

JOHNSTOWN CITY COUNCIL
PUBLIC HEARING MINUTES
Wednesday, June 3, 2020

City Council met in a stated session for the general transaction of business. Mayor Frank Janakovic called the Public Hearing to order at 6:03 p.m. to discuss the proposed sewage sale.

The following members of Council were present for roll call:

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

John Trant, Interim City Manager, was present. Steven Goldfield, Financial Advisor; Kathy Pape, McNees, Wallace and Nurick; Deborah Grass, Act 47 Coordinator; Bruce Graham, Gibson Thomas Engineering; and Elizabeth Benjamin, Esquire, City Solicitor, were present via videoconference.

Opening Remarks by Mayor Janakovic

Mayor Frank Janakovic commented that this public hearing would be an opportunity to listen to questions and comments regarding the proposed sale of the City's sewer collection system to the Greater Johnstown Water Authority. He provided a brief history of the City's financial distress since 1993. He also noted, over the next 25 years, the City continued to experience deficits resulting in continued reduction of staffing and services.

Mayor Janakovic stated, by 2017, the City was operating under an amended Recovery Plan but deficits continued to occur, including approximately \$25 million of unfunded pension liability. In order to address these deficits, the 2017 recovery plan required evaluation of City assets, including the golf course, parking garages, the Convention Center, the sewer conveyance system, and the Point Stadium. The City's exit plan required the disposition of these assets for its successful exit from Act 47.

Why the Coordinator believes the sale is important for the City

Deborah Grass, Act 47 Coordinator, explained why the sale was important for the City. She provided a history of the City's financial problems. She indicated no matter what action the City took, it still had a \$1 million gap in the operating budget as the pension liabilities kept growing leaving less money available for operations including police, fire, public works, and other services.

Ms. Grass noted the amended plan called for a target exit date of October 2021. As part of that plan, the City was required to look at capital assets to

see if there was a potential to address the pension liability. She discussed addressing the matter and what would be done going forward, which led to the proposed sale of the City's sewage collection to the GJWA.

Some Events Leading Up To Tonight's Hearing

Steven Goldfield, Senior Counselor at Public Resources Advisory Group and Principal of Municipal Advisor Solutions, LLC, discussed the recent events which led up to tonight's public hearing.

Mr. Goldfield stated, at the beginning of 2019, the City received unsolicited proposals from investors and utilities interested in buying the system. The City met with JRA and a series of internal meetings were held to discuss such a transaction and policy issues. A structure or term sheet was developed of what the City would be willing to discuss with potential buyers. He noted this term sheet was shared with potential purchasers, and it was determined there was a sufficient amount of interest to pursue a transaction

Mr. Goldfield noted, at this point, it was recommended Council retain the services of a law firm experienced with utility transactions and he was instructed to send out information to those law firms with reputations for doing transactional work representing the best interest of cities. He stated, late in 2019, McNees Wallace was awarded the legal work at Council's first public meeting in January of 2020.

Continued discussions with JRA led to an expression of interest by the Greater Johnstown Water Authority (GJWA). In February of 2020, Council delegated authority to the Interim City Manager and Mayor to negotiate terms on behalf of the City, which would be brought back to Council for discussion. An asset purchase agreement was developed, and negotiations began. Once the terms became solidified, a cash offer of \$24 million was made with GJWA, assuming all PennVEST debt related to the sewer project, \$63 million of debt the City would no longer be liable for and an additional \$15 million for the Central Business District project. Mr. Goldfield also noted the GJWA agreed to assume the liability related to the DEP Consent Order.

The GJWA then voted at a public meeting in April to make a formal offer to the City. Council held informational sessions to discuss the terms of the contract, as well as public workshops in April and at the May 13, 2020 regular meeting. Council has currently been reviewing questions by the public.

Ground Rules

John Trant, Interim City Manager, explained this would be the first of two public hearings scheduled for public input and further questions regarding the sewer deal. He noted, at the June 10, 2020 regular Council meeting, the sewer team would update Council on the sewer deal and would respond to additional questions that may be asked during the hearing tonight.

Mr. Trant further explained, on June 23, 2020, there would be a second public hearing or a second time for the public to ask additional questions and provide comments, which would be followed by a special meeting during which Council would consider the ordinance for the sewer deal agreement.

Mr. Trant reviewed additional ground rules for the public hearings.

At this public hearing, Mr. Trant and Mr. Goldfield would provide answers to questions submitted up to 3:00 p.m. this date either in writing or via email, which the sewer team reviewed and provided answers.

The first question read as follows: If the City sells the sewer collection system, what would happen to our sewer rates; Will I still be required to get my lateral pressure tested and what will it cost if we fail the test; Will I be permitted to use the slip line or pipe burst technique if my lateral does not pass; Are there any grant or low interest loan programs available to help me pay for the lateral replacement if my lateral fails the pressure test?

Kathy Pape, Esquire, McNeese, Wallace and Nurick responded by indicating the rates in existence now, the \$55 per month for 6,000 gallons of water, will be in existence for the next three years starting when the transaction closes. She noted two exceptions, one being a covenant default on the part of the GJWA, which could increase the rate but only up to the point needed to eliminate that covenant default. The second exception would be for surcharges which Ms. Pape noted has to do with charges related to pressure testing, that if laterals are not tested a \$25 a month surcharge may be imposed.

She discussed programs available to help the homeowner cover the cost, including a low interest rate loan program through the JRA and subsidies provided by the City. She offered further explanation of each available program. Ms. Pape indicated the property owners will have a 12-month period from the time notice is received to bring their lateral into compliance, have it pass the pressure test and review the two programs that can significantly reduce the cost of bringing their lateral into compliance.

Mr. Goldfield added the period to bring laterals into compliance is 12 months with an additional 3-month grace period or a total of 15 months to come into compliance. Additionally, Mr. Goldfield indicated that the City's program includes a \$1,000 grant for low-income property owners. He noted the City might offer additional subsidies, which it will discuss at a future public meeting.

The second question read as follows: Who are the City's advisors and how much has the City been paying its professionals for work on the proposed transaction?

Mr. Goldfield noted it was posted early on who the City's advisors are but for those who do not visit the website, Mr. Goldfield introduced himself as one of the advisors retained by the City in 2018 to help with the assessment of the assets, in particular, the sewer assets. He provided a background of his employment history and stated that his work solely encompasses representing municipalities. Mr. Goldfield explained his fees are paid by the City, which is reimbursed by the Commonwealth of Pennsylvania through a grant.

Ms. Pape introduced herself and provided a background of her employment history. She indicated that she has been on the buying side and the selling side of sewer transactions over the last 40-some years. She noted her law firm, McNees, Wallace and Nurick, was also being paid through the DCED grant.

Mr. Goldfield added that there would be professional fees paid out of closing proceeds of the transaction, but a majority of the fees was being paid outside of the City's proceeds. He indicated the GJWA was paying for its own Counsel, its own bond Counsel, its own underwriter, its own underwriter's Counsel, and its own trustee. Mr. Goldfield added further the fees being paid out of closing would be lower than what he had experienced previously.

Bruce Graham, Gibson Thomas Engineering, introduced himself and provided a background of his employment history. He noted one of the roles of his firm is to ensure that DEP sewage lateral requirements are met.

The third questions read as follows: Will there be a change in the requirement to retest every house each time the house is sold?

Mr. Goldfield explained he could not answer this question directly as it would be something decided if there was not a sale by City Council at a future date. However, if there were a sale, it would be something that would be taken into consideration by the GJWA.

The fourth question read as follows: Can smoke tests be used instead of pressure tests?

Mr. Graham explained the pressure test is one of the few ways to test the lateral and verify that there are no leaks in the pipe and confirms that it was solid pressure and not susceptible to infiltration.

The fifth question read as follows: How will the sale benefit the City as a whole; Why is it important at this time; What other options were reviewed?

Deborah Grass, Act 47 Coordinator, explained that the ability to receive the \$25 million at the closing of this sale would allow the City to pay down its unfunded pension liability and thereby reduce its annual pension obligation from \$3.8 million to approximately \$900,000 at which point the yearly state aid received from the Commonwealth would cover the pension obligation. The \$2 million to \$2.5 million available to the City on an annual basis could help to pay for public safety, public works, parks and other departments and give the City the ability to have a longer term sustainability to be able to develop cash reserves to improve the quality of life for the City's residents.

Ms. Grass commented that once the City exits Act 47 status it will lose approximately \$900,000 revenue received from the local service tax.

The sixth question read as follows: At any potential closing, will the GJWA be authorized under the Municipal Authorities Act to acquire and operate the sewer system?

Ms. Pape referred to provisions in the Municipal Authorities Act for further discussion. She explained the GJWA will be amending its Articles of Incorporation and read into the record Section 5605 of the Act regarding amendment of articles as follows: An authority may amend its articles of incorporation for the following reasons, number three, to change, add or diminish its powers or purposes or to set forth different or additional powers or purposes. Ms. Pape explained further, Section 5607 of the Act addresses purposes and powers, and read a portion of that section into the record as follows: Every authority incorporated under this chapter shall be a body corporate and politic and shall be for the purposes of acquiring, holding, constructing, financing, improving, maintaining and operating, owning or leasing, projects of the following kind and character. One of them is sewers, sewer systems or parts thereof.

Ms. Pape noted Section 5612 is an amendment to the Municipal Authorities Act passed in 2012, which prohibits how municipal authorities spend cash,

and Section 5612(a)(1) makes it clear that a municipal authority can only use its funds for purposes that relate to its mission or its purpose. She further noted this Section 5612 amendment was intended to stop the flow of funds from an authority to a municipality, unless those funds were used for the mission of the authority.

Mr. Goldfield noted that answers to questions received from former Councilman Williams are posted on the City's website.

Public Comment

Interim City Manager Trant reminded callers of the ground rules to ask questions or offer public comments.

John DeBartola, 1197 Bedford Street, Johnstown, noted his objection to this virtual meeting and commented that three Councilmembers were not wearing masks. He thanked Ms. Pape for responding to his question regarding the Municipal Authorities Act. He questioned how the GJWA could amend their charter when the word sewage was never used in their official charter. He commented the sale to the GJWA is a "horrible mistake" and other options should be explored. He expressed other concerns regarding the sale of the sewer collection system.

Curtis Davis, 345 Main Street, Johnstown, was concerned, if after the three-year period is over, if the City has a cap on the increase and would the same cap carry over if there were an increase by the GJWA.

ADJOURNMENT

There being no further business, the Public Hearing concluded at 6:55 p.m.