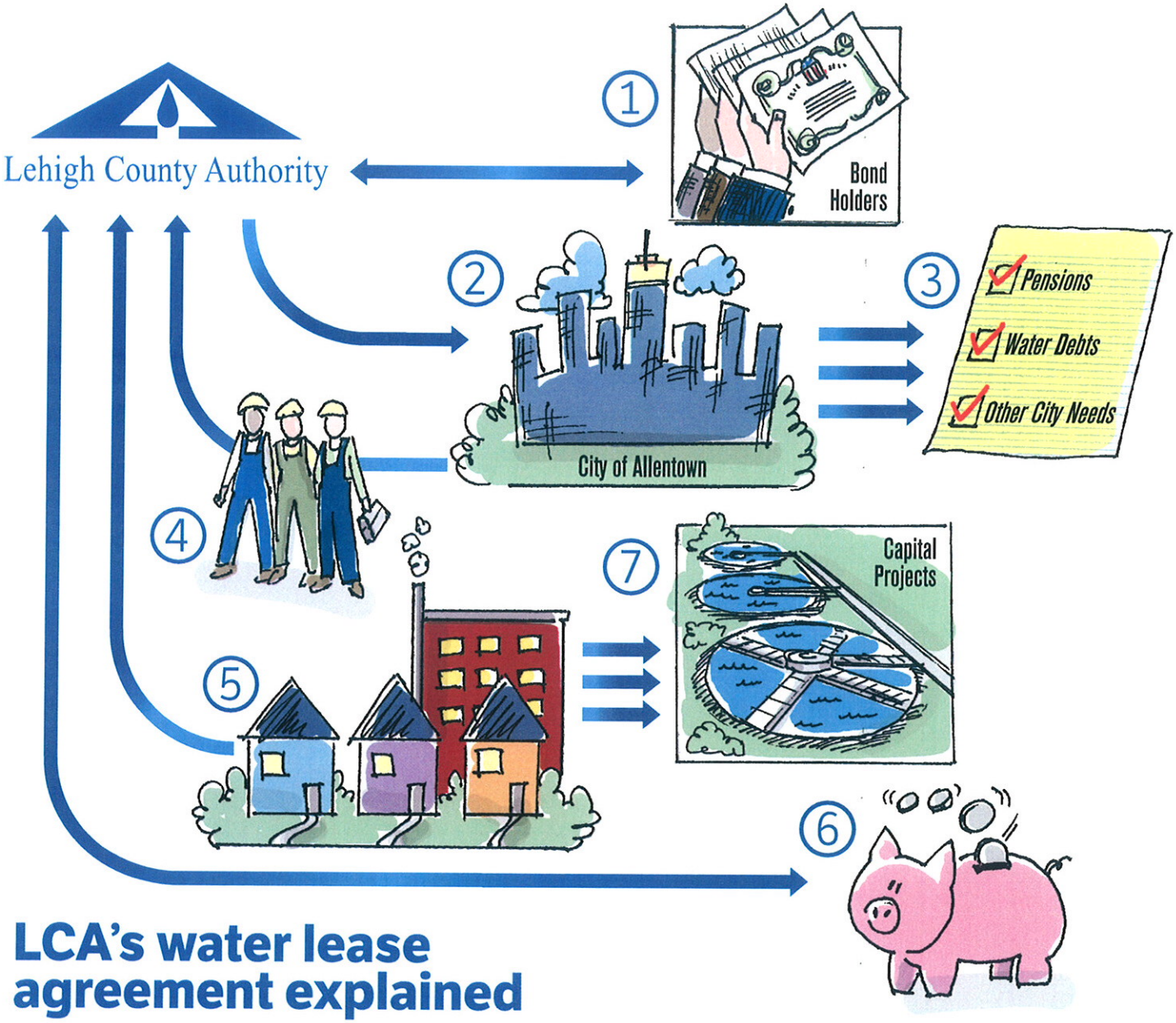

LCA's water lease agreement explained

In April 2013, Lehigh County Authority entered into a 50-year agreement to lease the City of Allentown's water and wastewater systems. Here's a summary of how the agreement works.

1. LCA issues $220 million in bonds. (Bonds are similar to a loan.) LCA pays bond holders interest (4% – 5% per year), and repays the $220 million bond cost over the course of about 30 years.

2. LCA directs $220 million to the City of Allentown for the rights to run the water and wastewater system for 50 years. As part of the deal, Allentown will also receive an annual payment from LCA starting at $500,000 in the fourth year of the lease.

3. The City of Allentown uses the $220 million to pay debts and other costs. City officials have said they plan to:
   - Reduce what Allentown owes for pensions (about $160 million to $180 million)
   - Pay off existing water and wastewater system debts (about $30 million)
   - Fund other needs in the city, which they will determine in coming months

4. City of Allentown union workers become LCA union workers. They will have the same pay and benefits.

5. LCA collects payments from Allentown customers for water and wastewater use. (Some of the customers are municipalities like Emmaus and Salisbury Township. They resell the water to their residents.)

Each year, LCA expects to collect more money than it costs to run the system. LCA will use the excess to pay the bond costs due each year.

6. LCA also puts money aside each year so it can pay off the $220 million bonds and build a reserve for improvements to the system (called "capital" improvements).

7. The costs for any major capital improvements to the system (for example, a sewer treatment plant expansion) will be shared among all users of that system, including the municipalities that buy Allentown water. That's no different than the arrangement before the LCA lease.

After the bonds are paid off in about 30 years, LCA can use the yearly proceeds from the water system for many things including system improvements or rate relief.

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