

JOHNSTOWN REDEVELOPMENT AUTHORITY  
WORKSHOP  
Monday, October 3, 2022

The Johnstown Redevelopment Authority met in a stated session for the general transaction of business. Monsignor Balta called the Workshop to order at 1:31 p.m.

The following members of the Authority were present:

Monsignor Balta, Mr. Haselrig, Mr. Pasquerilla, Mr. Truscillo (4).  
Absent: Ms. Huchel (1).

William Barbin, Esquire, Solicitor; Melissa Komar, Executive Director; Cheryl Labosky, Finance Director, were also present.

David M. Bulzoni and Adrienne M. Vicari, Herbert, Rowland and Gubic, Inc. presented before the Authority to provide a review of the results of the Fiscal Management Audit and Rate Study.

Mrs. Komar noted this discussion is the financial portion of the Rate Study and that in a few weeks HRG would be back to present overall numbers currently and into the future. Mr. Bulzoni would be presenting his opinion and factual information as presented to him based on what the Authority has provided for the last three years.

Mr. Bulzoni stated it's important to understand how a rating report works. He said the good news is the timing of the increase in hauling fees and that the bad news is the budget as adopted did not address concerns outlined in the rating report.

He noted the four principal components of a rating report are system characteristics, financial strength, management and legal provisions. Mr. Bulzoni discussed the trust indenture which is a legal document assigned to revenue-supported public issued data, and provisions it contains concerning compliance requirements. Any noncompliance would require discussion as to how the Authority would be able to bring those numbers back into compliance.

He stated the first section of the rating criteria is system characteristics and talked about the three different components which include the asset condition, system size and service area as well. Asset condition is based on net fixed assets divided by depreciation which would provide a result measured in years which in this case would be 38 years.

Mr. Barbin had questions regarding whether the number range given by Mr. Bulzoni was positive or negative. Mr. Bulzoni explained JRA is not outside of that

range "bad" because some of it is based on items that it can't control, value of assets divided by depreciation. Mr. Bulzoni explained what factors determine a rating.

With regard to system size, Mr. Bulzoni the Authority approximates the requirements of an A rating based on revenue and system size.

He stated financial characteristics determine placement and serve as a benchmark to create a foundation as to how the Authority is going to place in a rating. He commented that Johnstown does not compare favorably to both state and national averages with regard to demographics and median wealth in the service area. Adjustments to the report were discussed.

Mr. Bulzoni explained that with regard to financial strength, that financial criteria has a much more significant rate. He talked about total revenue being the "gray area", and that transfers from savings or investments may or may not be considered part of total revenue.

Ms. Vicari commented that a long term policy relative to how those revenues are handled and spent is critical as opposed to it being a potential decision of the Board.

Mr. Bulzoni noted that service coverage and how revenue is classified falls into days cash on hand and talked about its importance to the rating agency and how it determines the financial condition of the Authority. He had discussion about the operating ratio standard that is commonly used to evaluate revenue supported debt.

He commented that when looking at each of the financial components, debt service coverage becomes a critical aspect of the financial review.

Mr. Bulzoni had discussion regarding the importance of the two principal components of management evaluation including rate management and regulatory compliance and challenges they present. He commented that the legal provisions identified in the trust indenture are requirements for which the Authority must comply and build into the budget construction and approval process. Authority members had questions and comments.

Mr. Bulzoni pointed out where there were concerns by the rating agency regarding the financial report itself. and that was cash position or days cash on hand and the impact on the Authority.

He talked about the benefits of hiring a financial advisor to review the budget and the covenants. He noted the significant reduction or release of dollars from savings without having criteria for doing so is what caught the attention of the rating agency. The debt management policy, cash reserve policy and updated capital asset assessment were referred to for further discussion.

Mr. Bulzoni mentioned that the weight in the rating report came with the view of the issues with the 2022 budget as specifically mentioned which created the downgrade and not the actual results. He indicated it is important to point out to the rating agency what action was taken.

He stated that if the 2022 budget had performed as adopted it would have given some pause to the rating agency and that a financial advisor may have supported the Authority's discussion with the rating agency.

Mr. Bulzoni noted that adjustments would be made to the report based on information received.

He talked about the meaning of ratings pointing out that an A rated authority is considered strong, BB means the Authority would have been challenged in trying to issue debt publicly.

Ms. Vicari noted that final rate study recommendations would be provided which looks at different choices the Authority can make. There was further discussion regarding the bond ratings.

Ms. Vicari stated the Authority is at a point where it needs to make sure rates that are set meet the requirements of the trust indenture and would be automatically working towards replenishing operating reserves. Also, the Authority would need to look at what the rates need to be for the trust indenture and how that helps to get to some of the goals relative to restoring the rating.

The Workshop was adjourned at 2:56 p.m.