

JOHNSTOWN CITY COUNCIL
PUBLIC WORKS SESSION
Wednesday, April 15, 2020

City Council met in a stated session via teleconference for the general transaction of business. Mayor Frank Janakovic called the Public Works Session to order at 7:18 p.m. to discuss the possible sewage sale.

The following members of Council were present for roll call via telephone conference:

Mr. Arnone, Mr. Britt, Mr. Capriotti, Mayor Janakovic, Reverend King, Mrs. Mock, Mr. Vitovich (7).

John Trant, Interim City Manager; Robert Ritter, Finance Director; Steven Goldfield, Financial Advisor; Bruce Graham, Gibson Thomas Engineering; and Elizabeth Benjamin, Esquire, City Solicitor, were also present via telephone conference.

Mayor Janakovic read the following release into the record:

The City of Johnstown anticipates allowing for the purchase of its sewage system to the Greater Johnstown Water Authority and it is expected to move the City closer to accomplishing the goals of its Act 47 exit plan. Those goals are to timely complete the City's current sewage project, maintain reasonable sewage rates for residents and businesses and gain funds to reduce the City's long-term financial liabilities, namely the pension. The three-year Act 47 exit plan was approved by Johnstown City Council in November of 2018. Attaining these policy goals are critical to the City's post Act 47 sustainability.

One of the main concerns City Council and I have had in exploring options related to potential sales is obtaining rate control for our residents. We believe this proposed asset purchase agreement with the Greater Johnstown Water Authority will handle that concern while still allowing Johnstown to meet its other goals. An investor-owned utility for completion of a leverage lease for concession transaction might have offered more up-front fund for the City but likely would have resulted in higher rates for residential, commercial and industrial customers since investor-owned utilities need to achieve a financial return. The Pennsylvania Public Utilities Commission ultimately would have decided the rate increase on a region-wide or state-wide basis. I should note that at this time the previous City Manager, myself and others were involved with conversations with those outside entities at this time.

Since the City was looking for more control on limiting rate increases than it could receive from an investor-owned utility, we sought out a public transaction with a regional authority. A regional authority sale accomplishes

these goals: Rate increases can be limited by the contract. The Authority does not need to satisfy shareholders with double digit rates on return. Existing PennVEST loans can be assigned to and assumed by a public buyer. PennVEST would be willing to loan the remaining amount needed to complete the sewage project to the public buyer on the same favorable terms and conditions as it would to the City. The public authority can borrow the purchase price at lowest cost and capital by using tax exempt bonds.

The City entered into discussions with the Greater Johnstown Water Authority and the Johnstown Redevelopment Authority. The Water Authority has emerged as the leader for various reasons. Their economic interest in maintaining the sewer rates as low as possible for our consumers and residents. Our sewer rates would be expected to lower water usage from the Greater Johnstown Water Authority and in turn lower Johnstown Water Authority revenues. It expects to complete the Central Business District with the project and the City will continue to get input and to have input into the Greater Johnstown Water Authority.

The public will have extensive opportunities to view and comment on the deal prior to any final decision. The City will release a summary of the terms to the public once a formal offer is submitted and will hold a series of workshops, informational sessions, public hearings, public comment on those terms. A final public meeting to discuss the potential transaction to deliberate the pros and cons of the sale and vote on whether to accept or reject the offer will occur only after the process has been completed. The law firm of McNees Wallace represented the City in its negotiations with the Greater Johnstown Water Authority. Resources were also provided by the Act 47 coordinator, including HJA Strategies, Pennsylvania Economically, the attorney, Steven Goldfield, the City Manager, and the Mayor in conjunction with City Council.

Interim City Manager John Trant introduced financial advisor Steven Goldfield, who was asked to revisit the discussion from the last work session regarding the sources, uses of potential funds, and a private lateral loan subsidy program that was being considered by Council.

Mr. Goldfield discussed a lateral assistance program if the City moved forward with the sale. He indicated the Act 47 plan wants the pension funded to a greater level, thereby reducing the City's annual expense. Mayor Janakovic noted the current obligation the City had to the pension fund was \$2.8 million annually, and Mr. Goldfield stated the goal had been to find a way to reduce that upwards of \$2 million annually, which was one use of a portion of proceeds from the sale.

Other areas of concern would be having sufficient money for curb-to-curb paving for the remaining projects and also an additional lateral funding program.

Mr. Goldfield referred to additional information sent to Council for discussion of data points and how much of the existing lateral programs had been utilized. He noted a line, that could be slip lined after pressure testing, would carry a reduced cost for the project. He suggested a dialog among plumbing contractors, JRA, residents, businesses, and civic leaders to discuss ideas to improve the program.

He indicated some pros as a result of the agreement would include shedding debt, getting rid of the consent order, and determining uses for the money. Mayor Janakovic commented, any sewer revenue retained could not be used for the City's general budget but could only be used for sewage maintenance and improvements. Councilmembers had questions, comments and requests.

Mr. Capriotti commented, programs available to help with the financing of sewer projects were not "getting out to the people in a fashion that they are aware of what is available and how that program actually works." He further commented as to the importance to work together as a group to get the information out to the public. Mayor Janakovic commented the City had its hands tied with many projects that did not have matching monies and this sale may give the City the ability to do complete some projects, including blight removal that had to be put aside.

Mr. Goldfield noted the JRA program should be revisited. The upfront money would be going to the pension fund, but some additional funds could be for blight, infrastructure, and matching grants. He referred to this transaction as "the sale that keeps giving," noting the annual operating expenses would go down in an amount that could be appropriated for other expenses.

Mr. Goldfield revealed there had been negotiations with regard to a rate freeze, noting if the City did not comply with the consent order, and the buyer and the treatment plant was fined tens of thousands of dollars a month, that could put pressure on rates.

Mr. Trant discussed the ordinances that needed to move forward with or without the sale. He stated the ordinance pack, which the Solicitor was reviewing, would include amendments to the plumbing code, requirements for road opening permits, for right-of-ways to install utility lines, as well s a

mandatory tap ordinance. All would be available for review at the May 13, 2020 Council meeting.

Mayor Janakovic thanked Mr. Goldfield for his help. Mr. Goldfield commented, even though many hours had gone into the project thus far, "we're at the beginning stage." The GJWA had not formalized its asset purchase agreement offer. He further discussed this stage of the project. Mr. Goldfield explained he was retained by the Commonwealth of Pennsylvania and being paid by the coordinator for services rendered. GJWA had retained its own Counsel. The only professional that the City was "on the hook for" was the McNeese Wallace group that it retained several months ago with \$25,000 of that fee being paid by the Commonwealth and then the balance from the proceeds of the sale.

Mr. Trant opened the discussion for any additional questions and comments by City Councilmembers. Mr. Arnone commended Mr. Goldfield and suggested the terms of the agreement be posted on the building for public input in a way that would have to be determined.

Mr. Capriotti inquired of Mr. Goldfield as to what would occur going forward. Mr. Goldfield explained the GJWA would have to borrow bond money for the sale on a tax-exempt basis. He noted the instability of the stock market. He stated the buyer would be getting prepared to access the municipal bond market, so if the GJWA Board and Counsel approved the asset purchase agreement and price, an agreement of sale would follow. Mr. Goldfield was worried that "if the Coronavirus results in us not getting into person to person meetings," the Authority gets through the process, the bond market stabilizes, the interest rates come down to a place "where they can hit the target," and if the City decided, well, we have not yet had a person-to-person hearing and wanted to wait, then it risks interest rates going up, which would be an out provision for the Greater Johnstown Water Authority to walk away from the deal.

He noted, when the City returns to normal and the conditions noted above are met, the sale could be completed within this calendar year. There was further discussion regarding bond ratings as it pertained to the sale.

ADJOURNMENT

There being no further business, the Public Work Session was concluded at 8:04 p.m.