

**Application of Pennsylvania-American Water Company for Acquisition of
the Wastewater Assets of Royersford Borough
66 Pa. C.S. §1329
Application Filing Checklist – Water/Wastewater
Docket No. A-2020-3019634**

13. Seller Testimony:
- a. Provide seller direct testimony supporting the application, if any.
 - b. Provide seller UVE direct testimony.

RESPONSE:

- a. See enclosed the Direct Testimony of Michael A. Leonard, Borough Manager on behalf of the Royersford Borough, **RB Statement No. 1.**
- b. See enclosed the Direct Testimony of Harold Walker III, Manager – Financial Studies for Gannett Fleming Valuation and Rate on behalf of the Borough, **RB Statement No. 2.**

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

In re: Application of Pennsylvania-American Water :
Company under Section 1102(a) of the Pennsylvania :
Public Utility Code, 66 Pa C.S. § 1102(a), for approval :
of (1) the transfer, by sale, of substantially all of the :
Royersford Borough assets, properties and rights related : Docket No. A-2020-3014248, et al
to its wastewater collection and treatment system to :
Pennsylvania-American Water Company, and (2) the :
rights of Pennsylvania-American Water Company to :
begin to offer or furnish wastewater service to the :
public in the Royersford Borough and a portion of :
Upper Providence Township, Montgomery County, :
Pennsylvania :

**BOROUGH OF ROYERSFORD
STATEMENT NO. 1**

DIRECT TESTIMONY OF

MICHAEL A. LEONARD

BOROUGH MANAGER

BOROUGH OF ROYERSFORD

With Regard To

A General Overview of the Transaction

Royersford's Wastewater Collection and Treatment System and Operations

Benefits of the Proposed Transaction

Royersford's Rates

July 14, 2020

BOROUGH OF ROYERSFORD, MONTGOMERY COUNTY
DIRECT TESTIMONY OF MICHAEL A. LEONARD

1 **I. INTRODUCTION**

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

3 **A.** My name is Michael A. Leonard. My business address is 300 Main Street, Royersford,
4 PA 19468.

5
6 **Q. In what capacity are you affiliated with the Borough of Royersford?**

7 **A.** I am Borough Manager for the Borough of Royersford (the "Borough"). The Borough
8 Manager is hired by the Borough Council to direct the daily operations of the Borough.
9 The Manager coordinates and directs the work of the Borough departments, prepares an
10 annual budget for Council approval, and implements policy decisions of the Council.
11 The manager also develops long-range plans for Council review.

12
13 **Q. Please provide a brief description of your education and work experience.**

14 **A.** I attended Penn State University where I studied business management and law. I have
15 served as Borough Manager/Treasurer for the Borough since 2006. My job
16 responsibilities include the development of budgets and financial reports, overseeing all
17 Public Works, Sewer Department and Borough staff, managing all contracts for
18 equipment and property owned by the Borough, and working with Borough Council to
19 manage the day-to-day affairs of the Borough.

20 Prior to my current position, I served as Borough Manager/Treasurer for the Borough of
21 West Conshohocken from 2001-2006. I also previously served as Councilman (2000-
22 2001) and Mayor (1985-1997) for West Conshohocken.

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1 **Q. Have you testified before this Commission before?**

2 **A.** No.

3

4 **Q. On whose behalf are you testifying in this proceeding?**

5 **A.** My testimony is on behalf of the Borough and in support of the application of
6 Pennsylvania-American Water Company (“PA American Water”) to purchase the
7 Borough’s wastewater collection and treatment system (the “System”) in this proceeding.

8

9 **Q. What is the purposes of your direct testimony and summarize the key points.**

10 **A.** The purpose of my testimony is as follows: (1) to provide a description of the System,
11 (2) to describe the anticipated benefits of the sale of the System assets to PA American
12 Water under and in accordance with an Asset Purchase Agreement dated December 10,
13 2019 between the Borough and PA American Water (the “Proposed Transaction”), and
14 (3) to describe how Royersford sets its annual rates.

15 In particular, I will focus on the numerous benefits of the Proposed Transaction that
16 are most important to the Borough and the customers who use the System, including:

- 17 • Improving the Borough’s financial condition and outlook by increasing its reserve
18 fund balance considerably, providing it with the ability to mitigate against the risk of
19 revenue shortfalls, allowing it the flexibility to undertake necessary future non-
20 System related capital projects, enabling redevelopment, eliminating debt, and
21 potentially lowering the total cost of residency for residents through tax stabilization;
- 22 • Enabling the Borough to reallocate of its administration time to focus on other key
23 initiatives of the Borough;

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DIRECT TESTIMONY OF MICHAEL A. LEONARD

- 1 • PA American Water currently provides water service to Borough residents, which
2 provides synergies and economies of scale, including more efficient combined billing
3 processes and capital replacement planning and execution;
- 4 • The preservation of all jobs related to the System;
- 5 • Adding property to the Borough's property tax rolls through increased development
6 opportunities;
- 7 • Benefits from PA American Water's expertise, long-standing capital improvement
8 programs, and its experience in improving and correcting systems with compliance
9 issues;
- 10 • Borough residents will benefit from enhanced customer service and operational
11 functions through expanded customer service center hours, additional payment
12 options (including by phone or online), enhanced customer information and education
13 programs, access to PA American Water's customer assistance program, and PA
14 American Water's team of experienced water and wastewater professionals;
- 15 • PA American Water's capability to make long-term investments in necessary capital
16 improvements to the wastewater system, and specifically its commitment to
17 contribute at least \$1 million towards both water and wastewater infrastructure and
18 development projects;
- 19 • PA American Water's proven record of environmental stewardship for the operation
20 of wastewater systems; and
- 21 • Regulation of the service provided to Royersford's customers will fall under PUC
22 jurisdiction, which will ensure regulatory oversight, require approval for all rate
23 increases, and provide significant consumer protections.

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1 **Q. Are you sponsoring any Exhibits with your testimony?**

2 **A. No.**

3

4 **II. DESCRIPTION OF THE BOROUGH OF ROYERSFORD AND ITS**
5 **WASTEWATER SYSTEM**

6

7 **Q. Please provide a general overview of the Borough of Royersford.**

8 **A. The Borough was incorporated in 1879. It is located in Montgomery County,**
9 **Pennsylvania, north and west of the City of Philadelphia. The size of the entire Borough**
10 **is approximately 0.8 square miles. The Borough is governed by its mayor and seven-**
11 **member Borough Council. Presently, there are approximately 4,756 residents in the**
12 **Borough. According to the 2016 American Community Survey by the U.S. Bureau of the**
13 **Census, the Borough's median household income is \$57,415.**

14

15 **Q. Please provide a description of the Borough's wastewater system.**

16 **A. The Borough owns, operates and maintains the System, consisting of a sanitary**
17 **wastewater collection and conveyance system made up of approximately 14 miles of**
18 **gravity and force sewer mains, two pump stations (10th Avenue and Green Street), and**
19 **the Royersford Wastewater Treatment Plant (WWTP). The Borough owns and operates**
20 **both pump stations and the WWTP.**

21 The System serves approximately 1,600 customers. The System collects and
22 conveys sanitary wastewater from Borough residents, as well as 16 residents of Upper
23 Providence Township. In addition, the Borough has a sewer service agreement with
24 Limerick Township to receive and treat wastewater from a small portion of Limerick.

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1 The WWTP is permitted for .7 million gallons per day (MGD), and the permitted organic
2 capacity is 1,751 pounds per day. The 10th Avenue pump station is rated for 450 GPM
3 and Green Street pump station is rated for 350 GPM.
4

5 **Q. Please provide an overview of any compliance issues with the wastewater system**
6 **experienced by the Borough.**

7 **A.** The Borough currently has an Act 537 plan with DEP, which identifies and documents
8 the Borough's sewage disposal needs.

9 The Borough submitted a Corrective Action Plan ("CAP") to the Pennsylvania
10 Department of Environmental Protection ("DEP") for its System in 2005. The reason for
11 the CAP was hydraulic overload. Since that time, the Borough has sufficiently addressed
12 the issues giving rise to the CAP, and as a result, the DEP informed us on April 26, 2019
13 that the System was no longer experiencing any overload and no longer needed to be
14 under any Chapter 94 restrictions.
15

16 **III. SALE PROCESS**

17 **Q. Please describe the Borough's decision process in concluding that a sale of the**
18 **wastewater system was in the best interest of the Borough.**

19 **A.** The decision to sell the System was the result of deliberate consideration by the Borough,
20 its administration and our residents. We undertook a thorough process, along with
21 capable outside experts, to value the System, assess future costs of capital and revenue
22 requirements, evaluate the ongoing time commitments of Borough personnel to address
23 System issues, and carefully consider from various stakeholder points of view the

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1 numerous qualitative and quantitative factors that weigh in favor of or against the
2 Borough keeping the System. We weighed and balanced issues at numerous public
3 meetings and working sessions that addressed the Proposed Transaction.
4 Ultimately, the decision to sell resulted from three main considerations. First, the
5 Borough needed to address the fact that our System's infrastructure is aging and in need
6 of significant additional investment in the coming years. Due to this additional
7 investment, we projected that rates would increase significantly if the System remained
8 with the Borough. Second, the Borough wanted to exit the business of providing sanitary
9 sewer service and instead focus on its core governmental functions while still ensuring
10 that our residents would have safe and reliable service at affordable rates. Third, we
11 wanted to generate revenue that would help secure the Borough's financial stability in the
12 coming years.

13 After Council made the decision to sell the System based on these considerations,
14 we issued a Request for Qualifications and a Request for Bids. Once we reviewed the
15 responses, we determined that PA American Water submitted a bid that was in the best
16 interest of, and provided the greatest value to, the Borough and its residents, and accepted
17 that bid.

18
19 **Q. Did the Borough request public input on the sale?**

20 **A.** Yes, multiple public meetings were held in the Borough to receive input from residents
21 on the state of the System and the advantages and disadvantages of the potential sale.
22 The potential sale was discussed at a public Council meeting at every significant juncture
23 in the Proposed Transaction process, including prior to engaging PFM Financial Advisors

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1 LLC (“PFM”) as our consultant, prior to releasing the request for bid from qualified
2 firms, shortly after the bidding deadline occurred, and when Council unanimously chose
3 to accept PA American Water’s bid.

4 A full chronology of the Council meetings held regarding the potential sale is as follows:

- 5 • October 9, 2018: PFM gave an initial presentation to Council regarding a
6 potential sale;
- 7 • November 13, 2018: Council considered and passed a motion to retain PFM to
8 evaluate a potential sale;
- 9 • December 11, 2018: Council considered and passed a motion to enter into a
10 formal agreement with PFM;
- 11 • February 26, 2019: PFM gave another presentation to Council with its limited
12 scope valuation;
- 13 • March 12, 2019: Council considered and passed a motion to move forward with
14 PFM in furtherance of a potential sale;
- 15 • July 9 2019: The Borough’s solicitor gave an update regarding the sale process;
- 16 • August 13, 2019: After an update from PFM, Council considered and passed a
17 motion to release the request for bid for the sale of the sewer plant;
- 18 • October 8, 2019: The Borough’s solicitor gave an update regarding the sale
19 process and PFM’s attendance at the next Council meeting;
- 20 • November 12, 2019: After PFM presented to council regarding the bidding
21 process and bids received, Council considered and passed a motion to authorize
22 the Borough’s solicitor to prepare an ordinance/resolution accepting PA American
23 Water’s bid; and

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- 1 • December 10, 2019: Council voted to unanimously approve the sale at a regularly
2 scheduled public meeting.

3 •

4 **Q. Did the Borough Council hold a vote at a regularly scheduled public meeting on the**
5 **sale, following input from the Borough residents?**

6 **A.** Yes, the duly elected Borough Council decided that the Proposed Transaction was in the
7 best interests of the Borough. After numerous public meetings, as detailed above,
8 Council unanimously voted on November 12, 2019 to authorize the Borough’s solicitor
9 to prepare an ordinance/resolution to accept PA American Water’s bid. On December
10 10, 2019, after providing notice to Borough residents, including publication in The
11 Mercury (our local newspaper), Council voted to unanimously approve the sale at a
12 regularly scheduled public meeting.

14 **Q. Please describe the process that the Borough used to hire a Utility Valuation Expert**
15 **for the transaction.**

16 **A.** When Borough Council voted to unanimously approve the sale on December 10, 2019, it
17 also authorized me to seek proposals from and select a Utility Valuation Expert. On
18 January 16, 2020, the Borough received a proposal from Gannett Fleming Valuation and
19 Rate Consultants, LLC (“Gannett Fleming”), which was accepted after review and
20 consideration. Gannett Fleming is not affiliated with the Borough.

22 **IV. BENEFITS OF THE PROPOSED TRANSACTION**

23 **Q. Please describe the benefits of the Proposed Transaction for the Borough.**

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1 **A.** The Borough will benefit from the Proposed Transaction as it will transfer its wastewater
2 assets to a long-standing and well-run utility – PA American Water. I would like to
3 expand on three key benefits of the Proposed Transaction to the Borough and its
4 residents. The sale will (1) improve the Borough’s financial condition and outlook, (2)
5 enable the Borough to reallocate its administration time to focus on other key initiatives
6 of the Borough, and (3) provide for economies of scale given that PA American Water
7 already provides water service to Borough residents.

8 First, the Proposed Transaction will greatly improve the Borough’s financial
9 condition. Most notably, the proceeds of the sale will provide the Borough with a
10 significantly increased reserve fund balance. Currently, the Borough’s reserve fund is
11 approximately \$200,000. The proceeds of the Proposed Transaction would increase this
12 amount by \$9,800,000 – an amount that is more than three times the Borough’s typical
13 yearly revenue (approximately \$3.1 million). Not only will this provide the Borough
14 with great flexibility, but it also provides significant liquidity to allow the Borough to
15 weather any sort of emergency it may face. At the time the Proposed Transaction was
16 contemplated, such an emergency was purely theoretical. However, in these uncertain
17 times, and facing a pandemic, the need for liquidity in order to weather the storm is all
18 too real due to anticipated future revenue shortfalls. The sale of the System would be a
19 game changer in terms of providing the Borough with the security blanket that simply can
20 no longer be taken for granted. In the event that these funds can be allocated elsewhere,
21 they would help allow for redevelopment opportunities that would otherwise not be
22 attainable. This is significant given the limited development opportunities at present in

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1 the Borough. Moreover, this financial stability would help both eliminate debt and
2 mitigate against the risk of future revenue shortfalls.

3 Second, with respect to reallocating administrative time and expense, given the
4 time and economic impact on the Borough of dealing with the System, by reallocating
5 Borough administration time to focusing on other key initiatives of the Borough, the
6 Proposed Transaction will provide significant public benefits.

7 Finally, PA American Water already provides water service to Borough residents. My
8 understanding is that because of this, the Proposed Transaction will allow for synergies
9 and economies of scale, such as the fact that the water and wastewater operations in
10 Royersford will both be supported by common shared support services. These benefits
11 include more efficient combined billing processes and capital replacement planning and
12 execution.

13
14 **Q. Please describe any further benefits from the Proposed Transaction.**

15 **A.** The Borough will realize many additional benefits from the sale of its wastewater system
16 to PA American Water. These benefits include, but are not limited to, the following:

- 17 • The preservation of all jobs related to the System, a critical requirement for the
18 Borough;
- 19 • Adding property to the Borough's property tax rolls through increased development
20 opportunities;
- 21 • PA American Water can draw upon a broad range of engineering and operational
22 experience, as well as deeper financial resources than are available to the Borough,
23 to address the environmental compliance challenges of the wastewater system;

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- 1 • The Borough will benefit from PA American Water’s capital improvement
2 programs, and its experience in improving and correcting systems with compliance
3 issues.
- 4 • Borough residents will benefit from enhanced customer service and operational
5 functions through expanded customer service center hours, additional payment
6 options (including by phone or online), enhanced customer information and
7 education programs, access to PA American Water’s customer assistance program,
8 and PA American Water’s team of experienced water and wastewater professionals;
- 9 • PA American Water’s capability to make long-term investments in necessary capital
10 improvements to the wastewater system; and
- 11 • PA American Water’s proven record of environmental stewardship for the operation
12 of wastewater systems.

13

14 **Q. Do you believe that the Proposed Transaction provides affirmative public benefits**
15 **and is in the public interest?**

16 **A.** Yes. For the reasons set forth above, I believe that the Proposed Transaction provides
17 substantial affirmative public benefits and is in the public interest. I urge the
18 Commission to promptly approve the Proposed Transaction.

19

20 **V. RATES**

21 **Q. How does Royersford set the rates it charges customers for wastewater treatment**
22 **and collection?**

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1 **A.** Rates are governed by the Royersford Code, and are set by Borough Council by
2 ordinance after consideration of the costs of providing service. Any rate increases must
3 be approved by Borough Council through an ordinance.

4

5 **Q.** **How frequently does Royersford adjust rates?**

6 **A.** Rates have only been increased when necessary. Over the past decade, Royersford
7 adjusted rates four times: 2012 (increase to \$4.08 per 100 cubic feet of water consumed
8 with a minimum charge of \$77 per quarter), 2014 (increase of the minimum charge to
9 \$79 per quarter), 2015 (increase to \$4.20 per 100 cubic feet of water consumed with a
10 minimum charge of \$81.50 per quarter) and 2018 (increase of the minimum charge to
11 \$90 per quarter).

12

13 **VI.** **CONCLUSION**

14 **Q.** **Does this conclude your testimony?**

15 **A.** Yes, it does. However, I reserve the right to file additional testimony at a later date as
16 may be necessary or appropriate.

VERIFICATION

I, Michael A. Leonard hereby state that the facts above set forth above are true and correct to the best of my knowledge, information and belief, and that I expect to be able to prove the same at a hearing held in this matter. I understand that the statements made herein are made subject to the penalties of 18 Pa. Cons. Stat. §4904 relating to unsworn falsification to authorities.



Michael A. Leonard, Borough Manager
Royersford Borough

Dated: 7/1/20