

Questions and Answers for the Week of June 8, 2020

Q: The City and the Coordinator under the Act 47 Program have evidently determined that the Sewer Collection System is the most valuable asset the City has at this time. Why would the City sell its most valuable asset?

A: While the sewer system is a valuable asset, the City is not allowed under Pennsylvania law to use any of the revenues for general government purposes. The revenue must be used for repair and improvement of the sewer system. The only revenue the City is currently receiving is reimbursement of its costs for operating and maintaining the system, which is approximately \$490,000 per year.

By selling the sewer system, the City will be able to use proceeds of the sale to pay down the unfunded pension debt of the City. The deposit to the pension fund is assumed to earn an approximately 7 percent return over the long run. This will in turn result in producing over \$2 million per year in extra General Fund monies because the City will not be required to fund the pension to the degree that it does now. This extra \$2 million is expected to be available every year going forward for the City to use for essential government services.

So, another way of looking at the proposed sale of the Sewer Collection System is, "Would you rather have \$490,000 per year for sewer purposes only, or approximately \$2 million per year reduction in expenses every year for capital improvements, blight reduction and building capacity in City Hall in order to enhance the City's ability to provide essential government services to all of the people of Johnstown?"

Q: There is a three-year freeze on sewer collection rates in the Asset Purchase Agreement. What will happen to rates after the freeze expires?

A: It is the current intention of the Greater Johnstown Water Authority to keep rates at the current \$55 a month for 6,000 gallons of water, for as long as possible. It is difficult to know how many years past the three-year rate freeze this will be possible at this time. The answer is going to be driven by: i. whether the property owners in the City of Johnstown pressure test and remediate their laterals in sufficient time to avoid fines being imposed by the Pennsylvania Department of Environmental Protection (these fines start at \$10,000 per month and increase thereafter) and ii. How much additional capital expense is going to need to be incurred at the end of the current sewer project to enable the City Collection System and the JRA Treatment Facility to satisfy the DEP Consent Orders?

It is in the GJWA's economic interest to keep rates as low as possible for a variety of reasons. Of note, the average water bill in Pennsylvania is over \$50 per month. The average residential water bill in the GJWA's system is \$32.63. The board of directors at the GJWA is always concerned with providing the best service at the lowest cost possible. This effort is evident by comparing the state average and the GJWA average. The same principle would be applied to the sewer rates.

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Q: Is the Greater Johnstown Water Authority authorized under Pennsylvania Law to amend its Articles of Incorporation (also commonly referred to as its Charter), to expand its purposes to include acquiring, owning and operating sanitary sewer facilities?

A: Yes. Section 5605 of the Municipality Authorities Act (“MAA”) provides that a Municipal Authority (i.e. GJWA) may amend its articles of incorporation to change, add to, or diminish its powers or purposes or to set forth different or additional powers or purposes after adoption of a resolution by the Board of the Authority and adoption of the proposed amendment by the governing bodies of the municipalities composing the Authority. Moreover, the MAA, §5607, provides that one of the authorized purposes of a Pennsylvania municipal authority is to acquire, hold, construct, finance, improve, maintain and operate, own and lease sewers or sewer systems. Articles of Amendment are expected to be filed with the Secretary of State upon adoption of the proposed amendment by the governing bodies of the municipalities composing the Authority.