

FREQUENTLY ASKED QUESTIONS AND ANSWERS

ABOUT THE PROPOSED LONG-TERM LEASING OF THE CITY'S WATER AND SEWER UTILITY

Updated August 16, 2012

Q. Has the City considered other alternative solutions for solving this financial crisis?

Yes. We have evaluated every possible alternative and a Long-term Concession and Lease Agreement is the only solution that works.

OPTION	EVALUATION RESULTS	RECOMMENDATION
Raising Taxes	Would require a minimum 35 percent property tax increase Only pays base Minimum Municipal Obligation (MMO) -- like the minimum payment on the credit card. All costs above that, like labor cost increases, health care, and capital projects would require even greater increases.	Not an Option It isn't sustainable.
Lease/Sale of Other City Assets	The Golf Course is deed restricted; it can't be leased or sold. Parking assets don't net enough revenue to address the MMO.	Not an Option It isn't feasible.
Borrowing up to \$150 Million in Taxable Bonds	This would tremendously increase Allentown's overall debt burden. The City would still have to make an annual MMO payment. The combination of this with the required debt service on these bonds could easily exceed \$20 million annually. The City is still carrying \$35 million+ debt on such previously issued bonds.	Not an Option It wouldn't solve problem. It would only shift the debt.
Doing Nothing	If the one or more of the above options were not implemented, in less than 24 months, Allentown would be another PA city making ugly headlines about bankruptcy and a lack of political will to address its obligations. This Administration will not allow the City to become another Harrisburg, Scranton or worse yet Stockton, California.	Not an Option This Administration will do everything in its power to address this problem now so it can control the outcome and protect the City's interests.

Q. What will prevent the new operator from raising rates unreasonably?

The Lease Agreement will limit rate increases for a negotiated period in the initial years. In addition, over the entire term of the lease, rate increases will be subject to approval by the Pennsylvania Public Utility Commission (if applicable), which regulates many water and wastewater utilities throughout the Commonwealth.

Q. Historically, how much has the City raised the water and sewer rates per year?

Since 1989, Allentown's water and sewer rates each have increased an average of 5% per year (In some years the increases were 20% or more). One of the many reasons our water and sewer systems are in such good condition is that the City has not ignored the cost of maintaining them. It is just as important that the new operator be able to maintain, improve and upgrade both water and sewer treatment systems for the health and safety of all Allentown residents and businesses.

Q. What assurance does Allentown have that the new operator will maintain the water and sewer systems at the same level they have been maintained by the City?

First, the City is going to pre-qualify the operators that will be allowed to compete for the right and privilege to operate our water and sewer systems. Only entities with well-established and respected track records in operating water and sewer systems of similar or greater size and complexity will be allowed to bid. Second, in addition to comprehensive oversight by the City, the Lease Agreement the City is preparing will include a detailed and demanding description of the operating standards that the successful bidder must uphold over the life of the contract.

***Q. Will the new operator respond to emergencies 24 hrs a day/7 days a week?**

Yes. The new operator will be on-call 24/7 to respond to emergencies and it's very likely the same staff will respond to any issues. They will continue to be responsible for all check-ups and repairs. Workers will continue to be mandated to participate in emergency and disaster response training.

* Question added since August 9th publication of FAQs.

Q. Will there be measures to protect the health of our citizens and the quality of our water?

Absolutely. The health and safety of Allentown's citizens is more vital to the long term stability and sustainability of this City than are its finances. The Lease Agreement will enable the City to set operational standards and retain oversight over the many important public concerns related to these utility services, including: regular testing and reporting of water quality, compliance with environmental and regulatory standards and laws, how these systems are operated, the quality of their customer service operations, the condition of the treatment facilities, and emergency response standards. Through the Lease Agreement, the City will have the ability to require a change in the operator if for any reason City requirements and standards are not met.

***Q. Most of our parks are located along rivers and Allentown has always treated its waterways as part of its watershed. Will Watershed (Parks) Department employees also be transferred to the new operator?**

No. Parks' employees who currently take care of much of the area along our rivers will remain City employees. In addition, the Agreement will call for keeping a certain amount of employees and equipment with the City for snow plowing and other non-water related work.

Q. Is the City leasing its wells and its rights to draw water from the nearby rivers?

No. The City will retain control and ownership of all its water sources. Only the treatment plant and the water distribution system will be included in the lease. The City retains the rights to sell or distribute surplus water in the future and will control its water sources throughout the term of the lease.

***Q. How does the lease lower the Minimal Municipal Obligation (MMO)?**

It's like making a credit card payment. If you drastically pay down the balance then your interest payments are also drastically reduced. The new operator will make a significant payment upfront so a significant payment can be applied directly to the \$130 million unfunded pension fund obligation or balance. In turn, future MMO payments (or interest) will be reduced for years to come.

***Q. Is there any scenario where this long-term lease doesn't go through?**

Yes. If potential lessees make low offers or won't meet our parameters, then the City will not do it. However, professionals have analyzed the marketplace and have told us we have an asset that will monetize and get us the dollars we need.

***Q. If water and sewer brings in big revenue to the City, why lease when we could make the money on our own to take care of problems?**

The City of Allentown may not legally increase sewer or water rates and collect municipal fees for any purpose other than those directly related to the actual usage of the utility by the ratepayer or for the ongoing provisioning of the service. Because the unfunded pension issues are unrelated to sewer and water service, any proposal to borrow on a revenue stream created from increased municipal fees - including those assessed for water and sewer service - is impermissible under Pennsylvania law, particularly, the Sewer Rental Act and the Third Class City Code. In addition Allentown's Home Rule Charter creates other obstacles to rate increases for these purposes.

***Q. If Allentown has plenty of water capacity and the opportunity for larger future sales, why do something to lose this revenue stream?**

The City will not be losing this revenue stream. There will be a revenue sharing agreement allowing the City to receive a portion of the new customers' revenues.

Q. What will happen to the City workers who currently run the water and sewer systems?

Through the Lease Agreement, the new operator will be required to honor all existing labor agreements with water and sewer employees. The Lease Agreement will also require the new operator to offer employment interviews to all non-union employees. If the new operator extends an employment offer to any non-union employees, it will be at the terms, conditions and discretion of the new operator. The City of Allentown is dedicated to ensuring that if non-union employees are not retained by the new operator, we will make every effort to hire them as a part of the City's existing workforce.

Q. Why is the lease period approximately 50 years?

In the lease offered by the City of Allentown, the bid-winning operator will assume all the risk and obligation of keeping the system in top shape and will pay a large up-front fee to Allentown for that opportunity. This payment and subsequent investments the operator makes in the system will be funded with monies that it - the operator - borrows and the length of the contract term will enable it to amortize - and even refinance - the cost of these investments.

Q. How can the City afford a new Arena and then claim it has an unfunded pension liability it cannot fund without leasing out its water and sewer system?

The City is neither paying for the new Arena nor is it guaranteeing the Arena's debt. The City's annual pension payments and the costs of the Arena are funded by two distinctly different and independent funding sources.