
EXHIBIT W

TESTIMONY OF KURT M. FERGUSON

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TOWNSHIP OF LOWER MAKEFIELD, BUCKS COUNTY
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1 **I. INTRODUCTION**

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

3 A. My name is Kurt M. Ferguson. My business address is 1100 Edgewood Road, Yardley,
4 PA 19067.

5
6 **Q. In what capacity are you affiliated with the Township of Lower Makefield?**

7 A. I am the Township Manager for the Township of Lower Makefield (the “Township”).
8 The Township Manager is appointed by the Township’s Board of Supervisors to direct
9 the daily operations of the Township. The Manager is designated as the Chief
10 Administrative Officer of the Township and is responsible to the Board of Supervisors
11 for the proper administration of the affairs of the Township, the enforcement of the
12 Ordinances and other duties as delegated by the Board of Supervisors.

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

15 A. I attended the University of Pittsburgh, where I received a bachelor’s degree in political
16 science and urban studies and master’s degrees in public policy and management and
17 urban and regional planning. I have served as the Township Manager since July 2018.
18 My job responsibilities include, additionally, serving as the Finance Director. I oversee
19 the development of the Township annual budget, which amounts to over \$46,000,000,
20 and all aspects of our annual reporting. I oversee all day to day activities and am
21 responsible for all Township departments. I work to implement the policies of our
22 elected Board of Supervisors and coordinate with staff to bring the Board’s goals to
23 fruition. Prior to my current position, I served as Township Manager for the Newtown

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1 Township from 2012 to 2018, the Township Manager for the Hempfield Township from
2 2009 to 2012, and Borough Manager for the Borough of Edgewood 2002 to 2009.

3

4 **Q. Have you testified before the Pennsylvania Public Utility Commission (“PUC” or**
5 **the “Commission”) before?**

6 A. No.

7

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

9 A. My testimony is on behalf of the Township and in support of the application of Aqua
10 Pennsylvania Wastewater, Inc. (“Aqua”) to purchase the Township’s wastewater
11 collection and treatment system (the “System”) in this proceeding.

12

13 **Q. What is the purpose of your direct testimony and summarize the key points?**

14 A. The purpose of my testimony is as follows: (1) to provide a description of the System,
15 (2) to describe the anticipated benefits of the sale of the System assets to Aqua under and
16 in accordance with an Asset Purchase Agreement dated September 17, 2020 between the
17 Township and Aqua (the “Proposed Transaction”), and (3) to describe how Township
18 sets its annual rates.

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

- 22 • Benefits from Aqua’s expertise, long-standing capital improvement programs, and
23 its experience in improving and correcting systems with compliance issues;

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- 1 • Township residents will benefit from enhanced customer service and operational
2 functions through enhanced customer information and education programs, access
3 to Aqua’s customer assistance program, and Aqua’s team of experienced water
4 and wastewater professionals;
- 5 • Aqua’s capability to make long-term investments in necessary capital
6 improvements to the wastewater system;
- 7 • Aqua’s proven record of environmental stewardship for the operation of
8 wastewater systems;
- 9 • Regulation of the service provided to Township’s customers will fall under PUC
10 jurisdiction, which will ensure regulatory oversight, require approval for all rate
11 increases, and provide significant consumer protections;
- 12 • The Township’s sewer rate. With its limited 11,151 customer base, rates have
13 gone up considerably as the Township has moved to invest in its system. The rate
14 increase was 14.5% in 2018, 25% in 2019, and 37% in 2020. These rate increases
15 were necessary to meet the upgrades needed to maintain our system and to
16 comply with DEP mandates;
- 17 • The Township’s projected sewer rate. The Township has a significant portion of
18 its sewage treated by the Morrisville Municipal Authority. These treatment costs
19 are expected to increase in the future;
- 20 • The elimination of Debt. The Township as part of a sale would eliminate
21 \$27,279,762 in debt, saving \$4,078,312 by paying that debt off early. With a
22 sewer sale, our bond debt, principle and interest, will be \$9,060,000;

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- 1 • Restoring our fund balance. The Township’s financial condition created a
2 Moody’s downgrade with an ongoing negative outlook. That downgrade
3 happened because of our existing debt, estimated debt associated with the sewer
4 treatment plant, and diminishing fund balance. Moody’s, because of the sale, has
5 removed the negative outlook. Once we follow through with our debt reduction,
6 we will likely have our bond rating restored;
- 7 • The sale will allow the Township to proceed with other capital infrastructure costs
8 that have proved problematic in our current financial state and allow the
9 Township the opportunity to budget for those improvements on a year to year
10 basis and not solely contingent upon additional bond debt;
- 11 • Because the sale will create these significant economic benefits, the Township
12 will also be afforded the opportunity to add critical staff as well as reduce taxes
13 on our residents; and
- 14 • Enabling the Township to reallocate its administration time to focus on other key
15 initiatives of the Township.

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

18 A. No.

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

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

22 A. The Township of Makefield was founded in 1692. In 1737, Makefield was split into
23 Upper Makefield and Lower Makefield. The Township is located in Bucks County,

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1 Pennsylvania, north and east of the City of Philadelphia. The size of the entire Township
2 is approximately 18 square miles. The Township is governed by its five-member Board
3 of Supervisors. Presently, there are approximately 32,802 residents in the Township.
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 835,770 linear
8 feet of mains, approximately 3,891 manholes, 14 pump stations, associated infrastructure
9 and appurtenances, treatment rights and related land rights. The System's pump stations
10 are: Black Rock Road; Brookstone; Chanticleer; Clearview; Farmview; Fox Hill;
11 Heacock Road; Maplevale; Mill Road Estates; Oxford Glen/Yardley Oaks; Sherwood
12 Park; Silver Lake; Stackhouse Drive; and Yardley Estates.

13 The System provides service to approximately 11,151 customers in the Township.
14 In calendar year 2020, the System conveyed a total of 654,207,560 gallons of wastewater.

15 The System also utilizes the conveyance facilities of nearby authorities to
16 transport its wastewater for treatment. These include the Borough of Yardley, the Bucks
17 County Water and Sewer Authority, Middletown Township, and the Township of Falls
18 Authority. The System's sewage flows are treated at the Morrisville Borough
19 Wastewater Treatment Plant and the City of Philadelphia Northeast Water Pollution
20 Control Plant.
21

22 **Q. Please provide an overview of any compliance issues with the wastewater system**
23 **experienced by the Township.**

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1 A. The Township currently has an Act 537 plan with Pennsylvania Department of
2 Environmental Protection (“DEP”), which identifies and documents the Township’s
3 sewage disposal needs.

4 The Township submitted a Corrective Action Plan (“CAP”) to the DEP for its
5 System in November 2018. The CAP includes an Inflow and Infiltration (“I/I”)
6 abatement plan along with a Connection Management Plan, reviewed and approved by
7 the Bucks County Water and Sewer Authority (“BCWSA”) and the DEP in 2015, to
8 further monitor the connections which occur within the System’s Neshaminy Interceptor
9 Service Area.

10

11 **III. SALE PROCESS**

12 **Q. Please describe the Township’s decision process in concluding that a sale of the**
13 **wastewater system was in the best interest of the Township.**

14 A. The decision to sell the System was the result of deliberate consideration by the
15 Township, its administration and our residents. Beginning in April 2019, we undertook a
16 thorough process, along with capable outside experts, to value the System, assess future
17 costs of capital and revenue requirements, evaluate the ongoing time commitments of
18 Township personnel to address System issues, and carefully consider from various
19 stakeholder points of view the numerous qualitative and quantitative factors that weigh in
20 favor of or against the Township keeping the System. We weighed and balanced issues
21 at numerous public meetings and working sessions that addressed the Proposed
22 Transaction.

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1 Ultimately, the decision to sell resulted from three main considerations. First,
2 DEP mandates require that the Township continue to upgrade and maintain the System.
3 Second, the Township wanted to exit the business of providing sanitary sewer service and
4 instead focus on its core governmental functions while still ensuring that our residents
5 would have safe and reliable service at affordable rates. Third, we wanted to generate
6 revenue that would help secure the Township's fiscal position in the coming years.

7 After Board of Supervisors made the decision to sell the System based on these
8 considerations, we issued a Request for Qualifications and a Request for Bids. Once we
9 reviewed the responses, we determined that Aqua submitted a bid that was in the best
10 interest of, and provided the greatest value to, the Township and its residents, and
11 accepted that bid. Most notably, Aqua did not have the highest bid; however, the
12 Township selected Aqua at a lower purchase price in an attempt to maximize the benefit
13 to its residents.

14
15 **Q. Did the Township request public input on the sale?**

16 A. Yes. The deliberative process undertaken by the Township in deciding to sell the System
17 was public and involved multiple opportunities for public comment, including most
18 notably at the August 12, 2020 special meeting of the Township Board of Supervisors
19 dedicated solely to this issue (and which lasted approximately 5.5 hours).

20
21 **Q. Please describe the process by which the Township solicited bids for the System.**

22 A. On July 29, 2019, the Township released its Request for Qualifications, and received the
23 responses due on August 8, 2019. The Township held various management meetings and

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1 asset tours on August 27, 2019 and August 28, 2019. The Township also pre-qualified
2 bidders in late August. On May 5, 2020, the Township released its Request for Bid, and
3 received the responses on May 29, 2020. After receiving the bids, the Township Board
4 of Supervisors conducted a public meeting on June 17, 2020. At this meeting, the
5 Township Manager and its financial advisors presented to the Board and the public the
6 alternatives considered and the reasons for ultimately deciding to sell the System. The
7 Township received several questions and comments from the public at this meeting,
8 which the Township took into final discussions with the bidders to ensure the public's
9 questions and comments were adequately addressed. After careful consideration of the
10 bids and public participation, the Township decided that the sale was in the best interest
11 of the Township. As stated above, the Township held a special meeting to discuss the
12 sale of the System on August 12, 2020, where the Board ultimately voted to accept
13 Aqua's bid.

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

17 A. When Township Board of Supervisors voted to approve the sale on August 12, 2020, it
18 also authorized me to seek proposals from and select a Utility Valuation Expert. On
19 February 15, 2021, the Township received a proposal from AUS Consultants ("AUS"),
20 which was accepted on February 24, 2021, after review and consideration. AUS is not
21 affiliated with the Township.

22

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

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

3 A. The Township will benefit from the Proposed Transaction as it will transfer its
4 wastewater assets to a long-standing and well-run utility – Aqua.

5 There are three key benefits of the Proposed Transaction to the Township and its
6 residents. The sale will (1) generate revenue that would help secure the Township’s
7 fiscal position in the coming years, (2) enable the Township to reallocate its
8 administration time to focus on other key initiatives of the Township; and (3) while
9 increases are expected in the future due to increased costs, selling the system to Aqua will
10 provide a better opportunity to keep rates manageable while at the same time engaging an
11 industry expert to maintain and improve the System.

12 First, the Proposed Transaction will greatly improve the Township’s financial
13 condition and stabilize its financial health. The Township has considerable outstanding
14 debt, including debt related to the System and the Township’s golf course, and the sale
15 proceeds will provide the Township with the flexibility to pay down this debt. Moreover,
16 the proceeds of the sale will provide the Township with a significantly increased reserve
17 fund balance. Not only will this provide the Township with great flexibility and help to
18 restore its bond rating, but it also provides significant liquidity to allow the Township to
19 weather any sort of emergency it may face. In these uncertain times, and facing a
20 continuing pandemic, the need for liquidity in order to weather the storm is all too real
21 due to anticipated future revenue shortfalls. The sale of the System will provide the
22 Township with the security blanket that simply can no longer be taken for granted. In

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

3 Second, with respect to reallocating administrative time and expense, given the
4 time 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 Third, due to increased costs related to the System, we projected that wastewater
8 rates will increase in the coming years if no action is taken by the Township. After
9 considering all of the alternatives, we believe that the sale to Aqua provides the best
10 opportunity to keep rates manageable for customers while at the same time allowing an
11 industry expert to provide the maintenance work and updates that the System critically
12 needs.

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

15 A. The Township will realize many additional benefits from the sale of its wastewater
16 system to Aqua. These benefits include, but are not limited to, the following:

- 17
- 18 • Aqua 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 Aqua's capital improvement programs, and its
22 experience in improving and correcting systems with compliance issues.

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- 1 • Township residents will benefit from enhanced customer service and operational
2 functions through enhanced customer information and education programs, access to
3 Aqua’s customer assistance program, and Aqua’s team of experienced water and
4 wastewater professionals;
- 5 • Aqua’s capability to make long-term investments in necessary capital improvements
6 to the wastewater system;
- 7 • Aqua’s proven record of environmental stewardship for the operation of wastewater
8 systems; and
- 9 • Adding property to the Township’s property tax rolls through increased development
10 opportunities.

11

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

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

17

18 **V. RATES**

19 **Q. How does Township set the rates it charges customers for wastewater treatment and**
20 **collection?**

21 A. Rates are governed by the Township Code, and are set by the Township Board of
22 Supervisors by ordinance after consideration of the costs of providing service. Any rate
23 increases must be approved by the Township Board of Supervisors through a resolution.

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1

2 **Q. How frequently does Township adjust rates?**

3 A. Rates have only been increased when necessary. Over the past decade, the Township
4 adjusted rates three times: 2018 (increased rates by 14.5%), 2019 (increase rates by 25%),
5 and 2020 (increased rates by 37%).

6

7 **VI. CONCLUSION**

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

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