

**MINUTES OF THE REGULAR MEETING
OF THE BOARD OF DIRECTORS
OF THE BETHLEHEM AUTHORITY**

MARCH 12, 2009

The regular meeting of the Board of Directors of the Bethlehem Authority was held on March 12, 2009 in Conference Room B504, 10 E. Church Street, Bethlehem, PA. The meeting was called to order at 3:30 PM by Chairman Mark Jobes, with the following in attendance:

John Tallarico, Vice Chairman, Assistant Secretary / Treasurer
Richard Master, Secretary via telephone
James Broughal, Esq., Solicitor
John Filipos, Controller
Stephen Repasch, Executive Director
Sandra Reppert, Administrative Assistant
Daniel Meixell, Special Police Officer

APPROVAL OF MINUTES

Chairman Jobes presented the minutes from the regular meeting held February 19, 2009. Mr. Tallarico moved to approve the minutes from the February 19 meeting. Mr. Jobes seconded. Motion passed unanimously.

(Vaughn Gower entered the meeting at 3:31 PM)

RECOGNITION OF VISITORS / COURTESY OF THE FLOOR

Chairman Jobes recognized:

- ◆ Jeff Andrews, City of Bethlehem
- ◆ Bethlehem Press
- ◆ Stephen Antalics, Bethlehem resident
- ◆ Bud Cook and Sue Fanok, The Nature Conservancy
- ◆ Dave Brong, City of Bethlehem

(It is noted that Mr. Gene Auman, Deputy City Controller and Councilwoman Jean Belinski entered the meeting at 3:33 PM and 3:35 PM respectively.)

REPORT OF THE CHAIRMAN

Long-Term Financing. Chairman Jobes said long-term financing is a topic that the Board will be discussing more of at its monthly meetings. The primary focus is to look at the debt, the capital needs of the water system going forward, and trying to plan solutions to meet those needs. Next year's forecast (2010) shows money will be needed to supplement the Bond Redemption and Improvement Fund (BRIF) to meet projected capital expenses and now with the grant applications (matching funds required). We will work closely with PRAG, the Authority's financial advisor, to look at the existing debt and do models to see if (1) the bond market rates come back in line and at what rate it would be attractive to refinance, or (2) re-working the debt to include new monies that may be needed. This is in the beginning stages, and although looked at in the past (restructuring was proposed to City Council about two years ago, which they did not support) it is being re-addressed now. We will also work closely with the City to come up with potential options. He hopes there will be a window of opportunity to take advantage of low rates at some point in the near future. Currently, the bond markets are in disarray. On the bank financing side, there have been attractive rates, but they are not easy to get and not in large amounts because the bigger banks are struggling.

Mr. Repasch stated that all options must be laid on the table to determine which will be the most reasonable to pursue and the most likely to succeed. Time and effort will be spent on those top options to recapitalize the BRIF.

Chairman Jobes said the subcommittee of himself, Mr. Master and Mr. Gower will work with PRAG and Mr. Repasch to discuss the options. In the interim, he would like to have the five-year capital expenditure plan and operational budget, and at least a draft of the annual audits to provide other information to work with. Mr. Repasch suggested planning a conference call with PRAG in the next couple of weeks after everyone checks their schedules.

Mr. Brong added it's not a matter of the City turning over plans. It's a matter of sitting down and doing a sensitivity analysis to understand "if this event occurs, then this is the situation that resolves it." He asked to be included in the subcommittee discussions. Chairman Jobes responded absolutely, there are a lot of moving pieces that will have an impact, including the grants and territory expansion. We need to do the sensitivity analysis, have the plans, be ready and see how things fall into place.

REPORT OF THE EXECUTIVE DIRECTOR

Forestry Program. Mr. Repasch provided an update on the Stand 62 Keiper House Timber Sale in Long Pond. The timbering has come to an end and most or all of the timber has been moved from the site. There is lag time from when the logs get to the mills until the checks are received, so there is some catching up with regard to the revenues from this sale. It has been decided that since the timber markets are presently down for sawtimber, only pulpwood or beech trees (for railroad ties) will be pursued in the next stands to be timbered. The valuable hardwoods will remain until the timber markets improve.

Accreditation Programs. Mr. Repasch revisited some topics previously discussed that he thought the Authority and City should pursue. One is the forest accreditation program where the forest is certified sustainable and the timber is deemed sustainable as well. He has done a fair amount of research on this, up to a certain point. The accreditation is not cheap – there are costs involved for someone to do the valuation and management plan. Accreditation brings more value to a for-profit forestry business, and the Authority is not at this level. He doesn't know if it wants to spend the time and money for the accreditation. However, recently he's been talking with Bud Cook from The Nature Conservancy (TNC) and they will be meeting with representatives from the PA Bureau of Forestry to try to work a partnership plan where it would be less expensive for each partner to get the accreditation.

Mr. Cook said that Brad Ellison is the State forester whom they spoke with and will be meeting with. Certification does bring a premium in the market. It is expensive, but there are long term financial returns. As we get closer to carbon legislation and cap-and-trade legislation, forests that are certified sustainable will have market advantage for carbon offset payments. TNC has approximately 400,000 acres in forest certified lands, the largest holding of this kind by a non-government organization. TNC has worked with a number of forest landowners whose holdings are too small to support the expense of certification. Pooling them together with technical support from TNC and seeking funding collectively has enabled a lot of people the benefits of the accreditation program at a reduced cost.

Mr. Broughal queried if there is grant money available for this program. Mr. Cook responded that yes, there is some funding available. Mr. Repasch added everything about this program will be explored.

Mr. Master queried if this program is FSC? Mr. Cook responded FSC is one of the third party certifiers, but it's the only one that completely meets the standards of the World Bank when it funds forest projects. FSC has an international presence and the highest standards, and this is the program TNC works with. Mr. Master went on to say his business's wood processing operations look for FSC certified wood and some of his customers are FSC certified as well.

Mr. Gower queried the estimate of the expense for the accreditation. Mr. Repasch responded that he doesn't have one yet. He has been talking to a firm from Vermont that does this type of certification, and he needs to submit some information before an estimate is given. Mr. Cook added he believes the cost may be clarified when they meet with the (PA) Bureau of Forestry, during the third week of April. Mr. Gower commented that a lot of the Authority's assets are forestlands and it has to make progress to get accreditation somehow, someday.

Another program Mr. Repasch discussed was the watershed stewardship program that TNC is starting up. It was initially mentioned that the Authority's watershed in Monroe County would become a pilot project for this program. While it seems like nothing has happened, a great deal has happened at very high levels in TNC's global arena. We have not lost sight of this program.

Ms. Sue Fanok from TNC said that progress on the Water Stewardship Alliance has primarily been on the global level for forming partnerships for the development of this program. Internally, TNC has hired a project director to promote the idea and engage other partners. Externally, TNC is partnering with World Wildlife Fund, World Stewardship Institute, and a number of other partners who have given rise to this program. In the coming years, they are looking to develop international standards for water certification (similar to the forest stewardship program). It's a mechanism whereby water management

will be accountable for inputs and outputs. It's a voluntary program. They will be meeting with TNC's global people in the coming weeks to refine what some of the next steps will be.

Mr. Repasch queried the outlook as to when this program will reach the local level. Ms. Fanok responded that the international standards are currently being developed, which is a lengthy process with complex issues, and involves conservation organizations, government organizations, as well as industry. The next step will be verification of the standards. Testing the standards on a local level is the role that the Authority will play in the program. She cannot answer on the time frame, but will inform him as soon as she knows.

2008 Controller's General Fund Oversight Report. Mr. Repasch presented the Controller's Oversight Report for the Fourth Quarter 2008, which indicates there was no Third Quarter 2008 Report because the City has been modifying its financial reporting process and the monthly analytical reports on the Water Fund have not been available. However, based on the final City budget document just released last week, it was determined that \$2 million was used from the Water Fund for General Fund purposes and \$982,275 was used for Pension expenses. Both items are in line with what was budgeted for 2008, so the City did not take more for those purposes than what was budgeted. The reconciliation will be done when the Maximus report is reviewed in May, which will determine exactly how much should have been taken and should have been used from the Water Fund. A report will then be presented on the committee's findings.

Mr. Repasch indicated the Fourth Quarter 2008 Report has been reviewed and signed by Mr. Filipos, Meg Holland, the City Controller, and himself.

First Quarter 2009 Income/Expense Projection and Budget Comparative. Mr. Repasch reported the following:

Income and Expense Projection for the 1st Quarter, 2009:

- ◆ Cash on Hand at March 1 - \$406,680 (\$81,110 in checking; \$325,570 in various CD's)
- ◆ Revenues Receivable and Projected Cash on Hand Before Expenses – \$101,635 overall for the 1st Quarter
- ◆ Total Projected Professional, Administrative and Police Expenses - \$98,895 overall for the 1st Quarter
- ◆ Total Projected Cash on Hand at the end of the 1st Quarter - \$449,490

Mr. Repasch also reported that the Expense Budget Comparative for the month ended February 28 showed overall expenses of \$49,946, or 12% of budget. Spending would normally be at almost 17%, so expenses are tracking considerably under budget for this time of year. However, the Authority will be faced with expenses relative to the territory expansion effort and financial advisory fees relative to long-term financing planning as previously discussed.

REPORT OF THE CONTROLLER

Mr. Filipos' report for the month of February 2009, as filed, was accepted without comment. Mr. Filipos pointed out that when he, Mr. Repasch and Mr. Brong met, they also reviewed the cash balance for the Water Fund at year end. This was requested from the Board as it related to the \$800,000 the Authority gave the City in November. The City did in fact have the money back in the Water Fund at year end, and he will distribute a memo to the Board for the record.

Resolution 301 – Approval of Professional and Administrative Expenses. Chairman Jobs presented Resolution 301, as circulated and filed, to the Board for approval. He queried about the Backwash System Upgrade, since it was the most significant expense listed on the requisition for payment (\$323,000.00). Mr. Brong responded that currently the tank is being erected (concrete work). The internal piping has been installed, and is in the process of being tested and disinfected. There have been no notable change orders on the project's cost at this point.

Mr. Gower moved to approved Resolution 301. Mr. Tallarico seconded. Motion passed unanimously.

Ratification of CD Investments.

Operating Funds Reserve CD. A CD with Lafayette Ambassador Bank matured on March 2 in the amount of \$107,097.91. Due to the uncertainty of the territory expansion expenses coming due and any unforeseen expenses that might arise, the recommendation was to invest \$53,548.96 with Harleysville / East Penn Bank for 90 days at 1.88% and invest \$53,548.95 with Lafayette Ambassador Bank for 7 months at 2.38%. The recommendation was circulated to the Board and approved. The action needs ratification.

Mr. Repasch queried if the Lafayette Bank CD was placed within the Fulton Financial group or Lafayette Bank. Ms. Reppert responded it was placed with Lafayette Bank, as they are still under the \$250,000.00 limit set forth by the investment policy.

Mr. Tallarico moved to ratify the CD investment with Harleysville / East Penn Bank as presented. Mr. Gower seconded. Motion passed unanimously. Mr. Gower moved to ratify the CD investment with Lafayette Ambassador Bank as presented. Mr. Tallarico seconded. Mr. Master voted aye. Chairman Jobs abstained. Motion passed.

Bond Redemption and Improvement Fund CD. A (CDARS) CD with Harleysville National Bank matured on March 5 in the amount of \$557,722.37. Interest rates were solicited from participating CDARS banks and the Fulton Financial Inter-Affiliate CD Program. The recommendation was to invest \$557,722.37 with the Fulton Financial Inter-Affiliate CD Program for 7 months at 2.38%. This investment will be broken into two CD's valued at \$250,000.00 each and one CD valued at \$57,722.37. The recommendation was circulated to the Board and approved. The action needs ratification.

Mr. Gower moved to ratify the CD investments as presented. Mr. Tallarico seconded. Mr. Master voted aye. Chairman Jobs abstained. Motion passed.

The updated investment ladder was provided to the Board along with the above recommendations. Chairman Jobs commented that it has been very helpful and it appears that the timing of the

investments has become more evenly spread so there is liquidity if needed. There are two CD's maturing in the BRIF in April, one of which is substantial, and two excess operating funds CD's. The Board will be provided with the recommendations at the appropriate times.

REPORT OF THE SOLICITOR

Mr. Broughal had no report.

REPORT OF THE CONSULTING ENGINEER

Chairman Jobs indicated there is no report on file from Neal Kern (of Barry Isett & Associates) but he is working diligently on the drafts of the annual report. Mr. Repasch added the report should be complete in the next several weeks and it will be presented at the April meeting for acceptance.

REPORT OF THE BETHLEHEM AUTHORITY SPECIAL POLICE

Officer Meixell's report, as filed, was accepted. Chairman Jobs commented that it's good to see the new hunting club members (Penn Forest) have been helping chase ATV's off Authority property.

WATER REPORT

The water report for the month of February 2008, as filed, was accepted without comment.

CITY OF BETHLEHEM DIRECTOR OF WATER AND SEWER RESOURCES

Mr. Brong reported on the following as of February 28:

- ◆ Last month he reported on bleak receipts performance, but that has recovered. On a plan of \$2.9 million in receipts year to date, the actual received was \$2.6 million, or ~\$280,000.00 behind plan (two-month total). This is a lot better than January. Expenses were favorable by \$250,000.00. Spending was not as much as planned, and there were no rate case expenses to pay from 2008. Net income year to date was \$707,000.00 against a plan of \$739,000.00. There is nothing to be concerned about at this point. Total cash on hand in the Water Fund was \$1.7 million.
- ◆ Total invoicing year to date was \$3.1 million, which is ~\$300,000.00 ahead of 2008, but ~\$180,000.00 behind plan. This is nothing to be concerned about unless it becomes a trend. The City began providing more detail in the revenue status reports. Invoicing is now tracked based on user class (residential, commercial, industrial, institutional) and bulk connections (Salisbury, East Allen, Upper (US) and Lower (LS) Saucon Townships, Westgate, Utilities Inc. etc.), with the capability to track performance against plan. At this point, residential consumption is up slightly from plan, as well as revenue. Industrial consumption is down considerably. This is measured by keeping an eye on the top ten industrial customers (~85%

of the industrial business). There were some fairly large financial adjustments – essentially, the City over-billed in 2008 and the adjustments were made in 2009. The industrial sector usage is not down as much as the revenue reflects. US using less, LS using more, Utilities Inc. using more. There are ups and downs in performance against plan assumptions but the good news is these variances are now better understood.

Chairman Jobs queried about updates on the State grant applications and the response time. Mr. Brong responded there is a meeting scheduled for the third week in April for awarding the H2O PA grants. He has received some correspondence asking questions on a couple of the projects. This is good news because it means the applications are being looked at and not sitting on someone's desk.

Chairman Jobs queried about updates on the Federal stimulus plans and (US) Congressman Dent's help with shovel-ready projects. Mr. Brong responded there are none, other than some political stakes in the ground with the State. Any Federal funds will come through the State. The City's interests are in front of those persons who have something to do about this, and there is some lobbying activity that keeps the City informed of what direction things are going and it may need to augment the packages. The City has done all it could do at this point to get on the "radar" screen.

Chairman Jobs queried about updates on the PUC territory expansion. Mr. Brong responded he has spent a lot of time responding back to the City's PUC attorney, John Gallagher of Saul Ewing, on the challenges. Basically everybody that could oppose this expansion has, including Easton Suburban Water Authority, Northampton Borough Municipal Authority, and the Office of Consumer Advocate. The City has sent back rebuttals to create arguments.

Chairman Jobs queried about the status of the PUC legal fees. Mr. Brong responded he hasn't reviewed any invoices lately. Mr. Repasch indicated there is a small invoice on this resolution for ~\$2,100.00. Mr. Jobs would like to make sure Saul Ewing invoices on a regular basis versus a huge billing that requires a lot of review, to which Mr. Brong said they will invoice monthly.

OTHER BUSINESS

None.

COURTESY OF THE FLOOR

Mr. Antalics heard on National Public Radio about an explosion in upstate Pennsylvania near the New York State border, where someone was drilling a well and hit a natural gas vein and there was a big explosion. He queried if this vein impinges on Authority property and if it does, is the Authority looking into what could be involved. Mr. Repasch responded this is the Marcellus Shale, and he has been following it very closely. From the most recent investigations, it appears that these deposits do not extend as far down to the Authority's property in Monroe County. However, over the years it has been moving, and more and more is being found through exploration and investigation. The potential is there, but as of now nothing has been discovered. He is staying on top of this situation. Also, Penn State has a division that is working on the Marcellus Shale. He's had conversations with them and they are the ones who told him the Authority is not in the belt, but on the fringe of it.

Mr. Antalics commented he heard about timber companies who offered farmers and landowners deals to take the timber off their property, and then these companies reported less than what was actually taken. He queried if there is oversight on the Authority's current timbering operation and contractors. Mr. Repasch responded that the contract spells out exactly what is supposed to happen, and that the weight slips that the Authority gets from each load taken to the mills is very precise. It is very involved accounting.

Councilwoman Belinski queried the pulpwood and beech trees and if there is a contract with anyone to clear these out to generate revenue. She understood that the Authority is planting elephant grass in the watershed and when it is harvested, she heard it takes all the nutrients out of the soil. Mr. Repasch said the Authority is not planting elephant grass. He had spoke to some people who are interested in planting switch grass, which is a (popular, up-and-coming) bio-fuel source. Chairman Jobses said that the Authority had been talking to people about wood chips and pulpwood to try to find an end-user for use as a heating source. There is also a wood pellet plant being designed in Plainfield Township. Mr. Repasch added there are actually two wood pellet plants in that area being designed and he had conversations with one of the companies who is looking for suppliers. Also, the Authority is hoping to make a partnership that works (supplier/processor/end-user) with the Northampton Community College Monroe County campus. This type of partnership makes the most sense if the end user is close because it cuts down on any associated costs and becomes a more viable option for all the parties. The Authority is exploring all possibilities and opportunities.

NEXT MEETING

Chairman Jobses announced the next meeting is scheduled for April 9 at 3:30 PM, and there are no reported conflicts for attending due to the upcoming holiday.

ADJOURNMENT

There being no further business, Mr. Tallarico motioned to adjourn the meeting. Mr. Gower seconded. Motion passed unanimously and the meeting adjourned at 4:15 PM.

Richard L. Master, Secretary