

**MINUTES OF THE MEETING
DERRY TOWNSHIP MUNICIPAL AUTHORITY
670 CLEARWATER ROAD
HERSHEY PA 17033
MONDAY, NOVEMBER 13, 2017**

The Derry Township Municipal Authority Board held its regular meeting on Monday, November 13, 2017 in the Conference Room of the Authority's Administration Building, 670 Clearwater Road, Hershey, Pennsylvania. Chairman Weir called the meeting to order at 6:00 p.m.

ROLL CALL

Board Members Present: Michael Corado, David Feidt, Justin Engle (arrived at 6:01 p.m.), Ronald Furlan, Michael Postick, and Matthew Weir

Board Members Absent: Charles Duncan

Also Present: Staff Wayne Schutz (Executive Director)
 Tom Mealy (Deputy Director)
 Kimberly Bloom (HR & Benefits Administrator)
 Bill Rehkop (Facilities Director)
 Laura Power (Finance Director)

Consultants Joe Sembrot (Goldberg Katzman)
 Paul Gross (Buchart Horn)
 Lou Verdelli & Ryan Brockman (RBC Capital Markets)

Visitors Garvey Presley (DTMA Employee)

PUBLIC COMMENT

Garvey Presley commented on an article that was in the Hummelstown Sun regarding the Township of Derry considering the potential sale or privatization of DTMA to raise money for the new community Recreation Center. Mr. Presley also serves on the Board of the Capital Region Water Authority in Harrisburg. He stated that if DTMA were to be privatized, the residents of the community would be significantly impacted. While DTMA is a non-profit organization, private utilities are governed by a Board of Directors and must provide profits to their shareholders. The nominal rate increases that DTMA has had in the past would need to be increased in order to provide a return to the shareholders. He noted that the very capable management staff and dedicated employees of the Authority have made DTMA the efficient, well-run organization that it is. He asked that the DTMA Board encourage the Township Supervisors to reconsider taking any action on the sale or privatization of DTMA.

APPROVAL OF PREVIOUS MINUTES

R. Furlan made a motion to approve the Minutes of the October 2, 2017 Board meeting as written. J. Engle seconded. The motion passed unanimously by voice vote.

APPROVAL OF TREASURER'S REPORTS AND BILLS FOR PAYMENT

J. Engle made a motion to approve the September 2017 Treasurer's Report and Bills for Payment as submitted. The motion was seconded by M. Corado. The motion passed unanimously by voice vote.

ITEMS FOR ACTION

Bond Financing Presentation

The Executive Director noted that in preparation of the 2018 Budgets, staff identified a number of capital projects and facility improvements for both wastewater and stormwater facilities. The total estimated dollar value of these items is approximately \$4.9 million. The Director contacted Lou Verdelli, DTMA's Financial Advisor, to discuss ways to provide funding for these projects. The following items were discussed for consideration on how to proceed:

- Attempting to pay for the projects out of existing reserves would deplete the Authority's reserves to near zero.
- Interest rates for Municipal Bonds remain at historic low levels.
- Indications are that the Fed will raise interest rates two or three times next year.
- DTMA's current debt of ~\$40 million with annual debt service of ~\$3 million is paid off in 2027.

Mr. Verdelli suggested that the timing is very favorable to pursue a new \$5.0 million financing. He suggested the following for the new issue:

- The proposed new bonds will be a 13 year issue with a wrap-around structure to dovetail into existing debt service payments.
- The annual debt service for the new borrowing for the first ten (10) years will be approximately \$140,000 (interest only).
- The annual debt service for the last three (3) years will be approximately \$1.8 million for 2028; approximately \$2.5 million for 2029; and approximately \$1.3 million for 2030.

Lou Verdelli of RBC Capital Markets presented current information on the Municipal Bond market and reviewed the Authority's existing debt profile. He recommended that the new bonds be issued by the Township as G.O. bonds and guaranteed by the DTMA Subsidy Agreement to insure the lowest possible interest rate. If the DTMA Board authorizes this financing at this meeting, Mr. Verdelli will attend the Township of Derry Board of Supervisors meeting on November 14th to obtain Township authorization to proceed with the issuance of G.O. Bonds. DTMA will then approve an amendment to the Subsidy Agreement with the Township of Derry to guarantee payment at DTMA's December 11th Board meeting. The closing for the financing will be set for February 2018.

The Executive Director reviewed the list of proposed projects in the 2018 Budget that would be covered by this financing. Mr. Weir asked if this financing would be sufficient to cover DTMA projects over the next five years. The Director stated that implementation and completion of these projects would take approximately 3 years and at that time staff would have a better indication if any further projects are required. Mr. Engle asked if the storm sewer work needed at the Grove Street area of the Township would be included with these projects. Although it is included at this time, the project will not be immediately implemented as Staff will continue to review and update the priority of all stormwater projects. Additionally, Staff will continue to pursue some grant money to help with those repairs. Also, if the land

adjacent to this area is developed, then the Grove Street repairs could be tied into the development project.

Resolution #2017-27 - Approval of Resolution to proceed with 2018 Bond Financing in the amount of \$5.0 million for sanitary and stormwater projects: This resolution was passed on a motion by R. Furlan, seconded by M. Postick. The motion passed by voice vote. D. Feidt abstained from voting because of his affiliation with the firm acting as bond counsel.

Discussion on Resolution #2017-28 – Capacity Fee Increase

DTMA's Rate Schedule includes a section for the imposition of Tapping Fees for all new connections. These are charges made to every new connection to the sanitary sewer system and represent a new customer's buy-in to DTMA capital assets. The DTMA Tapping Fee consists of three parts Capacity, Collection, and Special Purpose. Currently, DTMA utilizes only the Capacity portion.

Periodically, staff asks DTMA's Rate Consultants (Gannett Fleming Valuation & Rate Consultants – GFV&RC) to perform a Capacity Fee Study to review the adequacy of the Fee and to insure that DTMA is in compliance with Act 57 of 2003 governing the calculation of that fee. The current Capacity Fee, which was last raised in 2013, is \$1,650/Single Family Dwelling (SFD), \$1,357/Apartment Unit, and \$7.22/Gallon for all others. These Fees were based on a 2010 Capacity Fee Study that concluded the maximum allowable capacity fee was \$3,251/SFD (\$14.22/Gallon).

Based on the calculation procedures set forth in Act 57, the 2017 Capacity Fee Study concluded that the legal maximum allowable capacity fee is calculated to be \$4,840/SFD (\$21.19/Gallon). Historically, staff has tried to maintain the Capacity Fee somewhere between the current fee and the maximum allowable.

Prior to developing his recommendation, the Executive Director surveyed more than a dozen other wastewater facilities on their Capacity Fee. Because DTMA does not use the Collection portion, the DTMA Total Tapping Fee is by far the lowest of all surveyed facilities. Even with the proposed increase, the DTMA Tapping Fee will still be among the lowest. From a Budget viewpoint, Tapping Fee revenues are specifically earmarked for the Wastewater Resource Allocation Fund for the purpose of Facility Asset Management.

Resolution #2017-28 – Approval of amendment to Section II of the Rate Schedule to increase the Capacity Fee to \$2,400 for single-family dwellings, \$1,975 for Apartment Units, and \$10.50 per gallon for all other connections as outlined in the Gannett Fleming Rate and Valuation Consultants Rate Study: This resolution was passed on a motion by M. Postick, seconded by M. Corado. The motion passed unanimously by voice vote.

PRESENTATION OF WASTEWATER FUND CAPITAL BUDGET FOR 2018

The Executive Director began his presentation by explaining that the 2018 Budget being presented for approval is for the Wastewater Fund only. The Stormwater (SW) Fund Budget will be presented for discussion and approval at the December Board meeting.

The Director noted that the 2017 Budget to date shows that Total Operating Revenue is running just slightly above budget estimates. Also Direct Customer revenue is on target despite a very slight decrease in billable wastewater volumes. Total Municipal revenues are also on target, although revenue from South Hanover is tracking a bit higher and revenue from Lower Swatara is tracking a bit lower. Revenue from Hauled Waste Processing is running below budget projections by nearly 3% due mostly to the normal

variability in hauled wastewater volumes. Total Operating Expenses are running under budget by approximately 10%. The bottom line through September shows a nearly \$1,100,000 improvement in Net Position (profit) against the budgeted Net Position Loss of \$470,300 primarily due to shared Stormwater Resources.

He then reviewed the highlights of the proposed 2018 Wastewater Budget:

- Direct Customer Revenue is budgeted to increase by approximately 1.4% due to a proposed 2% rate increase that will be in effect for 10 months and a modest projected increase in total billable wastewater from new customers.
- Despite the proposed 2% rate increase, Municipal Customer Revenue is budgeted to decrease slightly by approximately 3.0% due to an adjustment of the projected billable wastewater volume from Lower Swatara Township. A large commercial user (in Lower Swatara) discovered and corrected a significant water leak that was flowing to DTMA during 2017.
- Hauled Wastewater Revenue is budgeted to decrease by ~2% due to conservative budget projections for the volume of hauled wastewater received.
- 2018 departmental expenses are held to a relatively modest increase of 3.5%. In addition to a projected 2% inflationary increase on certain items, the following items have contributed to the increase in proposed budget expenses: computer software annual licensing fees; flood insurance premiums; education reimbursement; sludge dewatering costs; and base wages and salaries.
- The budget amount for health insurance actually decreased by approximately 2%. One benefit of our recent participation in the PA Municipal Health Insurance Cooperative is the stabilization of our insurance premiums. This amount does not include the receipt of any potential annual rebate. DTMA employees have responded extraordinarily well with program compliance (e.g. using network providers, use of generic drugs, and use of 90-day mail order renewals).
- Projects and Capital Expenditures are proposed to remain approximately the same for 2018. These expenditures do not include the capital expenditures that will be covered by the 2018 Bond Issue.
- Annual Debt Service payments will increase by 3% primarily due to the interest only payment for the proposed 2018 Bond issuance.
- The 2018 End of Year (EOY) Cash Balance projects a decrease of approximately \$277,000. This balance decrease is primarily impacted by the transfer of \$250,000 from the Operating Fund to the Resource Allocation Fund.

The Director then reviewed each of the Authority's funds and their intended purposes. He noted that the Resource Allocation Fund (RAF) is used as the funding mechanism to support DTMA's developing Asset Management Program, an important component of its long range Strategic Plan. Based on the Asset Management Program development, this fund is used for planned asset upgrades and replacements. Currently, all capacity fees collected annually will be transferred into this account. In order to adequately support this fund for a sustainable level of asset management, a minimum target amount of \$250,000 annually has been established. The amount of capacity fees collected annually can vary widely, therefore, if the amount of capacity fees collected during a year fails to meet the \$250,000 minimum annual amount, it may be supplemented by Operating Fund cash reserves. The amount of any supplemental transfer to

the RAF from Operating Fund cash reserves would be reviewed annually to insure the stability of subsequent annual Wastewater Fund budgets including adequate working capital coverage and user fee considerations.

Based on feedback received from Board members at the last two meetings, the 2018 Wastewater Budget was prepared with a very modest sanitary sewer user rate increase of 2%. Additionally, the Fees for Hauled Wastewater disposal will be increased by 2% as well. The actual increase in user fees may be slightly more or less than 2% due to rounding. In addition, the annual increase in revenue from both sources will be less than 2% since the increase is not effective until March 1st.

The Budget also projects a very slight increase in the billable wastewater volumes from new customers. Following an earlier three-year upward trend, billable wastewater consumption appears to have decreased very slightly for 2017. Development activity and the corresponding sewer usage within Derry Township continues at a modestly low level. The Authority should continue to partner with surrounding municipalities to serve additional customers where it can be accomplished without a major expenditure of DTMA resources.

The Authority's rate structure will, with the proposed modest rate increase, continue to provide sufficient revenues to support routine operating expenses, scheduled debt service payments, as well to provide reasonable allowance for repairs, replacements, and capital improvements.

It was suggested at the last Board meeting that the Board may want to consider putting in place a three-year rate adjustment strategy based on reasonable projections of revenues and expenses. If approved, the Strategy will allow the Authority to maintain a strong financial position through the next four years and result in a continued positive fiscal outlook. This new strategy will also allow for the rate increase to be effective for the entire 12 months of the year. When the Board is presented the Budget for the following year, they could then determine if the amount of the proposed increase for that year is adequate to cover the budget. They can then decide to eliminate or change the proposed amount as necessary. This strategy is offered for approval in Resolution #2017-30.

When the projected revenue is combined with a moderate level of budgeted expenditures, the 2018 Budget results in a slight decrease in the EOY net cash balance. The proposed 2018 Budget represents a reasonable fiscal plan to provide DTMA customers with continuing reliable, responsive, and cost effective professional service through reasonable user rates, operational efficiency, effective asset management, and a reasonable level of expenditures.

Resolution #2017-29 – Approval of the 2018 Wastewater Fund Budget including a 2% rate increase for sanitary sewer and hauled wastewater customers: This resolution was approved on a motion by R. Furlan, seconded by D. Feidt. The motion passed unanimously by voice vote.

Resolution #2017-30 – Approval of a multi-year sanitary sewer rate increase strategy for years 2019-2021: This resolution was passed on a motion by R. Furlan, seconded by M. Postick. The motion passed unanimously by voice vote.

Construction Projects Bids

Bill Rehkop outlined the two projects recently put out to bid for work on the existing collection and conveyance system and a portion of the existing stormwater infrastructure. Both of these projects came in slightly higher than staff estimates, but there is sufficient money in the 2018 Capital Projects fund to

cover this difference. The difference in bid the price and budget estimate for Contract #2017-02 was due in part because of the contractor having to use prevailing wage rates. The estimate that DTMA received from its Emergency Services contractor did not include prevailing wage rates. The contractor used the rates in their Emergency Services contract to prepare the estimate. Those rates are lower than the prevailing wage rates required by law.

Resolution #2017-31 – Approval of the bid award to Rogele Inc. for the Sanitary Sewer Rehabilitation Contract #2017-02 and Resolution #2017-32 for approval of the bid award to Mr. Rehab for the Sanitary Sewer Relining and Manhole Rehabilitation Contract #2017-03: These resolutions were passed on a motion by J. Engle, seconded by M. Weir. The motion passed unanimously by voice vote.

EXECUTIVE SESSION

At 7:06 p.m. the Board recessed into Executive Session to discuss personnel and legal issues. They reconvened the meeting at 8:00 p.m.

OTHER BUSINESS

Stormwater Update

The agreement with HRG was executed to design the necessary stormwater pipe crossings repairs. This project should be ready for award in the Spring of 2018.

Discussion of Sale of DTMA by the Township of Derry

J. Engle noted that the Township of Derry is performing a valuation of the Township's assets, of which DTMA is one. While there has been discussion by the Township Supervisors regarding a potential sale of DTMA, nothing has been determined at this point. In the meantime, the DTMA Board will look at preparing a severance package for its employees in the event that this should happen.

There was no further business to come before the Board at this time.

PUBLIC COMMENT

There was no public comment at this time.

ADJOURNMENT

With no further business to come before the Board, D. Feidt made a motion to adjourn the November 13, 2017 public meeting at 8:05 p.m., seconded by M. Weir. The motion passed unanimously by voice vote.



(Assistant) Secretary