

City of Lancaster Statement No. [2PSH-1](#)
Docket No. R-2019-3010955
July 19, 2019

CITY OF LANCASTER – SEWER FUND

**DIRECT TESTIMONY
OF
PATRICK HOPKINS**

THE CITY OF LANCASTER

BEFORE THE PENNSYLVANIA PUBLIC UTILITY COMMISSION
RE: CITY OF LANCASTER – SEWER FUND
DOCKET NO. R-2019-3010955
DIRECT TESTIMONY OF PATRICK HOPKINS

1 **Q. 1. Please state your name and business address.**

2 A. 1. Patrick S. Hopkins and my business address is 120 North Duke Street,
3 P.O. Box 1599 Lancaster, PA 17608-1599.

4 **Q. 2. Have you ever testified in a Rate Case Proceeding before a Public**
5 **Utility Commission?**

6 A. 2. Yes.

7 **Q. 3. By whom are you employed?**

8 A. 3. I am employed by the City of Lancaster.

9 **Q. 4. In what capacity are you employed by the City of Lancaster?**

10 A. 4. I am the Business Administrator of the City of Lancaster.

11 **Q. 5. How long have you been employed by the City of Lancaster?**

12 A. 5. My initial appointment to the position of Business Administrator was
13 approved by the City Council on January 3, 2006. My reappointment
14 under a new City administration was approved by City Council on January
15 2, 2018.

16 **Q. 6. What other positions have you held with the City of Lancaster?**

17 A. 6. In July 1994 I was hired by the City of Lancaster as the Assistant to the
18 Mayor. I was later appointed as Acting Business Administrator and
19 remained in that position until January 1998.

20 **Q. 7. How long have you been in your current position?**

21 A. 7. I have been in my current position since January 2006.

22 **Q. 8. Please describe your duties and responsibilities.**

1 A. 8. As Business Administrator, I am responsible for oversight and direction of
2 the Bureaus of Accounting, Human Resources, Information Technology
3 and Procurement and Collections (Treasury). As the City's Chief Financial
4 Officer, I am responsible for the preparation and administration of the
5 City's annual operating budget, which includes the budget for the Sewer
6 Fund, as well as for the overall development and administration of the
7 City's Capital Improvement Plan which includes funding for Sewer Fund
8 capital projects.

9 **Q. 9. What is your educational background?**

10 A. 9. I earned a Bachelor of Arts Degree from Franklin and Marshall College in
11 1991, with a major in Government and minor coursework in Economics.

12 **Q. 10. What is the purpose of your direct testimony?**

13 A. 10. My testimony describes the City's financial organization and accounting
14 systems and also explains the City's responses to several of the filing
15 requirements, including its internal and independent audit processes,
16 major accounting changes, revenue accounting, Government Accounting
17 Standards Board Statement 45, 74 and 75, and certain elements of the
18 City's Sewer Fund balance sheet.

19 **Q. 11. Can you briefly describe how the City is organized from a financial
20 perspective?**

21 A. 11. The City's finances are segregated among fifty-four separate funds, each
22 of which is a separate fiscal entity. Of this total, forty-one are
23 miscellaneous grant and private purpose trust funds. There are thirteen
24 major operating funds including the General Fund, Stormwater
25 Management Enterprise Fund, Sewer Enterprise Fund, Water Enterprise
26 Fund, and the Solid Waste and Recycling Enterprise Fund. Additional
27 operating funds include the Capital Projects Fund, Liquid Fuels Fund,
28 Trust and Charities Fund, the Police, Fire and Non-Uniformed Employees

1 Pension Trust Funds, Community Development Block Grant Fund and the
2 Long's Park Commission Fund.

3
4 All Sewer system revenues flow through the Sewer Enterprise Fund
5 ("Sewer Fund"). The Sewer Fund also pays all of the direct operating and
6 maintenance expenses of the sewer system. Direct and indirect expenses
7 for services relating to the sewer system, which are provided by other City
8 departments, are paid for by the General Fund with reimbursement made
9 by the Sewer Fund to the General Fund based on an annual cost
10 allocation study performed by a firm contracted by the City of Lancaster.
11 These services include human resources, accounting, information
12 technology, billing and revenue collection and other administrative
13 services.

14
15 Capital improvements to the wastewater system are paid for through the
16 Sewer Fund. The Sewer Fund receives funds from the issuance of City of
17 Lancaster General Obligation Bonds (GO Bonds) and Notes guaranteed
18 by the full faith and taxing power of the City of Lancaster, loans provided
19 to the City by the Pennsylvania Infrastructure Investment Authority
20 (PennVEST), certain federal, state and local grants, and interest earned
21 on unexpended capital improvement funds. The proceeds and annual
22 debt service of City GO Bonds, and Notes, and PennVEST loans, are
23 allocated to the Sewer Fund based on the sewer system capital projects
24 that are being funded. Vendors and contractors are also paid for work
25 performed on capital improvements from the Sewer Fund.

26 **Q. 12. Can you briefly describe the accounting system Lancaster currently**
27 **uses to track its revenues and expenses?**

28 A. 12. The City of Lancaster General Fund operates on the modified accrual
29 basis of accounting. Revenues are considered to be available when they

1 are collected during the current period or soon enough thereafter,
2 generally 60 days, to pay liabilities for the current period. Expenditures
3 are generally recorded when a liability is incurred, as is done under the
4 accrual accounting method. Debt service payments, expenses related to
5 compensated absences, and claims and judgments are recorded only
6 when a payment is made. All of the City's enterprise funds (Stormwater
7 Management, Sewer, Water and Solid Waste and Recycling) are on a full
8 accrual basis.

9 **Q. 13. What are the internal and independent audit processes used by the**
10 **City to ensure the appropriateness of its financial accounting?**

11 A. 13. Internal controls include a defined separation of accounting duties within
12 the Bureau of Accounting to ensure no individual has the ability to record
13 inappropriate transactions, and to provide a check against the recording of
14 erroneous transactions. The accounting system used by the City has its
15 own controls which prevent any accounts payable from being processed
16 for payment unless funds are available in the line item or items being
17 charged. If a line item has been depleted and additional charges need to
18 be made against that line item, the department director, Business
19 Administrator and Chief Accountant must provide approval for a budget
20 transfer from another line item account in that department's budget in the
21 same fund.

22
23 The City's elected Controller also reviews and must approve all Purchase
24 Orders for purchases of \$3,000 or more. In accordance with Act 90 of
25 2011, all purchases or contracts for \$20,600 or more are made following a
26 public bidding process, with exceptions for purchases made through the
27 Commonwealth's COSTARS or other cooperative purchasing program that
28 includes a competitive bidding process.
29

1 The Bureau of Accounting performs bank reconciliations on a monthly
2 basis and reviews cash balances in the City's various accounts daily. At
3 the end of each fiscal year, Bureau of Accounting personnel prepare audit
4 work papers to be given to the City's independent auditor for review.
5

6 The City's current independent auditor, Maher Duessel, performs the
7 annual audit with field work typically in April and a final audit and financial
8 statement completion typically by July 31.

9 **OPEB – GASB Statements 45, 74 & 75**

10 **Q. 14. Have there been any major changes in accounting procedures since**
11 **the conclusion of the last rate filing, and are any such changes**
12 **anticipated?**

13 A. 14. Yes. Beginning with the fiscal year ending December 31, 2008, the City of
14 Lancaster implemented Government Accounting Standards Board
15 Statement 45 requirements relating to accounting for the City's liabilities
16 for other than pension post-employment benefits (OPEB). Pursuant to the
17 Commission's Final Order in the City's most recent Sewer rate case
18 (Docket No. R-2012-2310366), the City created an OPEB Trust Fund for
19 the City of Lancaster - Sewer Fund in April 2013. The City has been
20 funding this OPEB Trust Fund on a monthly basis with the funding amount
21 based on annual actuarial valuations prepared by the City's consulting
22 actuary (Conrad Siegel) in accordance with GASB 45. These annual
23 GASB 45 reports included a calculated Annual Required Contribution
24 (ARC) and the City has funded the jurisdictional portion of this annual ARC
25 as determined by the Cost of Service Study in the Sewer rate case cited
26 above. The GASB 45 actuarial valuation determined ARC figures were
27 used to calculate the Sewer OPEB Trust Fund contributions through
28 December 31, 2018.

1 GASB has more recently issued Statements 74 and 75 which have further
2 changed the accounting requirements for OPEB. Statements 74 and 75
3 were approved in June 2015 and replace Statement 45. Statement 74 was
4 effective for fiscal years beginning after June 15, 2016 (2017 for the City
5 of Lancaster). Statement 75 was effective for fiscal years beginning after
6 June 15, 2017 (2018 for the City of Lancaster).

7 With GASB 74 and 75 now effective as stated above, the actuarial
8 valuation reports created in compliance with these new standards no
9 longer contain a calculated Annual Required Contribution for use in
10 calculating the OPEB Trust Fund contributions. For the 2018 budget year,
11 the City used the "OPEB Expense" figure in the actuarial valuation report
12 prepared in accordance with GASB 74 to determine the monthly Sewer
13 OPEB Trust Fund contribution. For the 2019 budget year, the City used
14 the "OPEB Expense" figure in the actuarial valuation report prepared in
15 accordance with GASB 75 to determine the monthly Sewer OPEB Trust
16 Fund contribution.

17 For the 2020 and subsequent years' budgets, the City will receive a
18 calculation from its consulting actuary for the amount of the annual Sewer
19 OPEB Trust Fund contribution based on each years' GASB 75 actuarial
20 calculation. A copy of the letter from Conrad Siegel (City consulting
21 actuary) based on the GASB 75 actuarial valuation report as of 1/1/18 is
22 attached as Exhibit PSH-1.

23 **Q. 15. Are revenue accruing entries made on the books at the end of each**
24 **fiscal period? If so, were there entries for the future test year, and**
25 **were they reversed for ratemaking purposes?**

26 A. 15. All revenue accruing entries are made at the end of each fiscal year. No
27 revenue accruing entries were made for the future test year or the fully
28 projected future test year.

1 **Q. 16. The Commission's rate increase filing requirements include several**
2 **requests for information on special balance sheet items such as**
3 **deferred asset accounts, other deferred credits, and extraordinary**
4 **property losses. Has the City provided information on these special**
5 **accounts and where can such information be found?**

6 A. 16. There are no such balance sheet items included in the Sewer Fund
7 financial statements. All items are clearly described on the Balance Sheet
8 included in the Sewer Fund financial statements as of December 31, 2017
9 and December 31, 2018 which will be submitted when it is completed in
10 late July or early August 2019.

11 **Q. 17. Does the unique sharing relationship with the outside municipalities**
12 **for facility upgrades play a role in determining how costs and**
13 **expenses are allocated?**

14 A. 17. Yes. The City's Sewer Fund customer base is made up of three distinct
15 groups of customers: 1.) inside City (non-jurisdictional) direct-billed
16 customers; 2.) outside City (jurisdictional) direct-billed customers; and 3.)
17 outside City bulk customer municipalities/municipal authorities. The
18 Commission's jurisdiction applies only to the second group of customers,
19 i.e. outside City direct-billed customers. The third group is typically
20 referred to by the City as its Sewer system "Municipal Partners".

21 These Municipal Partners pay the City directly for bulk sewage treatment
22 services provided by the City and these partners in turn charge their
23 individual sewer customers based on rates approved by each
24 municipality/authority.

25 The City has agreements in place with the municipal partners that
26 describe, among other things, how capital investments in the system are
27 made and how the bulk rates for each municipal partner are determined.
28 There has been an ongoing disagreement between the City and two of its

1 bulk sewer customers about how the bulk sewer rate should be calculated.
2 These disagreements are in the process of being resolved through
3 amendments to the agreements, but it is important to note that any
4 funding shortfall resulting from these disagreements is borne solely by
5 non-jurisdictional inside City customers. Only costs associated with
6 providing sewer services to outside City jurisdictional customers are
7 included in the City's sewer rate filing with the Commission.

8 **Q. 18. Does this complete your direct testimony?**

9 A. 18. Yes, it does.