners. A discussion was then held on the connection letter. Franklin asked that it be revised to state that connection was mandatory if the property was within 150' of the connection point. Chairman Shaffer asked that Ed be contacted to ensure that he was satisfied with the attachments concerning the use and maintenance of grinder pumps. Helen asked who would verify the abandonment of the existing septic tank, the Authority or the UCC inspector. Chairman Shaffer noted that the Authority has no fee in place for that inspection and offered that it should be the responsibility of the UCC inspector, with the cost included in their inspection fee. Helen will contact the UCC inspector to see if that is agreeable.

Helen suggested that the Authority hand out the applicable section(s) of the Rules and Regulations when the property owner obtains the connection permit. She stated that the following would be mailed to the property owner an Notice to Connect, list of procedures,

grinder pump instructions, building permit application, electrical connection specifications, and a sketch showing the required connections to the grinder pump. A discussion was held on the electrical connection specifications. Helen was requested to contact the UCC inspector for clarification of the specifications. It was noted that the connection letters would be mailed to the property owners in the first area the following week, after the location of the isolation valves was determined.

Position of Treasurer

Lee stated that he still had to remove one paragraph of the job description for the treasurer position and that he would provide revised copies to the members.

Executive Session

At 7:45 p.m. the Authority went into Executive Session to discuss legal issues. At 8:15 p.m. the meeting reconvened. At this time there was a Reidlinger/Holman motion to approve, and authorize execution by the appropriate officers, the Interconnection Agreement most recently presented by the Borough on May 17, 2006, based on the information received from the Authority's engineer that the project was doable. Motion passed by unanimous vote of the Authority.

There was a Reidlinger/Graybill motion that a letter be written under the signature of the Chairman or Vice-Chairman to the Borough, the Borough's solicitor, or Commerce Bank that the Commerce Bank check written to close out the escrow account was not, to anyone's knowledge, received by the Authority. Motion passed by unanimous vote of the Authority.

Adjournment

With all business completed, a Reidlinger/Graybill motion for adjournment was made at 8:20 p.m. Motion passed by unanimous vote of the Authority.

Submitted by Susan E. Long
Recording Secretary