

WESTERN WESTMORELAND MUNICIPAL AUTHORITY

SPECIAL MEETING – JANUARY 14, 2010

The Board of Directors of the Western Westmoreland Municipal Authority held a special meeting on Thursday, January 14, 2010 at 7:00 P.M. in the Authority conference room, duly advertised, as required, and with the following persons in attendance:

1. Roll Call:

Board Members in Attendance:

Mr. Stan Caroline	Mr. Larry Chrzan	Mr. Charles Konkus
Mr. Anthony Marks	Mr. John Nabuda	Mr. Robert Pioth
Mr. Jared Squires	Mr. Sam Testa	Mr. Tim Watson

Absent:

Mr. Leonard Santimyer

Others in Attendance:

Mr. John Campfield, Solicitor
Mr. Kevin Fisher, General Manager
Mrs. Johanna Wtorkowski, Assistant Secretary-Treasurer/Recording Secretary
Mr. James Webster, Houston Harbaugh, Bond Counsel
Mr. Henry Fisher, Commonwealth Securities and Investments, Inc., Financial Adviser
Ms. Marcia Rojcewicz, Commonwealth Securities and Investments, Inc., Financial Adviser

2. Mr. Pioth led the Pledge of Allegiance and moment of silence for troops overseas.

3. Public Comments: None – There were no visitors in attendance.

4. Discussion of the 2010 Bond Issue:

Ms. Rojcewicz presented to those in attendance a time schedule for the Solids Processing & Improvements Project, which was prepared by Authority Consulting Engineer Mark Poole. The schedule indicates that the Authority should be ready to award bids in August 2010, rather than in March or April 2010. Ms. Rojcewicz explained that this impacts the project in that, the Authority wants to be sure that it has financing in place before the Authority awards the bids.

Ms. Rojcewicz explained that the Authority could issue bonds now, or right before awarding contracts. Ms. Rojcewicz explained that the Authority could issue bonds in April, May, or June 2010. Ms. Rojcewicz suggested waiting a few months before issuing bonds. The Authority still has outstanding 2005 bond proceeds. These funds have been allocated to a portion of the project. Ms. Rojcewicz stated that interest earnings on the proceeds would be almost nothing. The Authority would be paying interest on the bond issue, while earning very little on the proceeds. These two factors lead to Commonwealth Securities and Investments, Inc.'s (CS&I) recommendation that the Authority wait a few months to issue the bonds. This would give the Authority a better idea as to what the PaDEP will be requiring as a result of their administrative review and plan review. Ms. Rojcewicz stated that the bond market is currently favorable, the market has been holding, and, hopefully, it will continue to hold. Ms. Rojcewicz explained that CS&I would be monitoring the bond market.

Mr. Caroline asked if the amount of the bond issue was “etched in stone.” Ms. Rojcewicz stated that the amount is not set until the Authority enters the bond market, and she stated that the Authority would re-evaluate the amount to be borrowed just before entering the market. Mr. Caroline asked if the bond issuance costs were a percentage of the issue. Mr. Henry Fisher stated that some costs are based on a percentage of the issue, and some are not. Mr. Caroline asked if the costs will decrease if the amount of the issue decreases. Ms. Rojcewicz explained that the larger fees, specifically the original issue discount and the bond insurance costs, would decrease.

Mr. Marks stated that the Authority authorized CS&I to proceed with the credit rating and insurance rating. He asked what the status was on the Authority's ratings. Ms. Rojcewicz explained that the bond insurance rating process is moving along, but she does not yet know the amount of the bond insurance premium, or whether the Authority will want to purchase bond insurance. Ms. Rojcewicz explained that the credit rating is on hold, because the rating would only be in effect for three (3) months.

Mr. Marks stated that the PaDEP has ninety (90) days in which to review the Authority's application, but cautioned that any time the PaDEP has a question, the "clock stops" until the question is answered. Mr. Marks asked how long a bid is valid; stating that it was his understanding that, with government contracts, there was a ninety-day period. Mr. Campfield stated that Mr. Poole spoke with Mr. Ray Lattner, of the PaDEP, who said the schedule that Mr. Poole prepared looks good. Mr. Campfield stated that a contract bid is valid for closer to sixty (60) days, because of material costs. The longer you ask a bidder to hold open a number, the higher the number will be.

Mr. Marks referred to a calculation that he prepared regarding bond comparisons, and asked Ms. Rojcewicz for her opinion of his calculations. Mr. Rojcewicz stated that the calculations and interpretations were logical, but were based on "what ifs." Ms. Rojcewicz explained that bond issues that provide original issue discounts result in "a wash". Ms. Rojcewicz explained that a bond issue with a higher yield would result in a lower original issue discount. If such an issue was compared to an issue with a higher original discount, the resulting lower bond yield would result in the same amount of debt service. Ms. Rojcewicz stated that all recent bond issues have had original issue discounts, with the exception of the Allegheny County Residential Development Authority, which is required to sell bonds at par. Ms. Rojcewicz explained that allowing original issue discounts exposes the Authority to all buyers, thus saving the Authority money.

Mr. Marks excused himself from the meeting, stating that he needed to attend another meeting. He stated that he would return. The time was 7:30 P.M.

Mr. Webster stated that the Authority cannot delay if the market begins to rise, because the rate increase would already have to be in effect, and the Authority will not want to increase rates further due to an increase in bond rates. Mr. Caroline asked why the Authority couldn't raise rates throughout the year. Mr. Campfield stated that the Authority has already notified the Member Municipalities that the rates would be raised with an effective date of April 1, 2010. Mr. Caroline asked what would happen if the Authority borrowed only \$4,000,000.00. Mr. Campfield explained that the Authority could lower the rates. Mr. Caroline asked why the Authority couldn't issue bonds at the end of the year. Mr. Campfield stressed that the Authority is projecting a number of things, and none of the steps can be done immediately.

Mr. Campfield explained that there is up to a three-month lag time from the effective date of the rate increase until the time any money is actually received by the Authority, due to the billing schedules of the Member Municipalities.

Mr. Caroline questioned why the bonds have to be issued now, if the money may not be needed before the end of 2010. Mr. Campfield stated that the Authority Board has a fiduciary responsibility to have money in place before awarding bids. Mr. Caroline asked what the amount of time was between approval of the bond issue and closing of the bonds. Ms. Rojcewicz stated that the time from approval to closing would be six to eight weeks. Mr. Campfield stated that the Authority will have a debt service payment due in October if the Authority issues the bonds. Ms. Rojcewicz stated that the Authority will have a debt service payment due in October if the Authority closes on the bond issue at any time prior to October.

Mr. Testa stated that the Authority needs to determine the time frame in which the events will take place. Mr. Kevin Fisher referred to Mr. Campfield's recommendation that the Authority issue the bonds before bidding the contract. Mr. Campfield stated that the issuance and bidding could take place simultaneously. Mr. Campfield stated that he would not recommend award of the construction contracts without having the money on hand to pay for them.

Mr. Chrzan asked when the Authority would "pull the trigger" regarding the issuance of the bonds. Mr. Konkus stated that he likes Mr. Campfield's idea of issuing the bonds at the same time the bids are advertised. Mr.

Konkus stated that, if the rates begin to “go crazy,” the Authority could schedule a special meeting to authorize the issuance of the bonds. Mr. Squires stated that, barring anything “crazy” occurring with the bond rates, it would be best for the Authority to wait for a few months to issue the bonds. Ms. Rojcewicz stated that the issuance should take place no later than June, for an August bid award.

Mr. Squires stated that the Authority must maintain reserves to secure the operations and capital planning of the Authority. Mr. Squires stated that the Authority cannot default on operations or loans.

Mr. Kevin Fisher presented to those in attendance the calculations for the semi-annual transfer from the Revenue Fund to the Capital Improvement Fund. Mr. Fisher explained that the calculation is based on the Trustee’s recommendation and Board policy to maintain a Revenue Fund balance equal to 25% of the Authority’s annual operating expenses, as well as 50% of the Authority’s debt service requirements, including 10% cover on the bonds. Mr. Campfield stated that the Revenue Fund and the possible action by the Board can have an impact on the Authority’s financial standing when the Authority enters the bond market. Mr. Pioth stated that Mr. Poole has recommended that the Authority consider transferring an amount not to exceed \$376,373.00. Ms. Rojcewicz explained that, based on the Trustee’s and Board’s policies, Mr. Poole has recommended that an amount *may* be transferred to the Capital Improvement Fund. However, Ms. Rojcewicz recommended that the Authority delay the transfer, due to the “unknowns”, specifically, the amount of the revenues that will be coming in from the Member Municipalities as a result of the rate increase, and the amount of the 2010 debt service. Ms. Rojcewicz added that the Revenue Fund is currently earning a higher rate of interest than the Capital Improvement Fund. Mr. Campfield stated that the Capital Improvement Fund is a Trustee-held fund, while the Revenue Fund is not.

After a brief discussion, a motion was made by Mr. Squires, and seconded by Mr. Testa, to not transfer funds from the Revenue Fund to the Capital Improvement Fund. The motion passed unanimously.

Mr. Marks returned to the meeting at approximately 8:00 P.M.

Mr. Kevin Fisher reviewed for those in attendance a breakdown of the allocation of funds in the Capital Improvement Fund for current and future capital expenditures.

Mr. Squires stated that it is apparent that the Authority’s Capital Improvements Projects are to comply with the PaDEP, and not to increase revenue.

Mr. Marks asked Mr. Kevin Fisher what other regulatory issues will be forthcoming. Mr. Fisher stated that there are three main issues:

1. The 002 Outfall: Mr. Fisher explained that the PaDEP has considered the 002 Outfall to be a sanitary sewer overflow, and they could, at any time, require the Authority to eliminate the 002 Outfall, and the Authority would have to act immediately.
2. The Total residual chlorine requirements: Mr. Fisher stated that if the chlorine limits are changed to the point where the Authority cannot effectively disinfect, the Authority would have to either (A) switch to a UV disinfection system, which he would not recommend, or (B) change to a sodium hypochlorite solution and then incorporate a chlorine removal process into the Authority’s current processes.
3. Biological Nutrient Reduction (BNR), which is treatment above and beyond the Authority’s current processes: This requirement is already in effect for municipalities along the Chesapeake Bay Watershed. The requirement places permanent limits on a municipality’s nitrogen and phosphorus discharge limits. Mr. Fisher explained that there is already a “cap and trade” program in place which requires municipalities who are exceeding the limits to purchase unused nitrogen credits from municipalities who have excess credits, often at a 2-for-1 rate.

A motion was made by Mr. Chrzan, and seconded by Mr. Caroline, to invite the Authority’s Bond Counsel and Financial Advisors to attend the March 2010 and April 2010 Board Meetings, at 7:00 P.M. The motion passed unanimously.

Ms. Rojcewicz, Mr. Fisher, and Mr. Webster left the meeting. The time was 8:17 P.M.

5. A motion was made by Mr. Chrzan, and seconded by Mr. Squires, to approve an additional amount due to Scott Electric, for a custom base for the 18' light pole, in the amount of \$176.14. The motion passed, 8-0, with one abstention from Mr. Konkus, who stated that there is a possible conflict due to his employment with Scott Electric. A memorandum, signed by Mr. Konkus, is attached to these minutes.

Other Matters:

- A. Mr. Fisher requested Board authorization for Board Chairman Robert Pioth to sign a renewal application for the Authority's general liability insurance policy, which is due for renewal on February 17, 2010. EMC Insurance is requesting updated information from the Authority. A motion was made by Mr. Chrzan, and seconded by Mr. Squires, to authorize Mr. Pioth to sign the insurance renewal application. The motion passed unanimously.
- B. There was a discussion regarding the calculation of the projected rate increase for the Brush Creek System. Mr. Caroline asked why the Authority couldn't raise rates every year to cover just that year's expenses. Mr. Testa stated that the rates were reduced from the original estimates. Mr. Campfield stated that the Authority is required to show a five-year revenue projection, and that the projections must be positive. Mr. Campfield stated that the projections showed a minimum rate increase of \$3.70 per month per EDU in April 2010, and a second rate increase of \$1.65 in 2.5 years. Mr. Fisher explained that two rate increases over the five-year period amounted to less than five annual increases. Mr. Marks explained that the committee members discussed the option of \$4.90 rate increase now, and \$0 later, but decided to raise the rates by \$3.70 now and by \$1.60 in two years. Mr. Campfield stated that, according to his notes, Mr. Poole's recommendations were an April 1, 2010 increase of \$3.65 and an increase of \$1.65 in October 2012. Mr. Testa and Mr. Marks stated that the committees discussed in great detail the rate increase options.

A motion was made by Mr. Marks, and seconded by Mr. Chrzan, to authorize the Solicitor to prepare a rate resolution to increase rates by \$3.70 per EDU, per month, effective April 1, 2010. A roll-call vote was requested.

Mr. Caroline – yes
Mr. Marks – yes
Mr. Squires – yes

Mr. Chrzan – yes
Mr. Nabuda – yes
Mr. Testa – yes

Mr. Konkus – no
Mr. Pioth – yes
Mr. Watson – yes

The motion passed, 8-1.

Mr. Campfield suggested that, if the Authority is planning to raise rates effective April 1, 2010, the Board should act on it no later than February 2010, in order to give the communities the information and the ability to take action in March to change their rates.

6. Board Member Comments:

Mr. Watson questioned why the Authority is considering the bonds issue when there is almost a year's worth of work to do. Mr. Fisher explained that Mr. Campfield is recommending that the Authority be in the market before the bids are awarded, so that the bonds can be closed at that time. The delay with the PaDEP can be three months. Mr. Fisher stated that Mr. Poole is ready to submit the review package to the PaDEP next Wednesday, which will begin the ninety-day review period. Mr. Campfield explained that Mr. Poole had an earlier time frame when discussions began. Mr. Testa stated that the Authority also scaled back the project by \$500,000.00, through the elimination of the co-generation unit. Mr. Marks stated that the project costs were increased, due to deficiencies in the structure, and the digester lids. Mr. Fisher explained that there are additional costs, due to the digesters and thickeners, and due to the extension of the existing gas line.

Mr. Testa questioned whether the remaining 2005 bond proceeds must be used before the 2010 bond issue closing. Mr. Fisher explained that the funds in the 2005 Construction Fund would be used first, and then the 2010 bond proceeds would be used.

Mr. Caroline asked if the Authority could return excess borrowings if the necessary funds were less than the borrowed funds. Mr. Campfield stated that, the funds could not be returned, but he stated that the Authority's bond closing will be closer to the point the bids are awarded, and the Authority will have a better idea of what will be needed. Mr. Marks stressed that the Board should not "get under-authorized." A discussion followed.

7. There was no executive session.
8. A motion to adjourn the meeting was made by Mr. Marks, and seconded by Mr. Chrzan. The motion carried unanimously. The time was 8:44 P.M.

Johanna Wtorkowski
Assistant Secretary-Treasurer