

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

In re: Application of Pennsylvania-American Water :
Company under Sections 1102(a) and 1329 of the :
Pennsylvania Public Utility Code, 66 Pa C.S. §§ 1102(a) :
and 1329, for approval of (1) the transfer, by sale, to :
Pennsylvania-American Water Company, of substantially : Docket Nos. A-2022-
all of the assets, properties and rights related to the : 3037047 *et al.*
wastewater collection and treatment system owned by the :
Butler Area Sewer Authority, (2) the rights of :
Pennsylvania-American Water Company to begin to offer :
or furnish wastewater service to the public in the City of :
Butler, portions of the Borough of East Butler, and :
portions of the Townships of Butler, Center, :
Connequenessing, Oakland and Summit, in Butler :
County, Pennsylvania :

TOWNSHIP OF BUTLER

STATEMENT NO. 1

**DIRECT TESTIMONY OF DAVE ZARNICK
PRESIDENT OF THE BOARD OF COMMISSIONERS
FOR THE TOWNSHIP OF BUTLER**

**With Regard To
Overview of the Township's Sale Process
Benefits of the Proposed Transaction for the Township**

February 14, 2023

1 **INTRODUCTION**

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

3 **A.**My name is Dave Zarnick. My business address is 290 South Duffy Road, Butler, PA
4 16001.

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

7 **A.**I am the President of the Board of Commissioners (the “BOC”) for the Township of
8 Butler (the “Township”). The Township jointly created the Butler Area Sewer Authority
9 (“BASA” or the “Authority”) with the City of Butler (the “City”) to operate the
10 wastewater collection and treatment system.

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

13 **A.**I graduated from Butler Area High School in 1972 and have lived in the Butler area for
14 my entire life. I am currently self-employed as a consultant for the steel industry, where I
15 advise steel manufacturers to ensure product control practices and engage with vendors
16 providing supplies and services to steel companies. Prior to working as a consultant, I
17 worked at AK Steel (formerly Armco) since 1973 – working up the ladder from a Steel
18 Worker as an initial hire, to Shift Supervisor, to Quality Coordinator, Environmental
19 Coordinator, and ultimately to Lead Supervisor.

20 I have served as a Commissioner on the Township BOC since 2008, and have
21 been President of the BOC since 2014. In my role on the BOC, I serve on the Executive
22 Committees for Allegheny County & Western Pennsylvania Association of Township

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1 Commissioners and the Pennsylvania State Association of Township Commissioners. I
2 also briefly served as President for both aforementioned associations.

3

4 **Q. Other than your professional experience, do you have any other experience in the**
5 **Butler community?**

6 **A.** Yes. I currently serve on the Butler County Recreation Board and I previously served on
7 the Butler Transit Authority Board. In addition, I often volunteer for “Meals on Wheels”
8 with the Butler Area School District and chaperone for the Butler Area High School on
9 field trips and the like.

10

11 **Q. Have you testified before the Pennsylvania Public Utility Commission**
12 **(“Commission”) before?**

13 **A.** No.

14

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

16 **A.** My testimony is on behalf of the Township, as a joint incorporator of the Authority, and
17 in support of the application of Pennsylvania-American Water Company (“Pennsylvania-
18 American” or the “Company”) to purchase all the assets of the wastewater collection,
19 treatment, and discharge system (the “System”) of BASA and begin to furnish
20 wastewater service to BASA customers in this proceeding (the “Proposed Transaction”).

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

2 **A.** The purpose of my testimony is to provide a brief overview of the sale process and
3 provide an overview of the various public benefits of the Proposed Transaction for the
4 Township.

5
6 **Q. Are you sponsoring any Exhibits with your testimony?**

7 **A.** No.

8
9 **I. DESCRIPTION OF THE TOWNSHIP**

10 **Q. Please provide a brief description of the Township.**

11 Initially subdivided into North and South Butler, the Township was incorporated in 1804
12 after Butler County was divided into 13 separate townships. In 1854, North and South
13 Butler were joined into one township within its present boundaries. Today, the Township
14 is a township of the first-class with a population of approximately 17,000. The Township
15 is governed by the BOC consisting of five members that are publicly elected. Pursuant to
16 the Township Code, the BOC appoints a Township Manager to oversee the day-to-day
17 operations of the Township and all its main departments (the Police Department, the
18 Zoning Department, the Public Works Department, and the Building and Grounds
19 Department). The Township Manager implements the policies and procedures
20 established by the BOC and works with Township employees to help bring the BOC's
21 goals to fruition.

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1 **Q. How is the Township’s financial condition?**

2 **A.** Financially, the Township is not in distress. However, the Township’s costs have
3 increased as we continue to weather the persistent effects related to the supply chain,
4 inflation, and workforce challenges stemming from the COVID-19 Pandemic. The BOC
5 unanimously approved the \$9.5 million budget for 2023 – a notable \$1.4 million increase
6 from the 2022 budget. At this point, we are able to afford this increase without raising
7 our residents’ tax rate; instead, we used approximately \$1 million in money transferred
8 from the Township’s capital reserve fund. The BOC aims to avoid raising our
9 constituents’ tax rate to the extent practicable, and the Township has achieved that goal
10 for 12 consecutive years. As we all are aware, the economy is unpredictable and
11 financial stability is not guaranteed – especially for our individual taxpayers as they also
12 weather inflation and economic challenges.

13
14 **II. OVERVIEW OF THE SALE PROCESS**

15 **Q. Please describe the Township’s decision to explore a sale of the System.**

16 **A.** While the Authority provides safe and reliable services to our residents, the aging System
17 needs significant investments to ensure that this safe and reliable service persists. As
18 such, the Township, the City, and the Authority’s Board Members worked together to
19 weigh the pros and cons of the Authority’s continued ownership. In short, we determined
20 that the substantial costs that will be necessary in the near future to keep the System up
21 and running efficiently were too great for the Authority to handle and will be better
22 facilitated/addressed by a larger, more experienced public utility. Thus, we determined
23 that it was in the best interest of our residents to explore the potential sale of the System

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1 to a third party. This decision was unanimously reached during our September 20, 2021
2 BOC public meeting.

3

4 **Q. Please provide a brief overview of the sale process.**

5 **A.** From the beginning of this sale process, the Township, the City, and the Authority
6 worked cohesively to carefully determine whether a sale of the System was in the best
7 interest of all residents and customers. Together, we worked with special counsel and an
8 industry expert to assess numerous qualitative and quantitative factors that weigh in favor
9 of or against the Authority retaining ownership of the System. Throughout 2022, we
10 weighed and balanced issues at various executive sessions that addressed Pennsylvania-
11 American’s offer and the Proposed Transaction with the interests and concerns of our
12 residents and all customers the Authority serves as our primary focus. Ultimately, we
13 determined that the acceptance of Pennsylvania-American’s offer was in the best interest
14 of the community due to the considerable financial investment necessary to address the
15 infrastructure challenges posed to upgrade our aging System.

16

17 **Q. Did the Township request and consider public input on the sale of the System?**

18 **A.** Yes. Agendas for every BOC meeting are made available for the public in advance and
19 members of the public are invited to provide comments for *any* agenda item in the
20 beginning of every meeting. The public is also offered an additional opportunity to
21 provide comment at the close of every meeting. Furthermore, the media is invited to tape
22 record the meetings so long as the representative from the media announces their name
23 and informs all attendees that the media is tape-recording the meeting.

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1 As stated above, the public was aware that the Township, the City, and the
2 Authority were exploring the sale of the System to a third party as early as September
3 2021. Despite the opportunity to provide comment on the proposal at the BOC meetings,
4 very few residents made any comments at any BOC meeting.

5 Additionally, before signing the asset purchase agreement (“APA”) with
6 Pennsylvania-American, the BOC hosted an open house on September 29, 2022, with a
7 morning session from 10 a.m. to noon and an evening session from 6 p.m. to 8 p.m., to
8 provide the public an opportunity to speak directly with representatives from the
9 Authority, the City, the Township, and Pennsylvania-American regarding any concerns
10 or thoughts about the sale. Like the City, we selected both a morning and afternoon
11 session because we wanted to ensure that any member of the public who wanted to attend
12 could, and that they would not be prevented from doing so because of work commitments
13 or family schedules. Our open house took place at the Township’s Municipal building, a
14 central location for local residents. At the September 19, 2022 BOC meeting, I
15 encouraged the public’s attendance at the open houses to have the opportunity to directly
16 speak with all parties involved in the Proposed Transaction and to share their thoughts.

17 Local media outlets like the Butler Eagle and WBUT radio not only heavily
18 covered the announcement of Pennsylvania-American’s offer but ran stories about our
19 open houses so that the public was aware of the opportunity to attend. Additionally,
20 larger regional television stations in Southwestern Pennsylvania like KDKA-TV (CBS
21 Pittsburgh) and WPXI-TV (NBC Pittsburgh) also aired stories on their broadcasts about
22 Pennsylvania-American’s offer and our public open houses. In total, approximately
23 twenty-three (23) news stories ran online, in print, on television, and on the radio about

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1 our open houses. Thirty-three (33) individuals took this opportunity and attended the
2 open house hosted by the BOC.

3 The Authority also created a website with resources for customers pertaining to
4 the sale including the reasons the Authority reviewed the offer, the impact the sale will
5 have on the community, and links to several pertinent documents related to the sale (the
6 APA, relevant press releases, etc.). This information remains available for the public to
7 review at <https://www.resources4basacustomers.org/>.

8 Finally, after review of public input, on October 11, 2022, the Authority voted
9 unanimously to pass Resolution 10-11-2022 authorizing all actions related to the
10 execution and performance of the APA at the Authority’s public meeting.

11

12 **Q. Is there anything further you would like to state regarding the sale process?**

13 **A.** Yes. Throughout this sale process, the City and the Township realized that they have
14 many shared goals – namely, the desire to revitalize the Butler area as a whole. Some of
15 that revitalization may well involve intergovernmental cooperation. This new-found,
16 harmonious relationship will only benefit our community moving forward into the future,
17 especially now that we have a partner in the City to make our collective goals come to
18 fruition.

19

20 **III. BENEFITS OF THE PROPOSED TRANSACTION**

21 **Q. Please state the benefits of the Proposed Transaction from the Township’s**
22 **perspective.**

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1 **A.** The Proposed Transaction offers numerous benefits for the System, BASA generally, and
2 all its customers. For the purposes of my testimony, I will focus on the benefits to the
3 Township and its residents that will be realized as a result of the Proposed Transaction.

4 From the Township’s perspective, there are two primary benefits of the Proposed
5 Transaction, as described in more detail below: (1) engaging an industry expert to
6 improve our aging System while maintaining reliable wastewater service and managing
7 the inevitable rate increases for our residents due to the considerable investment
8 necessary, and (2) providing the opportunity for local economic development as a result
9 of an improved and compliant System.

10 First and foremost, there is an estimated \$75 million in necessary capital
11 improvement projects to update the aging System over the next five years. Under its
12 current ownership, this substantial investment into the System would be passed along to
13 the approximately 14,792 BASA customers through *significant* rate increases.

14 Conversely, Pennsylvania-American has access to deeper financial resources than the
15 Authority to not only fund the identified projects, but also allow BASA customers to join
16 a much larger customer base and share the responsibility of improving Pennsylvania-
17 American’s entire service area.

18 If the Proposed Transaction is approved, BASA customers will experience a
19 \$2.50 rate increase and will not experience another increase for at least one year.

20 Conversely, absent approval of the Proposed Transaction, the Authority will likely be
21 required to impose an abrupt, significant rate increase to our residents (and all BASA
22 customers) to help fund the projects. Additionally, the few qualified lower-income

23 BASA customers in the Township will have access to Pennsylvania-American’s customer

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1 assistance programs to help pay their bills, which the Authority does not currently
2 provide to its customers.

3 Furthermore, the City and the Township – as the incorporating municipalities of
4 BASA – will receive half of the sale proceeds after the Authority’s debt is paid and the
5 Authority is dissolved. This influx of cash will provide the Township with flexibility in
6 spending on other public benefits in the coming years without increasing our residents’
7 taxes (as noted above, the BOC has successfully avoided a tax increase for 12
8 consecutive years). For example, the proceeds from the Proposed Transaction will
9 provide significant liquidity and a greater security blanket to allow the Township to
10 weather any sort of emergency it may face without increasing our residents’ property
11 taxes. As I noted above, the Township’s current budget for 2023 is \$9.4 million;
12 however, the economy is unpredictable and flexibility with finances is essential. Thus,
13 these funds can restore the Township’s capital reserve fund to allow for redevelopment
14 opportunities that may otherwise not be attainable. This is significant given the limited
15 development opportunities at present in the Township. Moreover, this financial stability
16 would help both eliminate debt (including \$1.2 million of debt incurred pursuant to the
17 construction of our municipal building and \$6.5 million incurred in connection with our
18 recreation complex) and mitigate against the risk of future revenue shortfalls.

19 As for the benefits to the local economy, Pennsylvania-American agreed to award
20 contracts for the anticipated development and improvement projects to local contractors,
21 to the extent it is practicable and commercially reasonable. Additionally, the System is
22 currently subject to a Corrective Action Plan (“CAP”) with the Pennsylvania Department
23 of Environmental Protection (“DEP”). Under the CAP, DEP imposed a “New

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1 Connection Prohibition” at the following pump stations: Fisher Heights Pump Station,
2 Brewster Pump Station, Brewster Booster Pump Station, Greenwood Pump Station,
3 Benbrook Pump Station, and Bryson Pump Station. Although the Authority may request
4 – in writing – new sewer connections from DEP while this prohibition is in effect, any
5 future sewer connections are contingent upon BASA’s progress and completion of tasks
6 set forth in the CAP. This prohibition of new sewer connections discourages new
7 businesses from opening in the Township as tapping into the System is not a guarantee.
8 With an improved and compliant System, there will be fewer restrictions on new
9 connections (if any) and, as a result, businesses will be encouraged to open in the
10 Township.

11
12 **Q. One of the benefits you referenced above is the sale proceeds. Has the Township**
13 **determined how it will use the proceeds from the Proposed Transaction?**

14 **A.** First and foremost, it is important to note that the Township has not reached any final
15 decisions about the use of the proceeds from the Proposed Transaction, especially
16 considering the fact that the Township does not have the potential proceeds yet and I am
17 not in the business of counting my chickens before they hatch. Nevertheless, there is an
18 array of potential uses that will benefit our community if the Township receives the
19 proceeds from the Proposed Transaction. For example, the BOC may allocate at least
20 portions of the proceeds to the following projects: (1) pay off the Township’s General
21 Obligation Note of \$1.2 million, (2) fund the Non-Uniform pension plan to 100%
22 currently requiring \$2.1 million, (3) fund the construction of a new unified fire station
23 (estimated to cost up to \$3.5 million) to enhance fire protection and safety geographically

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1 in the Butler area, (4) complete construction of the Pullman Recreation Complex that is
2 estimated to cost up to \$6 million), and (5) highway intersection/traffic enhancement at
3 Hansen Avenue/Whitestown Road/Armco Drive (estimated to cost up to \$500,000 with
4 the assistance of a grant of \$1.4 million). At this time, the area where the Township plans
5 to build the recreation complex is not marketable, but with the sale proceeds, the
6 Township will be able to allocate funding to this project that the Township would
7 otherwise be unable to fund. More significantly, the traffic enhancement project at the
8 highway intersection (referenced above) is particularly important to the Township, as the
9 intersection has been an area where numerous traffic accidents occur. For example,
10 between 2010 and 2020, eight (8) high speed motor vehicle accidents have occurred at
11 this intersection.

12 These are only a few of the ideas that the Township has considered for use of the
13 proceeds. The reality is that the Township likely will not otherwise be able to make the
14 necessary investment in the above-referenced projects without placing the Township in a
15 risky financial standing. Accordingly, the proceeds from the Proposed Transaction will
16 allow the Township to allocate the funding necessary to enhance safety to our community
17 while simultaneously improving our residents' day-to-day lives *without* risking financial
18 instability in the process.

19
20 **Q. Aside from those benefits already mentioned, are you aware of any other benefits to**
21 **the Proposed Transaction?**

22 **A.** Additional benefits include, but are not limited to, the following:

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- 1 • Pennsylvania-American will impose a rate-freeze at \$45.50 per EDU for BASA
2 customers for at least one year following closing on the Proposed Transaction
3 (“Closing”);
- 4 • In the first base rate case that includes the System, Pennsylvania-American will
5 request Commission approval to shift the flat rate that BASA customers currently
6 pay to a metered rate. With this shift to a metered rate as opposed to the current
7 flat rate, customers will be charged based on actual use, rather than an automatic
8 flat fee;
- 9 • Pennsylvania-American agreed to retain all active personnel – both union and
10 non-union – employed by BASA with substantially similar pay, retirement and
11 health benefits;
- 12 • Pennsylvania-American will maintain an operations center at BASA’s current
13 headquarters (for at least ten years) consisting of various managers, customer
14 service representatives, and operators;
- 15 • Pennsylvania-American has agreed to include the BASA System and its damaged
16 sewer and/or aging laterals in its first petition to the Commission in connection
17 with its Damaged Wastewater Service Lateral pilot program;
- 18 • Pennsylvania-American also currently provides water service to approximately
19 19,500 customers in the region. Thus, the BASA customers will now have one
20 bill for both water and wastewater services providing our customers a more
21 efficient payment process for both services. Additionally, this allows
22 Pennsylvania-American to coordinate projects for both the water and the

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1 wastewater systems, reducing road closings and any residual costs to the
2 Township;

- 3 • Pennsylvania-American can draw upon a broad range of engineering and
4 operational experience, as well as deeper financial resources than are available to
5 BASA to address the environmental compliance challenges of the System;
- 6 • Pennsylvania-American’s capability to make long-term investments in necessary
7 capital improvements to the System;
- 8 • Our low-income residents will have access to Pennsylvania-American’s customer
9 assistance programs to assist with paying their bills; and
- 10 • Pennsylvania-American’s proven record of environmental stewardship for the
11 operation of wastewater systems to achieve compliance.

12

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

15 **A.** Yes. For the reasons set forth above, I believe that the Proposed Transaction provides
16 substantial affirmative public benefits and is in the public interest.

17

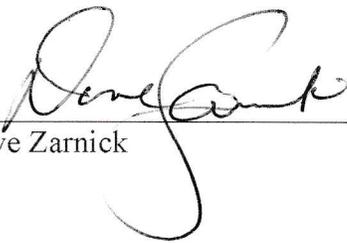
18 **IV. CONCLUSION**

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

20 **A.** Yes, it does. However, I reserve the right to file additional testimony at a later date.

VERIFICATION

I, Dave Zarnick, the President of the Board of Commissioners, hereby verify that the statements of fact made in the foregoing document 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 subject to the penalties of 18 Pa. C.S. § 4904 (relating to unsworn falsification to authorities).



Dave Zarnick

Dated: February 9, 2023