

July 24, 2007

A special meeting of the East Cocalico Township Authority was held on Tuesday evening, July 24, 2007 at 7:00 p.m. at the Reamstown Fire Hall, East Church Street, Reamstown. The purpose of the meeting was to meet with property owners, developers and their representatives to provide an update on the Authority's search for new public water supply sources and the planning process for the construction of new wells and public water supply system improvements needed to convey or distribute the additional volume of water, and the anticipated financial impact to existing and future East Cocalico Township Authority customers. The meeting was duly advertised.

Those in attendance were as follows:

Members: S. Eugene Heft, Linda Walmer, Daniel Becker, Scott Lied, Donald Jones, Harold Noll, Donald Lewis, Raymond Wolf, Eric Fichthorn
Solicitor: Lucy F. Dowd, Appel & Yost
Engineer: Russell MacNair, Randall Henne, George Wagner, Camp Dresser & McKee
Manager: Karen Koncle
Employees: Kenneth Spitler, Larry Sweigart, Judith Null, Denise Griffin, Jane Rathman
Visitors: Please see attached Sign-in Sheet

East Cocalico Township Authority (ECTA) Chairman Eugene Heft called the meeting to order. Mr. Heft welcomed everyone and thanked them for attending this evening. He then introduced ECTA Board members, Solicitor, Engineers and employees and then turned the meeting over to Water Committee Chairman, Daniel Becker.

Dan noted that he has been on the ECTA Board for 13 years, and the Board has been dealing with water capacity issues for those entire 13 years. The Board has spent hundreds and hundreds of volunteer hours trying to find water supply sources for this community, as well as the region. The Board is charged with providing public water and sewer service to the urban growth boundary and the regional comprehensive plan, and a lot of the growth pressure is pushed toward East Cocalico, away from West Cocalico which is geared more toward a rural area. After all this time ECTA was fortunate to find two viable water supply sources. Those water supply sources will hopefully take us out a 20-25 year planning time period and accommodate the water needs in that time period.

Dan said he felt it was important to note the Board is made up of volunteers and they tried to do their best to try to find solutions for water issues without negatively impacting current customers, while still being fair to future customers and developers. Dan then turned the meeting over to the Authority's engineering firm, Camp Dresser & McKee (CDM). After CDM's presentation, Authority Solicitor, Lucy Dowd, will talk about the Agreement aspect of things, and then the floor will be opened for questions.

ENGINEERS' PRESENTATIONS:

At this time Randall Henne of CDM explained that he would be covering the Authority's current water situation, provide a brief overview of the water source exploration efforts, and then go over the projects necessary to meet the growth projections over the next 15-25 years in the township. Randy directed the audience to the exhibit provided and noted he would be relating to the exhibit throughout his presentation

WATER ISSUES: The Authority currently does not have water capacity available for new development although the system can adequately serve its existing customers and those with remaining capacity reservations. This equates to a usage of about 815,000 gallons per day. As Dan mentioned earlier, the Authority has been aggressively pursuing new additional water sources. In 1959 the Authority had two wells on their system, today there are 12 wells scattered throughout the township.

Prior to 2001 58 potential well sites were identified, 21 were drilled and 5 converted into production wells. From 2001 to the present 13 new well sites were identified, 4 drilled and 2 are being converted to production wells, Well F and Well M. The cost for this exploration over the past 7 years is between 1 to 2 million dollars.

The two new wells the Authority has developed are Wells F & M and are located in the southwest corner of the township. The wells are currently in the permitting process and require two permits, one from the Susquehanna River Basin Commission (SRBC) for withdrawal of the water from the basin, and the other from Department of Environmental Protection (DEP) for a public water supply permit. Approval has been received from the SRBC for both wells; Well M has an allocation of 1.395 MGD, Well F has an allocation of about 1.15 MGD. It is hoped that the Authority will receive DEP approval in the next month or two.

Randy mentioned that the Authority has 12 wells located in a certain geologic formation that only yields from 50 to 200 GPM. The Authority looked at areas close to the existing system and then moved further out until the two new sites were identified, Wells F & M. These two wells are in a different geology and are higher yielding wells, but will require treatment mainly for nitrates and turbidity.

Projects were broken out into three (3) Phases.

PHASE I: Projects are those that need to be done before any new connections will be permitted.

PHASE II: Projects that have to be done within two years of when Phase I improvements are completed.

PHASE III: Projects which are 5+ years after Phase I improvements, depending on how fast growth occurs.

PHASE I Projects:

1. Construction of a Water Treatment Plant: Randy explained that the Authority evaluated two alternatives for treatment, ion exchange and membrane filtration and selected the nanofiltration membrane filtration process because it provides a high degree of treatment, and in the future should there be other water quality issues and regulations, this method offers more treatment capability than the ion exchange process.
2. Water Main Extension: This extension is needed to get the water from the Water Treatment Plant into the distribution system.
3. Booster Station No. 1: The station will be located at the intersection of Rt. 272 and Church Street. This booster station is needed since most of the initial development is proposed in the northeastern part of the township and the water sources are located in the southwestern part of the township.
4. Upgrade of the Telemetry System: The current system will not be able to handle the additional sites and provide adequate communication and control for the additional projects.

PHASE II Projects: (within 1-2 years following Water Treatment Plant completion)

1. Elevated Storage Tank: Additional storage will be needed in the northeast part of the township to handle projected growth.
2. Booster Station No. 2: Addition of a new elevated storage tank will require another booster station to pump water into the new tank which will be installed at a higher elevation than existing tanks. The Authority is exploring potential sites for the tank and booster station.

PHASE III Projects: (within 5 years following Water Treatment Plant completion, determined by how rapidly growth occurs)

1. Raw water main extension from Well M to the Water Treatment Plant. Well M is initially going to be a backup water source to Well F until the withdrawal from Well F exceeds the capacity of the next largest existing well.
2. Expansion of the Water Treatment Plant: Expansion is needed to treat water from Well M when capacity of Well F is fully utilized.

At this point in the meeting Russell MacNair of CDM took the floor to explain the Water Allocation Procedure and Financial Planning. Mentioning Randy's presentation, Russ further explained the term "manageable yield," which represents the total water capacity that will be available for allocation. The Authority has established the manageable yield for Well F at 600 GPM or 864,000 GPD. It is anticipated that Well M will have a similar manageable yield, but will initially serve as a back-up supply for Well F.

The Authority's current water capacity allocation is 183 GPD per EDU (Equivalent Dwelling Unit). Based on the manageable yield of Well F, at 600 GPM, the number of available EDUs would be about 4,721.

Russ mentioned that Randy talked about the projects that will be necessary to utilize this water. The total estimated project cost associated with these capital projects is approximately \$12.2M. What the Authority has come up with, in addition to the tapping fee per EDU, is to impose a capital contribution. This number was arrived at by dividing the number of available EDUs into the total available capacity and that figure is \$2,585 per EDU.

Initial funding for the required water system will be from the following combination of sources:

- a. Capital contributions from the initial new connections to the water system.
- b. Water tapping fees from the initial new connections.
- c. A Bond Issue of about \$8.25M which will be paid from a combination of sources: Capital contributions, water tapping fees, user fees paid by new customers.

The Authority has established a threshold of 800 EDUs to begin the project. Once this minimum has been achieved, then the Authority will proceed with the projects.

Russ then referred those present to the spreadsheet provided which is broken down into four parts.

1. EDU Projection: a projection of new EDUs that will pay capital contributions, tapping fees and user fees associated with the new water allocation over the next 20 years. The Authority has also established that the capital contribution fee will increase by 3% per year beginning in 2009. Tapping fees and user fees have been held constant in the spreadsheet, however it is likely that these fees will increase over the years.

2. Income: This portion represents the anticipated annual income to be received from the new connections, including user fees, tapping fees, capital contribution income, as well as the initial bond issue funding in 2007 and interest earned.
3. Expenses: This portion includes an estimate of the anticipated additional costs associated with the operation and maintenance of the new treatment, conveyance and storage facilities. Expense also includes annual debt service payments for the Bond Issue which is figured on a 20-year Bond with an interest rate of 5%.
4. New Water Projects: This is a listing of all individual capital projects broken down by the year in which it is projected that funds will be expended. These costs include engineering, land acquisition, legal costs and construction.
5. Final two lines on the spreadsheet are the ending balance of each year and carryover to the following year. These lines show that a positive cash flow will be maintained throughout the 20-year life of the bond issue.

The Project Schedule begins when the Authority has sufficient commitment of the 800 EDUs. When this commitment has been confirmed, the Authority will proceed with bidding the initial capital projects and move forward with preliminary work on the bond issue.

It is believed that the construction estimates are conservative and it is hoped that the bids will come in within the estimates. However, should the actual bids exceed the estimates, the Authority will be forced to consider increasing the amount of the capital contribution per EDU and/or increasing the threshold number of EDU payments required to be paid before proceeding with the projects. It was Russ' feeling that the Authority would meet with those who made the initial contributions to discuss options and arrive at a mutually acceptable plan.

The actual schedule is dependent on the commitment of the required number of EDUs, plus the timing for the water treatment plant which is projected to be just over a year in construction. The best estimate at this point is that from the time ECTA receives commitment of the 800 EDUs until the water could be turned on, would be 18-20 months. This takes into consideration all preliminary work, all advertising, bond issue work, construction, etc.

SOLICITOR'S PRESENTATION: Authority Solicitor Lucy Dowd addressed the group relative to the "Agreement for Contribution to Capital Water Projects." It was explained that the Authority and professional staff generated a standardized Agreement that every new customer to the water system will be required to execute. Mrs. Dowd noted that for those who received an Agreement in the mail, a revised Agreement was available this evening. The document is a standard, straight-forward Agreement per the Authority's wishes. This revised Agreement provides for an up-front 25% deposit of the total Water Contribution upon execution of the Agreement by the Property Owner, with balance of the contribution dependent upon the Authority reaching the 800 EDU threshold.

The Agreement does require the receipt of the Authority's standard Capacity Review and Request Application and the projected build-out schedule of the project. The balance of the capital contribution would be required upon notification by the Authority.

Mrs. Dowd again stated that this is an agreement that will be used “across-the-board” for all customers.

At this time, Daniel Becker opened the floor for questions. He asked that questions be kept away from specific projects but to gear the questions toward tonight’s presentations. The Board will address specific questions after the meeting or at a separate meeting. Dan asked that each person asking a question state his/her name, address, who they are representing, property in question, etc.

QUESTIONS FROM THE FLOOR:

STEVE GRAYBILL, FOXCHASE: I was just wondering about Booster Station #1 at the corner of Church Street & Rt. 272, how large an area is that and when will the property be acquired?

Ans: Dan Becker answered that the land has been acquired, just north of the intersection of Rt. 272, just north of the Sunoco station. The Authority subdivided an existing residential property which extended from Oak Lane to Rt. 272, and carved a small, 7000 or 8000 sq. foot lot. These booster stations are very small, it’s not a huge facility. The footprint of the station is very small, and that has been secured by the Authority.

RICHARD HURST, PROPERTY IN STEVENS: How many lots does the Authority have that are requesting water, does the Authority have that number? I think it’s difficult for me to say that I’ll contribute so much. Wouldn’t it be more fair to say that I have 39 lots, someone else has 50 lots, and allocate a percentage of the lots being required.

Ans: Dan Becker answered by asking, how fast do you want your project to move forward? That would be up to you. It’s going to be evolving. I don’t think the Authority is going to get a consensus from everybody in the room on allocating based on percentage of their project. I think it’s going to come down to who wants to move their project forward the quickest, and who’s willing to step up to the plate initially and commit some financial contributions to the Authority. This Board has made the decision, and I will be perfectly blunt with this, we will not do any of this project until we have developer commitment. We will not burden the existing rate payers with any portion of this project above that 25% of the bond issue that will be used to finance improvements to the existing system.

LOUIS HURST: If ECTA gets a commitment of 1200, will the Authority then look at an allocation or will they take the 1200 and use the Bond?

Ans: Russ MacNair answered, if you look at the Cash Flow Projection on the spreadsheet, EDUs for Capital Projection, the 800 is only the first number. ECTA is dependent on, or are projecting that there will be many more EDUs of development, upward eventually toward that 4000 number. If we get 1200 in the beginning, as far as we’re concerned it’s all the better. We’re not going to be able to scale back the cost per EDU. It’s still going to be the \$2585, we’ll just have a little bigger pot to start with which is great. We’re hoping that if we just get 800, as we move ahead we’ll continue get more EDUs and more capital contributions. As I said before, the capital contributions will be in effect with the 20-year term of this Bond Issue and they are going to go up, by 3% per year.

Mr. Hurst’s second question: If we over-project on the number of EDUs we need, according to the letter, that will be lost money, there’s no refund or transfer back to the Authority. The way I understand that is, we lose the money if we project and pay for 300 EDUs but only use 200, we lose the 100.

Ans: Russ MacNair, I guess our thinking would be, and we're not developers so you have to understand that we don't fully appreciate where the question is coming from, but I guess our thinking would be that the developer would be fairly confident that that would be the number within a much smaller percentage of error like 5% or something like that. My personal feeling is that if you overshoot by a slight amount then the Authority would certainly be willing to work with you. But we want to be pretty confident that we have the 800 and the 800 was real before we move ahead. We obviously don't want to be in a situation where we have 800, and a year later 200 come back and say we really don't need that capacity. That's why we have to protect ourselves with the clause. Once we're rolling and the project is going well, I believe the Authority will work individually with those situations.

Dan Becker added that the way we see this working is, if developers come in and get 300 units on this property, because you're going to be breaking your project into phases, probably we would expect developers to come in and at least sign the Agreement for the initial phase of the project. Then if you're off by a few it really doesn't matter you can roll that into your second phase.

LES BEAR, FERRIS, BAKER, WATTS: Would the Township be guaranteeing the debt which would give the Authority a lower interest rate?

Ans: Eugene Heft, They have in the past. Donald Jones, The Township has to guarantee the debt.

JEFF ZIMMERMAN, AKRON: Has this proposal been submitted to the Township for a guarantee? Is the Township going to back it?

Ans: Dan Becker, The Township has been involved with what we're proposing to do. We did have Bond Counsel speak with the Supervisors and the Authority. Russ MacNair added, the formal approval wouldn't happen until very close to the Bond settlement date. I think there's a consensus there.

DERRYL HURST, RED SCHOOL/ROSE HILL: One thing I was concerned about is the amount of cash that we're looking at up front obviously. Has any provision been made for the idea of having a Letter of Credit in lieu of cash at the time of signing the Agreement?

Ans: Dan Becker answered, Yes. Eugene Heft agreed, yes, that is acceptable.

Derryl Hurst: And where do we stand relative to approval processes. Are we able to run everything through the approval process now, or is it based on putting the 25% down? How do we stand?

Ans: Dan Becker, we certainly understand that if you're willing to enter into the Agreement with the Authority, you need a capacity letter from ECTA to continue moving forward with the planning process. We need to understand the timing of projects, we physically will not have the water available until the water treatment facility is on line and Well F is developed.

Derryl Hurst: And my understanding is, construction begins upon receipt of 800 commitments.

Dan Becker: We bid the project upon receipt of 800 commitments.

Derryl Hurst: O.K., 18 to 19 months from receipt of 800 commitments, we can expect water.

JEFF ZIMMERMAN: And developers give the commitment of say, 200 EDUs if that's what they're looking for at the \$2585. Let's suppose down the road as this project moves forward, it's in motion, it's out for bids the first couple of projects come in good, let's suppose down the road the bids start escalating, are those EDUs locked in at that rate, or do.....

Ans: Dan Becker, Yes, once you pay for it you have it. We incorporated escalators into the construction cost estimating. I think we utilized 8% for construction costs moving forward. Once you have purchased it, it's yours.

Russ MacNair: Another thing, proportionately, the heaviest dollar value of construction will be in the initial phase. So before the decision, after the bids come in on the first phase, we'll have the majority of the project accounted for, the other pieces are smaller pieces.

MARK STANLEY, BENDERSON: You had indicated that upon execution of the Agreement the necessary capacity documentation must be provided. Just a clarification Lucy, your Agreement indicates an inconsistency between one document and the other. One says upon connection to the water system the reservations are to be paid, the Agreement talks in terms of payment of the reservation fee with capacity documentation. Can you clarify that?

Ans: Lucy Dowd, The revised document...it's upon payment of the balance that's when you get your capacity documents. `

Mark Stanley: You mean the balance of the contribution, not the reservation fees?

Lucy: Right, not the reservation fees..

Mark Stanley:the tapping fees

Lucy: Yes, the tapping fees are due upon execution of a User Reservation Agreement, that's another separate agreement. This would give you the capacity documents to proceed with your development and then the User Reservation Agreement would come down the road. Dan, do you want to address the User Reservation Agreement?

Dan Becker: Right that's the \$2585 that we're talking about. The remaining tapping fee would not be required up front.

Mark Stanley: I think you just need clarification.

DERRYL HURST: I have a question relative to this whole commitment up front. My observation is that the threat of the 3% potential increase is insufficient to get people to jump very quickly. Has the Authority considered the idea that if you are one of the initial 800, you would get a certain discounted rate, as soon as the 800 number is hit, it automatically jumps to a higher number? It seems to be logical to get people to make this thing happen, I think it's not properly balanced in that regard.

Ans. Dan Becker, The 3% is not a threat, we tried to look at this across the board to be as fair as we can to the people that commit up front, as well as the people that commit down the road. Therefore we did not discuss or consider any discount for the initial 800. We're hopeful that the development community is going to come together and make this project happen and we really did not consider any other discounts for the initial 800.

Derryl Hurst: Did I use the term threat? If I did I'm sorry, penalty would be a much better word in that obviously someone who has the money held in their hand for a longer period of time should pay the penalty or interest. I'm just curious about the mind set that wouldn't allow for some sort of discount for those people who are up-fronting the money. Can you comment on that possibility?

Dan Becker: My perspective, we beat this thing to death. We spent a lot of hours trying to come up with something fair and I feel that we have come up with something fair. However, I'm one voice on the Board, we can discuss it more at the Board level but I'm not interested in talking about discount for the initial 800.

Russ MacNair: One thing maybe to add is that if any of the bids come in, if any of the prices come in and they are a little bit higher but yet we still want to move ahead, one of the areas of flexibility may be that 3%, it's not locked in. It could easily be higher, it could easily be changed in time. I think it's the known versus the unknown as opposed to the discount versus the penalty as I would see it.

Don Jones: I don't think discounting is going to move the project further, faster. We still have all the bidding to do, all the permitting to do, so the process is going to be the same whether we full value or discount it. It really won't save time or get us there faster.

Eugene Heft: Plus I think the Board has had a lot of faith in the development community because they have been very patient through this process of ECTA developing water, and hopefully now that we have it you'd be just so anxious to get a hold of it to keep moving. We don't want to penalize you. If you want penalties, we can build penalties in, but we don't want to do that at this point.

Derryl Hurst: I was thinking more in terms of incentives.

ROBERT FIELD, MANOR GROUP, EAST COCALICO VILLAGE: If you want to quickly achieve 800 units, I think you may want to give thought to modifying No. 5, where it says, "Capital Contribution payments for new water capacity shall not be refundable." A lot of us are going through the process of approval and we have received reasonable encouragement and a long list of things that have to be achieved, and so I was thinking as I was driving out here today, that if there were, you need to know that people are seriously making a commitment and I fully appreciate that. On the other hand to say to people, well, if for some reason your plan doesn't get approved until 100% plus a half a million dollars you put up, that is a big impediment. It might, you may want to consider finding a mid-point where you would say, if you commit but if for some reason you don't move ahead and you don't get your approval, you'll get 90% of your money back, you'll get 85% of your money back. Something like that would keep the people from frivolously saying, oh yes, I'm going to take all these units, but on the other hand would enable your many developers, serious people who spend a lot of money for approval, not going through the approval process to deny them. Today it extends for a long period of time and many, many expenses so these people aren't just doing this as a pass-time, they're thinking of making a commitment, but it would encourage these people to step up early and I think you would quickly achieve a great number of units and all would be well. Thank you.

KEN McCREA, TOWNSHIP RESIDENT: Two questions, one is the new high capacity wells that are being added are in the high carbonate area, do you anticipate that that will increase the hardness of the water throughout the system?

Ans: Dan Becker, Softeners are being incorporated into the treatment.

Ken McCrea: Secondly, the roughly 4700 EDUs that you anticipate as capacity of the new wells, in your projections what ratio of that is going to be residential versus industrial/commercial? Do you have a feeling for that?

Ans: Dan Becker, That's a good question I don't think we do. We have a spreadsheet generated of all the properties within the urban growth boundary, but we didn't break down residential versus non-residential in terms of percentages. Obviously for non-residential properties that are zoned for commercial/industrial use we had to assign some numbers to them and we utilized engineering practice to come up with some projections.

Ken McCrea: Based on that can you give us a rough idea?

Ans: Randy Henne, We can't today, but we have flow projections based on the way the properties are zoned, that's how we came up with the projections, so we can provide that to you.

CHARLIE BOCK, PORCH & RAIL SHOPPES: I'm looking at capacity review and build-out schedules. If someone owns an existing piece of property in the Township and simply wants to add to their EDUs, but not necessarily utilize or immediately extend it, can they purchase some of them?

Ans: Dan Becker, Yes. We don't have the water to sell right now.

Charlie Bock: I understand that, but a property owner can't add a couple of EDUs to their existing property unless they plan to utilize the water?

Ans: Dan Becker, If you choose to purchase or enter into this Agreement or this arrangement with the Authority to protect your future interest or whatever, absolutely you can do that. You don't have to use it initially.

At this time Dan asked if there were any additional questions and hearing none, turned the meeting back to Chairman Eugene Heft.

Chairman Heft thanked everyone for their attendance this evening. Speaking for the Board, he said they were happy with the attendance, and happy that most of the questions could be answered, and will get back to those people who asked questions that still need answers that couldn't be answered this evening. He thanked everyone again for coming, and added that this meeting is something that the Board has been anticipating for a long time. Hopefully, this will be a cooperative process and the 800 EDUs are going to be grabbed up and the project will proceed.

He again thanked everyone on behalf of the Board.

