

**Application of Pennsylvania-American Water Company for Acquisition of
the Wastewater Assets of Upper Pottsgrove Township
66 Pa. C.S. § 1329
Application Filing Checklist – Water/Wastewater
Docket No. A-2020-3021460**

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 Trace Slinkerd, Chairman, Board of Commissioners on behalf of Upper Pottsgrove Township, **UP Statement No. 1.**
- b. See enclosed the Direct Testimony of Harold Walker III, Manager – Financial Studies for Gannett Fleming on behalf of Upper Pottsgrove Township, **UP 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 Upper Pottsgrove Township's assets, properties and rights related to its wastewater collection and conveyance 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 Upper Pottsgrove Township, Montgomery County and a portion of Douglass Township, Berks County, Pennsylvania

Docket No. A-2020-3021460, *et al*

**TOWNSHIP OF UPPER POTTS GROVE
STATEMENT NO. 1**

**DIRECT TESTIMONY OF
TRACE SLINKERD**

**CHAIR OF THE BOARD OF COMMISSIONERS
UPPER POTTS GROVE TOWNSHIP**

With Regard To

A General Overview of the Transaction

Upper Pottsgrove's Wastewater Collection and Conveyance System and Operations

Benefits of the Proposed Transaction

November 24, 2020

TOWNSHIP OF UPPER POTTSBROVE, MONTGOMERY COUNTY
DIRECT TESTIMONY OF TRACE SLINKERD

1 **I. INTRODUCTION**

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

3 **A.** My name is Trace Slinkerd. My business address is 1409 Farmington Avenue, Pottstown,
4 PA 19464.

5

6 **Q. In what capacity are you affiliated with the Township of Upper Pottsgrove?**

7 **A.** I am the Chair of the Board of Commissioners (“Board”) for Upper Pottsgrove Township
8 (the “Township”). The Chair of the Board of Commissioners is selected by the Board to
9 run meetings and generally oversee the policy-making decisions of the Township.

10

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

12 **A.** Colonel US Army (Ret.), with extensive experience in executive level leadership, strategic
13 planning, operations, program management, and organizational solution development in
14 the military and federal government as well as in the finance and energy sectors. My last
15 military duty assignment was as Deputy Chief Management Officer and Director of
16 Program Management, the Joint Staff, Pentagon, Washington DC. My civilian roles
17 include Director, Constellation Energy, and Vice President JP Morgan Chase. I have a BS
18 in accounting from the University of Missouri, Columbia, MO; MA in organizational
19 design, USMA West Point; and an MS in Strategic Studies, US Army War College,
20 Carlisle, PA.

21

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

23 **A.** No.

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

A. My testimony is on behalf of the Township and in support of the application of Pennsylvania-American Water Company (“PAWC”) to purchase the Township’s wastewater collection and conveyance system (the “System”) in this proceeding.

Q. What is the purpose of your direct testimony? Please summarize the key points.

A. The purpose of my testimony is as follows: (1) to provide a description of the System, (2) to describe the anticipated benefits of the sale of the System assets to PAWC under and in accordance with an Asset Purchase Agreement dated April 28, 2020 between the Township and PAWC (the “Proposed Transaction”), and (3) to describe how the Township sets its annual rates.

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

- Improving the Township’s financial condition and outlook by paying down debt and funding unfunded pension liabilities which will provide budgetary relief;
- Allowing for the flexibility to undertake necessary future non-System related capital projects that will benefit residents of the Township;
- Enabling the Township to reallocate its administration time to focus on other key initiatives of the Township;
- Preserving all jobs related to the System;
- Mitigating increases of rates and charges to customers of the System;

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- 1 • Adding property to the Township’s property tax rolls through increased development
2 opportunities;
- 3 • Benefitting from PAWC’s expertise, long-standing capital improvement programs, and
4 its experience in improving and correcting systems with compliance issues;
- 5 • Benefitting from enhanced customer service and operational functions through
6 expanded customer service center hours, additional payment options (including by
7 phone or online), enhanced customer information and education programs, access to
8 PAWC’s customer assistance program, and PAWC’s team of experienced water and
9 wastewater professionals;
- 10 • Benefitting from PAWC’s capability to make long-term investments in necessary
11 capital improvements to the wastewater system.
- 12 • Benefitting from PAWC’s proven record of environmental stewardship for the
13 operation of wastewater systems; and
- 14 • Receiving the benefit of regulation by the PUC, which will ensure regulatory oversight,
15 require approval for all rate increases, and provide significant consumer protections.

16
17 **Q. Are you sponsoring any Exhibits with your testimony?**

18 **A. Yes, UPT Exhibit TS-1 as described later in my testimony.**

19
20 **II. DESCRIPTION OF THE TOWNSHIP AND ITS WASTEWATER SYSTEM**

21 **Q. Please provide a general overview of the Township.**

22 **A. The Township is located in Montgomery County, Pennsylvania, north and west of the City**
23 **of Philadelphia. The size of the entire Township is approximately 5.1 square miles. The**

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1 Township is governed by a five member Board of Commissioners. Presently, there are
2 approximately 5,739 residents in the Township. The Township's median household
3 income is approximately \$92,500.

4
5 **Q. Please provide a description of the Township's wastewater system.**

6 The Township owns, operates and maintains the System, consisting of a sanitary
7 wastewater collection and conveyance system made up of approximately 71,427 linear feet
8 of sewer mains, four pump stations, and approximately 480 manholes.

9 The System serves approximately 1,428 customers. The System's pipes range in
10 size from 8 to 18 inches and are primarily VCP and PVC in construction. The Township
11 is currently party to an agreement with the Pottstown Borough Authority ("PBA") under
12 which the Township's flow is transported to PBA's treatment plant where it is ultimately
13 treated.

14
15 **III. SALE PROCESS**

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

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

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1 Township keeping the System. We weighed and balanced issues at numerous public
2 meetings and working sessions that addressed the Proposed Transaction.

3 Ultimately, the decision to sell resulted from the following main considerations.
4 First, the Township wanted to exit the business of providing sanitary sewer service and
5 instead focus on its core governmental functions while still ensuring that our residents
6 would have safe and reliable service at affordable rates. Second, we wanted to generate
7 revenue that would help secure the Township's financial stability in the coming years.

8 After the Board made the decision to sell the System based on these considerations,
9 we issued a Request for Qualifications and a Request for Bids. Once we reviewed the
10 responses, we determined that PAWC submitted a bid that was in the best interest of, and
11 provided the greatest value to, the Township and its residents, and accepted that bid.

12
13 **Q. Did the Township request public input on the sale?**

14 **A.** Yes, multiple public meetings were held in the Township to receive input from residents
15 on the state of the System and the advantages and disadvantages of the potential sale. The
16 potential sale was discussed at various public meetings throughout the process including
17 monthly updates provided by PFM Advisors. The Township mailed a detailed letter to all
18 residential households describing our position and benefits to the community as well. The
19 letter is attached as **UPT Exhibit TS-1**.

20
21 **Q. Did the Township Board hold a vote at a regularly scheduled public meeting on the**
22 **sale, following input from the Township residents?**

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1 A. Yes, the duly elected Township Board decided that the Proposed Transaction was in the
2 best interests of the Township. After numerous public meetings, as detailed above, the
3 Board voted to authorize the Township’s solicitor to prepare an ordinance/resolution to
4 accept PAWC’s bid. On April 20, 2020, after providing notice to Township residents,
5 including publication in The Mercury (our local newspaper), Council voted to unanimously
6 approve the sale at a regularly scheduled public meeting.

7
8 **Q. Please describe the process that the Township used to hire a Utility Valuation Expert
9 for the Proposed Transaction.**

10 A. When Township Council voted to unanimously approve the sale on April 20, 2020, it also
11 authorized the appropriate Township officials to select a Utility Valuation Expert. On
12 August 19, 2020, the Township received a proposal from Gannett Fleming Valuation and
13 Rate Consultants, LLC (“Gannett Fleming”), which was accepted after review and
14 consideration. Gannett Fleming is not affiliated with the Township.

15
16 **IV. BENEFITS OF THE PROPOSED TRANSACTION**

17 **Q. Please describe the benefits of the Proposed Transaction for the Township.**

18 A. The Township will benefit from the Proposed Transaction as it will transfer its wastewater
19 assets to a long-standing and well-run utility – PAWC. I would like to expand on the key
20 benefits of the Proposed Transaction to the Township and its residents. The sale will (1)
21 improve the Township’s financial condition and outlook, (2) enable the Township to
22 reallocate its administration time to focus on other key initiatives of the Township.

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1 First, the Proposed Transaction will greatly improve the Township's financial
2 condition.

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

7 Lastly, as part of the sale process, the Township discussed with potential purchasers
8 its desire to reduce current rates to customers and required the successful bidder to adopt
9 those lower rates as were to be set forth in a new rate ordinance to be adopted prior to the
10 closing of the sale. The Township recognized the likely negative impact on the purchase
11 price of the System due to that requirement.

12
13 **Q. Please describe any further benefits from the Proposed Transaction.**

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

- 16 • Property will be added to the Township's property tax rolls through increased
17 development opportunities;
- 18 • PAWC can draw upon a broad range of engineering and operational experience, as
19 well as deeper financial resources than are available to the Township, to address the
20 environmental compliance challenges of the wastewater system;
- 21 • The Township will benefit from PAWC American Water's capital improvement
22 programs, and its experience in improving wastewater systems and correcting
23 potential future compliance issues that may arise;

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- 1 • Township residents will benefit from enhanced customer service and operational
2 functions through expanded customer service center hours, additional payment
3 options (including by phone or online), enhanced customer information and education
4 programs, access to PAWC's customer assistance program, and PAWC's team of
5 experienced water and wastewater professionals;
- 6 • PAWC has the capability to make long-term investments in necessary capital
7 improvements to the wastewater system; and
- 8 • PAWC has a proven record of environmental stewardship for the operation of
9 wastewater systems.

10
11 **Q. Do you believe that the Proposed Transaction provides affirmative public benefits**
12 **and is in the public interest?**

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

16
17 **V. RATES**

18 **Q. How does Upper Pottsgrove set the rates it charges customers for wastewater**
19 **treatment and collection?**

20 **A.** Rates are governed by the Township Code and are set by the Township Board by ordinance
21 after consideration of the costs of providing service. Any rate increases must be approved
22 by the Township Board through an ordinance. Rates have historically (and are currently)
23 billed using a flat dollar amount per month.

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1 **Q. How frequently does Upper Pottsgrove adjust rates?**

2 **A.** Rates have only been increased when necessary. Over the past two decades, the Township
3 adjusted rates four times: 2006 (increase to \$420 annually); 2008 (increase to \$720
4 annually); 2009 (increase to \$800 annually); and 2014 (increase to \$860 annually).

5

6 **VI. CONCLUSION**

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

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

Upper Pottsgrove Township
Board of Commissioners
Montgomery County, Pennsylvania

Residents,

In February 2019, the township began to explore the possibility of selling its sewer system to a public utility. The reason the Board of Commissioners wanted to consider this path was that a sale of the system would provide the necessary funds to solve the township's serious long-term financial challenges, provide residents with professional management, and eliminate the township's exposure to capital spending (cost of projects to extend sewer service) and capital risk (cost of major failures in the system).

The financial problems are a township debt of \$8,437,029.00 (principal and interest outstanding as of December 31, 2019), an unfunded pension liability of \$1,700,000.00, and a continuously weakening infrastructure with repair costs estimated at \$3,500,000.00-\$4,500,000.00 (the township buildings: police and public works; administration and fire). This, coupled with ever increasing personnel costs of 4% to 5% per year (salaries and benefits), presents the township with a grave financial outlook.

Selling the system to a public utility provides residents with expert system maintenance, engineering, and administration. This transfer of responsibility relieves the township of system risk (failure) and of providing system maintenance personnel.

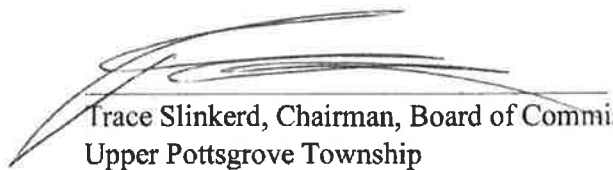
Through a year-long process of soliciting bids, Pennsylvania American Water came in as the highest bidder at \$13,750,000.00. This number meets the goal of eliminating debt, eliminating the pension liability and providing \$4,000,000.00 for the township's building infrastructure. Not only does the sale add the benefits of the above but Pennsylvania American Water will provide the capital funding for the township's planned sewer service extension projects as well. These projects include Regal Oaks (Phase IIb), Horseshoe and Bruce Drives, and Continental and Old Orchard Drives.

The primary concern of current and future residents with sewer service is how does this sale affect fees and fee rate increases. Currently, the township fee for sewer service is \$215.00 a quarter or \$860.00 a year (the highest in the area). In connection with the sale, the annual fee will be \$780.00 beginning January 1, 2021 through 2022 with projected fees to be \$813.00 for 2023. After that, projected increases will be based on service and capital costs as would the township's rate increases be if it kept the system. However, the Pennsylvania Utility Commission (PUC) must approve all Pennsylvania American Water increases whereas the township needs no such approval.

The Board of Commissioners has tentatively scheduled a vote on the sale for April 20th. The commissioners will hold question and answer sessions on the 8th, 14th, and 16th of April online. The instructions for these sessions are on the township website at <http://uptownship.org/index.php>. The township website lists email contact information as well. POC this letter: Michelle Reddick, Township Manager, manager@uptownship.org, (610)-323-8676, extension 201.

VERIFICATION

I, Trace Slinkerd 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).



Trace Slinkerd, Chairman, Board of Commissioners
Upper Pottsgrove Township

Dated: 17 Nov 20