WATER AND SEWER LEASE
ALLENTOWN, PENNSYLVANIA
JULY 2012-AUGUST 2013

SUMMARY: Allentown faced a rapidly rising unfunded pension liability. By 2015, pensions costs were projected to capture 30-33% of the total budget and produce a significant budget shortfall. The city will use upfront funds to eliminate the entire unfunded pension liability and existing water and sewer debt. In addition, the city will receive approximately $33m of additional proceeds for other city services.

DELIVERY: Asset lease

WINNING BID: LCA increased final offer by 7% to $220m upfront and $500,000 annual payment

KEY TERMS:
- 50 year agreement
- City keeps ownership and oversight of system
- Performance standards
- LCA, customers, and City will share Capex costs
- LCA adopts union contracts

IMPACT:
- City reduces debt and pension without levy
- City’s annual net utility revenue declines from $10M to $0.5M
- City shifts risk and costs to private party
- Consumer rate increases: CPI+2-2.5%

Present value of asset: $170-$199m
Concession present value: $226m
Est. value created: $56-27m