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File #: 196374

December 23, 2024

VIA ELECTRONIC FILING

Rosemary Chiavetta, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street, 2nd Floor North
P.O. Box 3265
Harrisburg, PA 17105-3265

**Re: Application of Aqua Pennsylvania Wastewater, Inc. Pursuant to Sections 507, 508, 1102 and 1329 of the Public Utility Code for Approval of its Acquisition of the Wastewater System Assets of the City of Beaver Falls
Docket No. A-2022-3033138**

Dear Secretary Chiavetta:

Enclosed for filing with the Pennsylvania Public Utility Commission (“Commission”) in the above-referenced proceeding are the following pieces of additional Direct Testimony in support of the Amended Application of Aqua Pennsylvania Wastewater, Inc.’s (“Aqua”) acquisition of all of the assets, properties and rights related to the wastewater collection and treatment system owned by the City of Beaver Falls (“Beaver Falls” or “the City”).

- **Exhibit DD** – Aqua Statement No. 7, the Direct Testimony of Dr. Kenya Johns; and
- **Exhibit EE** – Aqua Statement No. 8, the Direct Testimony of Sandra Wilkins (including Appendix A, in PDF and Microsoft Excel format).


The above-captioned Application was initially submitted on February 18, 2023, pursuant to Sections 507, 508, 1102, and 1329 of the Pennsylvania Public Utility Code (the “Code”), 66 Pa.C.S. §§ 507, 508, 1102, 1329. Aqua’s Amended Application dated March 28, 2024, was made pursuant to same provisions of the Code.

Rosemary Chiavetta, Secretary
December 23, 2024
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Copies of this testimony have been served as indicated on the Certificate of Service and in accordance with the Commission's *Final Supplemental Implementation Order* entered February 28, 2019 at Docket No. M-2016-2543193.

Thank you for your attention to this matter. Please do not hesitate to contact the undersigned if you have any questions.

Respectfully submitted,

A handwritten signature in black ink that reads "Michael W. Hassell". The signature is written in a cursive, slightly slanted style.

Michael W. Hassell

MWH/ks
Attachments

cc: Certificate of Service

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing has been served upon the following persons, in the manner indicated, in accordance with the requirements of 52 Pa. Code § 1.54 (relating to service by a participant).

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Date: December 23, 2024


Garrett P. Lent

EXHIBIT DD

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

AQUA PENNSYLVANIA WASTEWATER, INC.

DOCKET NO. A-2022-3033138

AQUA STATEMENT NO. 7

**DIRECT TESTIMONY OF
MAYOR OF BEAVER FALLS
CITY OF BEAVER FALLS**

**With Regard To:
Sale of the System
Rate Impact
Length of Process
Running the System**

December 23, 2024

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CITY OF BEAVER FALLS, BEAVER COUNTY
DIRECT TESTIMONY OF MAYOR DR. KENYA JOHNS

1 **I. INTRODUCTION**

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

3 A. My name is Dr. Kenya Johns. My business address is 715 15th Street, Beaver Falls, PA
4 15010.

5
6 **Q. In what capacity are you affiliated with the City of Beaver Falls?**

7 A. I am the Mayor of Beaver Falls (the “City”). I was elected Mayor in November 2021. I
8 report directly to my constituents and work with City Council as a presiding officer to run
9 the City and serve the residents of Beaver Falls. I am the official representative of the City
10 under its Home Rule Charter approved by referendum of the voters on November 2, 2021.

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

13 A. I am a 33-year-old wife and a mother of two, who earned a B.A. in Psychology and Spanish
14 from Slippery Rock University in 2014, a M.A. in Clinical Mental Health Counseling from
15 Geneva College, and a Ph.D. in Clinical Supervision and Education from Duquesne
16 University. In January 2022, I was sworn into the office of Mayor of Beaver Falls,
17 becoming the first Black woman elected as Mayor in the City’s 153-year history after
18 unseating incumbent Mayor George Quay, who had held the position since being appointed
19 by City Council in 2012. I often wear many hats in addition to being Mayor, including but
20 not limited to a counselor, professor, author, researcher, advocate, international presenter,
21 and a consultant.

22

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

3 A. No.

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

6 A. I am testifying on behalf of the City, and with Aqua Pennsylvania Wastewater, Inc.’s
7 (“Aqua”) application to purchase the City’s wastewater collection, conveyance, and
8 treatment system (the “System”).

9
10 **Q. Please describe the purposes of your direct testimony and summarize the key points**
11 **it will address.**

12 A. The purpose of my testimony is to supplement the testimony provided by the City Manager,
13 Mr. Charles Jones. I will focus my testimony on why the City of Beaver Falls desperately
14 needs the Commission to approve this transaction, while recognizing the potential rate
15 increases our residents may have to incur, which I am not happy about. I will also discuss
16 the length of the process after the execution of the APA and the impact that it has had on
17 our City and why I believe it is in the best interest of the City for the sale to be approved
18 and Aqua to run the System.

19

20

21

22

1 **II. SUPPORT OF SALE OF THE SYSTEM**

2 **Q. Do you support the sale of the System?**

3 A. Although I was not the Mayor of the City when the Asset Purchase Agreement was
4 negotiated and signed by the City, I believe that it is in the City’s best financial interest to
5 sell the System to Aqua.

6 Beaver Falls is a predominantly low income, minority community. The annual
7 incomes of our residents are significantly lower than the U.S. average and our average
8 unemployment rate has been higher than the state and national rates. Like its residents, the
9 City has been struggling financially.

10 Before I was elected Mayor, my predecessor and City Council negotiated and
11 approved the sale of the City’s System to Aqua to ensure the City was able to cover its
12 ongoing operational expenses and generate sufficient revenue for the future.

13 The City, which has generally had reasonable and conservative revenue projections
14 and budgets, has relied upon the deposit from Aqua and the likely sale proceeds in our
15 budgets and decision making since 2021. Based upon the assumption that this sale would
16 be approved by the PUC, which was completely reasonable until very recently, we used
17 the \$2 million deposit money from Aqua to fill budgetary gaps. We relied upon the
18 anticipated sale proceeds when we negotiated increases in benefits and salaries for the
19 firefighters and police. And we relied upon the anticipated sale proceeds when we made
20 decisions about tax increases and fee increases for our residents during a time when
21 inflation made it difficult if not impossible for our residents to put food on their tables.

22 At this point, after years of waiting and being drained of money to cover expenses
23 related to the sale of the System, it is simple, if the City does not have the proceeds from

1 the sale, we will experience severe financial difficulties and likely be unable to provide
2 fundamental services to our citizens even if we raise taxes.

3
4 **Q. Please provide why you personally do not believe the City of Beaver Falls should be**
5 **either managing consultants to operate the wastewater system or directly employing**
6 **wastewater operators to operate the wastewater system?**

7 A. First of all, the City does not have the money to hire top notch experienced consultants to
8 come to Beaver Falls and run the System. Secondly, the focus of my administration is on
9 helping people in my community with the fundamentals like safety, jobs, helping keep our
10 small businesses open, healthcare, and staying out of bankruptcy. We do not have the time
11 or money to focus on managing an independent contractor or group of employees in a
12 highly technical and complex area of expertise.

13 As Mr. Jones already stated in his testimony, the City has struggled to run the
14 System itself. It has very limited resources and we have not had success in recruiting the
15 experienced operators we need to run this highly complex system, especially with the
16 changing and increasing regulatory environment.

17
18 **Q. Please provide your objectives for 2025 and beyond and what your administration is**
19 **focused on.**

20 A. Our main objective is to stabilize the City's finances so we can provide much needed
21 services to our marginalized community. Paying off our debt of nearly \$5.5 million is
22 crucial, but so is investing in vital community resources. This includes youth engagement
23 programs, supporting business development to stop the bleeding of jobs and money from

1 our City, and providing necessary public safety by acquiring new fire and police vehicles,
2 as well as an ambulance. Additionally, we need to address our aging infrastructure,
3 including roads and streetscapes. Finally, a portion of the proceeds will also be invested to
4 ensure future sustainability of our City.

5
6 **III. UNDERSTANDING THE RATE IMPACT**

7 **Q. Can you please provide some context of your understanding about rate impacts in**
8 **these proceedings?**

9 A. I understand that rate impacts to customers are a very important issue and I do not take it
10 lightly. Frankly, I don't like the idea of these rate increases at all. But the current
11 wastewater rates in Beaver Falls are extremely low. So, any increase to bring them more
12 in line with other wastewater rates will look like a very high percentage increase. I
13 respectfully request that the Statutory Advocates and Commission focus on more than one
14 data point – the one data point of a percentage increase – to announce their objection to
15 this application. I know this is an important data point. But there is very much more that
16 needs to be reviewed and considered.

17
18 **Q. What would you like the Statutory Advocates and Commission to consider other**
19 **than the rate increase?**

20 A. While I am aware of the rate increases that will result if the sale is approved and I share
21 the deep concerns many have about the financial burden of our citizens, the Commission
22 and the Statutory Advocates should balance that concern, as I have, with the reality that,
23 without the sale proceeds, the City will likely not be able to provide essential services to

1 our citizens. Furthermore, we have not been able to run the System as I would have liked.
2 We have not been able to retain the kind of experienced operators that we would need in
3 this highly regulated area. And we do not have the time to run the System when our day is
4 filled with trying to run our ailing City. In addition, I am committed to using the proceeds
5 to help support the needs of our community by having additional funds to help support our
6 families in need.

7
8 **IV. LENGTH OF THE PROCESS**

9 **Q. Can you provide your experience in the process of selling the City's wastewater**
10 **assets?**

11 A. Although the APA was executed before my tenure, my understanding is the sale was a
12 result of extensive considerations and discussions with City leadership, staff and with the
13 public.

14 Since the execution of the APA, this has been a long and arduous process taking
15 several years. It has been very difficult and time consuming. Not including the time
16 before my tenure (including the many months of evaluating whether to sell, public
17 meetings, and negotiating the sale), we have had to endure litigation and contentious
18 negotiations with neighboring communities and we have worked hard to stabilize the City's
19 finances but we are at the end of the road on that. While this may be the first time the
20 Commission has heard our story, we have been at this for a very, very long time.

1 **Q. What has changed since starting the process in terms of the Commission’s past**
2 **decisions?**

3 A. I understand that the Commission has adopted a Reasonableness Review Ratio (“RRR”)
4 regarding the purchase price of a wastewater system as a factor in evaluating these sale
5 transactions. I recognize that the purchase price of \$41,250,000.00 that the City agreed
6 upon to sell our System is not within the RRR, however we negotiated that price in good
7 faith and based our decision making for the last several years as I described above on that
8 agreed upon amount. In addition, and very importantly, the amount we agreed to pay the
9 neighboring municipalities to settle the litigation is based upon that purchase price.
10 Fortunately, the Commission included a grandfather clause in its order setting the RRR. I
11 believe the Commission should grandfather Beaver Falls from the RRR based on the
12 circumstances set forth in the testimony and in Aqua’s application. It is important for me
13 to state that the City receiving the fair market value for the System of \$41.2M was a catalyst
14 for the City to sell the System.

15
16 **V. RUNNING THE SYSTEM**

17 **Q. How do you think the service will be better under Aqua?**

18 A. As Mayor of Beaver Falls, I am acutely aware of the difficult circumstances our City is
19 facing. Our residents are hardworking, but we are a community that has long been under-
20 resourced, and now we find ourselves on the brink of bankruptcy. I have been focused on
21 the immediate and pressing needs of our people – whether it’s affordable housing, jobs,
22 safety or healthcare – because these are the issues that impact our daily lives. Because of
23 the above, our System cannot receive the financial investment and the time and attention it

1 desperately needs for its long-term sustainability. Furthermore, our search to hire staff
2 with the expertise needed to run the System in an efficient and appropriate manner has
3 come up short.

4 As a well-established public utility, Aqua brings industry-leading expertise and
5 extensive experience in upgrading, operating, and maintaining sewer systems. It also has
6 the financial capacity to fund operational and capital improvements that will directly
7 benefit our customers.

8 Aqua has a strong track record of environmental stewardship in wastewater system
9 operations. With access to a much broader and deeper range of engineering and operational
10 expertise than the City, Aqua is equipped to address the operational challenges facing our
11 System. Aqua will also enhance customer service for our residents, with extended
12 customer service center hours, additional payment options (including phone and online),
13 and improved customer information and education programs. Importantly, low-income
14 residents will benefit from Aqua's well-established assistance programs to help pay their
15 bills.

16 Finally, due to Aqua's broader expertise, economies of scale, and financial
17 resources, the proposed transaction will result in (i) upgrades to the plant's facilities,
18 ensuring that wastewater processed by the System meets all environmental requirements
19 and the facility meets all safety requirements; and (ii) strong protections against
20 cyberattacks targeting municipal utilities like ours with less sophisticated technology
21 infrastructure.

1 **Q. Do you acknowledge that the City could run the System?**

2 A. I have been advised that we may get pushback that we as a City can simply run and manage
3 the wastewater treatment plant and the collection system ourselves. I suppose we could –
4 if that is all we did in this administration or even if that was our focus. However, as I
5 discussed above, it is our reasoned assessment that we can no longer spend the time and
6 resources on running this System given the dire circumstances of our City. Many do not
7 understand what it is like trying to run a City on the edge of a fiscal cliff with residents
8 who have been marginalized and lack the basics. It is not a matter of just not wanting to
9 run the System ...we cannot run the System in an appropriate way and still provide the
10 services to our residents that they need and deserve.

11

12 **Q. In summary, do you believe it is in the public interest for the City of Beaver Falls to**
13 **continue to manage and operate the System?**

14 A. No. Again, I am not happy about the rate increases our residents will need to sustain if
15 Aqua owns the System, however, I have balanced this with the dire financial situation our
16 City is in and the ability of Aqua to be better operators of the System than the City.

17

18 **VI. CONCLUSION**

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

20 A. Yes, it does. However, I reserve the right to supplement my testimony as additional issues
21 and facts arise during the course of this proceeding.

EXHIBIT EE

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

AQUA PENNSYLVANIA WASTEWATER, INC.

DOCKET NO. A-2022-3033138

AQUA STATEMENT NO. 8

DIRECT TESTIMONY OF

SANDRA WILKINS

CHIEF FINANCIAL OFFICER OF BEAVER FALLS

CITY OF BEAVER FALLS

**With Regard To:
Financial Status of the City**

December 23, 2024

CITY OF BEAVER FALLS, BEAVER COUNTY
DIRECT TESTIMONY OF SANDRA WILKINS, CFO

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CITY OF BEAVER FALLS, BEAVER COUNTY
DIRECT TESTIMONY OF SANDRA WILKINS, CFO

1 **I. INTRODUCTION**

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

3 A. My name is Sandra Wilkins. My business address is 715 15th Street, Beaver Falls, PA
4 15010.

5

6 **Q. In what capacity are you affiliated with the City of Beaver Falls?**

7 A. I am the Chief Financial Officer of the City of Beaver Falls. I also serve as the certified
8 tax collector in my role as CFO.

9

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

11 A. Prior to joining the City staff in 2021, I served as the Finance Director for Scott Township
12 for nearly 20 years. My experience before Scott Township included nearly 26 years
13 working in various managerial and financial roles in different size municipal governments.
14 Prior to my work in government, I worked in different accounting positions in the private
15 sector.

16 I graduated from the Bradford School's accounting program with a 4.0 in all
17 accounting courses. I have continued my education with numerous continuing education
18 courses and training from the Community College of Allegheny County, the Department
19 of Community and Economic Development, the Government Finance Officers Association
20 ("GFOA"), Local Government Academy, Pennsylvania State Association of Township
21 Supervisors ("PSATS") and Federal Emergency Management Agency.

CITY OF BEAVER FALLS, BEAVER COUNTY
DIRECT TESTIMONY OF SANDRA WILKINS, CFO

1 I am an active member of GFOA and the Pennsylvania State Tax Collectors'
2 Association. In the past I was a member of PSATS, the Pennsylvania Boroughs
3 Association and the Society of Human Resource Management.

4

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

7 A. No.

8

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

10 A. I am testifying on behalf of the City, and in cooperation and support of Aqua Pennsylvania
11 Wastewater, Inc.’s (“Aqua”) application to purchase the City’s wastewater collection,
12 conveyance, and treatment system (the “System”).

13

14 **Q. Please describe the purposes of your direct testimony and summarize the key points**
15 **it will address.**

16 A. The purpose of my testimony is to supplement the testimony provided by the City Manager,
17 Mr. Charles Jones and the testimony provided by the Mayor, Dr. Kenya Johns. I will
18 concentrate my testimony on the City’s financial situation and the financial consequences
19 of not approving the sale. Additionally, I will provide a financial analysis demonstrating
20 how the sale is in the best interest of the public.

21

22

23

CITY OF BEAVER FALLS, BEAVER COUNTY
DIRECT TESTIMONY OF SANDRA WILKINS, CFO

1 **II. FINANCIAL STATUS OF THE CITY**

2 **Q. Please discuss how the City is on the verge of bankruptcy, Act 47 status.**

3 A. I started working for the City after the Asset Purchase Agreement with Aqua (the “APA”)
4 was approved by the City. My understanding from the start of my job is that the City is in
5 financial distress and chose to sell the System for a number of reasons but primarily to
6 vastly improve the City’s finances on a long-term basis. We were working with the
7 Department of Community and Economic Development as part of the Strategic
8 Management Planning Program.

9 My job includes preparing our City’s budgets. When I started my position, the 2022
10 annual City budget had already been prepared by the prior Director of Finance and prior
11 accountant and it included the full purchase price of the System. We have continued in
12 this practice to avoid deficits which also included the deposits paid by Aqua as required
13 under the APA. Not only did the City rely on the sale being approved regarding the use
14 of the deposits to balance budgets, prior to my tenure and the Mayor’s tenure, the City
15 relied upon the anticipated sale proceeds when it negotiated increases in benefits and
16 salaries for the firefighters and police, as well as when the City made decisions about a tax
17 decrease for our residents.

18 The 2025 budget which was approved on December 17, 2024 by the City assumes
19 the sale proceeds from Aqua will be received by the City during this fiscal year. The City
20 is facing a very tight budget with only enough money in the bank currently to make payroll
21 through January. The City is counting on incoming tax revenues and other fees, expected
22 in February, to bridge the gap until the Aqua sale proceeds are realized this year.

CITY OF BEAVER FALLS, BEAVER COUNTY
DIRECT TESTIMONY OF SANDRA WILKINS, CFO

1 If the sale of the System is not approved by the PUC the consequences will be
2 severe. The City is projecting a \$1.4M deficit in 2025 without the sale proceeds. The City
3 will be unable to make payroll obligations and cover other essential expenses. This shortfall
4 will prevent us from investing in our City's programs, or addressing our aging
5 infrastructure. Additionally, the City would have to raise rates dramatically just to keep
6 the wastewater treatment plant operating at the current level, which I understand to be
7 significantly lacking. Borrowing money will also likely be problematic as we are
8 concerned about the City's ability to make debt payments to bondholders on our
9 outstanding debt, and recognize that the cost to the City of a loan would likely increase
10 because of the negative impact on our bond rating if the sale is not approved.

11
12 **Q. Please describe the status of the City's bond rating and the potential impact if the**
13 **sale is not approved.**

14 A. S&P Global Ratings had previously given the City a BB+ Bond rating with a positive
15 outlook. See Appendix B attached hereto. It revised its outlook of the City from positive
16 to stable in September, 2023 based upon expected fund deficits due to the delay of the sale
17 of the System. S&P stated that the "stable outlook is based upon the likelihood the sale of
18 the city's wastewater treatment plant, which should occur in the next year, vastly improving
19 the city's finances and liquidity position. The stable outlook is also based upon the recent
20 one-time upfront payment from Aqua, which stabilized the city's liquidity position over
21 the outlook period."

22 S&P Global suggested in its report that it would likely take negative rating action
23 if the sale of the wastewater treatment plant is not approved. If the City's bond rating is

CITY OF BEAVER FALLS, BEAVER COUNTY
DIRECT TESTIMONY OF SANDRA WILKINS, CFO

1 downgraded it will make it more difficult and costly for the City to obtain the funding it
2 will need to provide essential services to its residents.

3

4 **Q. Do you think the City can run the wastewater treatment plant viably based on its**
5 **current resources?**

6 A. No. I do not think the City should manage this complex System considering our financial
7 situation, the challenges and risks of running the System, and our inability to retain
8 employees with the expertise to run a System effectively and safely. Our responsibilities
9 are already overwhelming running a City with significant and urgent needs. Additionally,
10 I do not support transferring this service function to a third party contractor where the City
11 is still responsible for the cost, the management, the hiring and firing of the firm, the risk,
12 and the compliance deadlines while still being saddled with the structural deficits we will
13 face if the City does not have the use of the sale proceeds from Aqua.

14

15 **Q. Please refer to Appendix A to your testimony. Please provide a high-level overview**
16 **of this schedule.**

17 A. This schedule is attempting to show the net financial public benefit to the City and its
18 citizens each year if the sale proceeds are realized. This is an important schedule. We
19 understand that there will likely be wastewater rate increases associated with the sale.
20 However, this schedule shows there are real financial public benefits that need to be
21 considered and weighed, in addition to potential wastewater rate increases. The schedule
22 compared the difference between the annual monetary benefit the public would receive

CITY OF BEAVER FALLS, BEAVER COUNTY
DIRECT TESTIMONY OF SANDRA WILKINS, CFO

1 versus the annual amount the public would have to pay in wastewater rate increases if the
2 sale is approved.

3 The gross proceeds of \$41,250,000 represent the purchase price, from which
4 various costs, such as transaction fees, litigation settlement with municipal customers, debt
5 repayment, and external payments, are deducted to leave net proceeds of \$35,300,937
6 available for public use. Additionally, these proceeds generate interest income and result
7 in savings by eliminating prior debt obligations. In addition to interest income and savings
8 in eliminating debt, other anticipated public benefits include:

9 * property tax reductions

10 * new tax revenue from Aqua

11 * avoided wastewater rate increases that the City otherwise would have to make,

12 and

13 * employee pay increases.

14 These financial benefits collectively amount to \$4,560,037. While the sale creates
15 a revenue deficiency of \$4,198,000 due to increased requirements post-sale, the net public
16 benefit of \$362,037 demonstrates that the transaction ultimately provides positive financial
17 value to the public. This needs to be recognized and considered.

18
19 **Q. Please walk through this Appendix A in more detail explaining each line and**
20 **number.**

21 A. The total gross proceeds from the transaction amount to \$41,250,000, representing the
22 revenue paid by Aqua to purchase the System before any deductions. Estimated transaction
23 fees of \$1,000,000 cover costs like legal and advisory expenses. Of the total proceeds,

CITY OF BEAVER FALLS, BEAVER COUNTY
DIRECT TESTIMONY OF SANDRA WILKINS, CFO

1 \$5,449,063 is allocated to repay general obligation bond debt, while \$1,500,000 is
2 designated for outside payments to external entities. Additionally, \$2,000,000 in cash will
3 be available for immediate use at closing, leaving net proceeds of \$35,300,937 for deposit
4 after deductions.

5 Annual interest income from the net proceeds is projected at \$1,588,542 (4.50%
6 assumed rate), and interest savings of \$680,901 are achieved by eliminating general fund
7 debt service obligations. Residents benefited approximately \$720,000 further from a
8 property tax reduction that has already been made 3 years prior in anticipation of the sale,
9 equivalent to a 5-mill decrease. About \$50,000 in tax revenue is anticipated from Aqua
10 once they take ownership. Avoided rate increases, calculated on a net present value basis
11 over ten years, yield savings of approximately \$1,270,593. Lastly, employees were given
12 rate increases in anticipation of the sale that exceed the normal range of increases which is
13 approximated at \$250,000. The total of these amounts are \$4,560,037 and are referred to
14 as "Proceeds for Public Benefit."

15 Current annual revenue generated by sewer rates stands at \$2,534,808, whereas the
16 revenue requirement once Aqua takes over is \$6,732,808, resulting in a revenue deficiency
17 of \$4,198,000 or 165.61%. Despite this shortfall, the "Proceeds for Public Benefit"
18 outweigh the impact of the revenue deficiency amount by \$362,037, illustrating that the
19 transaction provides a "Net Public Benefit".

20
21 **Q. Can you provide any other closing thoughts?**

22 A. There is a clear, measurable, and substantial public benefit as a result of the sale of the
23 sewer utility assets to Aqua. As I have already explained, the City has significant financial

CITY OF BEAVER FALLS, BEAVER COUNTY
DIRECT TESTIMONY OF SANDRA WILKINS, CFO

1 and managerial pressures that can be ameliorated by the sale. The implications of which,
2 both on the City's financials and the constituents have been carefully considered by the
3 City and its financial advisors. For all of these reasons, I and the City strongly support the
4 sale to Aqua.

5

6 **III. CONCLUSION**

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

8 A. Yes, it does. However, I reserve the right to supplement my testimony as additional issues
9 and facts arise during the course of this proceeding.

APPENDIX A

City of Beaver Falls

Public Benefits Analysis - Acquired Customers

	<u>Amount</u>	<u>Source:</u>
BF Public Benefits Calc	Gross Proceeds	\$41,250,000 -Appendix A
	Estimated Transaction Fees	(\$1,000,000)
	GO Debt Repayment	(\$5,449,063) As of 12/31/2024
	Outside Payments	(\$1,500,000) - Per settlement with Bulk Users
	Cash on hand Available for use @ Closing	\$2,000,000
	Net Proceeds - for Deposit (Public)	\$35,300,937
	Interest Income	\$1,588,542 - 4.50% APR
	Interest Savings (Remove Debt Service Gen Fund)	\$680,901 -As of 12/31/2024
	Property Tax Redution to residents (5 mills)	\$720,000 -Appromimate per actual financial results.
	Property Tax - Received from Aqua	\$50,000 -Appendix A - TOTI Tab
Avoided Rate Increases for Apples to Apples (NPV 10 yr)	\$1,270,593 -Net Present Value	
Pay Increases to Employees	\$250,000	
A.) Proceeds for Public Benefit =====>	\$4,560,037	
Rate Impact	Present Revenue	\$2,534,808 - Appendix A
	Revenue Requirement	6,732,808 - Appendix A
	B.) Revenue Deficiency \$ =====>	\$4,198,000 - Appendix A - 100% Cost of Service
Revenue Deficiency %	165.61%	
C.) Net Public Benefit / (Impact) =====>	\$362,037 - A.) minus B.) = C.)	

	Current	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
Net Operating Surplus (Deficit) After Capital & Debt		158,243	27,902	1,098,834	867,689	1,014,453	513,649	527,822	343,787	150,533	295,502
<i>As % of Total Expenses</i>		5.19%	0.88%	33.63%	25.65%	28.96%	14.16%	14.05%	8.84%	3.74%	7.08%
Fund Balance Buildup		-	-	-	867,689	1,882,142	2,395,791	2,923,613	3,267,400	3,417,933	3,713,435
Average Monthly Bill											
In City - Keep System (Estimated - 4,000 Gal Month)	\$41	\$55	\$60	\$60	\$60	\$60	\$60	\$60	\$60	\$63	\$63
% Change		35%	10%	0%	0%	0%	0%	0%	0%	5%	0%
		158,243	27,902	1,098,834	867,689	1,014,453	513,649	527,822	343,787	150,533	295,502
	2022 Audit	2025	2026	2027	2028	2029	2030	2031	2032	2033	2033
Operating Revenues											
Sewage Charges	3,148,123	4,249,966	4,674,963	4,674,963	4,674,963	4,674,963	4,674,963	4,674,963	4,674,963	4,908,711	4,908,711
<i>% Increase</i>		35.00%	10.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	5.00%	0.00%
Tap-In Fees	4,500	4,613	4,728	4,846	4,967	5,091	5,219	5,349	5,483	5,620	5,760
Misc. Revenues	2,449	2,510	2,573	2,637	2,703	2,771	2,840	2,911	2,984	3,058	3,135
Subtotal - Operating Revenues	3,155,072	4,257,089	4,682,263	4,682,446	4,682,633	4,682,825	4,683,021	4,683,223	4,683,429	4,917,389	4,917,606
Operating Expenses											
Contractual Services	712,562	733,939	755,957	778,636	801,995	826,055	850,836	876,361	902,652	929,732	957,624
Wages & Benefits	813,193	845,721	879,550	914,732	951,321	989,374	1,028,949	1,070,107	1,112,911	1,157,427	1,203,724
Administrative	330,000	343,200	356,928	371,205	386,053	401,495	417,555	434,257	451,628	469,693	488,481
Office	5,573	5,740	5,912	6,090	6,272	6,461	6,654	6,854	7,060	7,272	7,490
Repair & Maintenance	287,892	296,529	305,425	314,587	324,025	333,746	343,758	354,071	364,693	375,634	386,903
Billing Expense	20,226	20,833	21,458	22,101	22,765	23,447	24,151	24,875	25,622	26,390	27,182
Depreciation	248,097		-	-	-	-	-	-	-	-	-
Engineering	59,844	61,639	63,488	65,393	67,355	69,376	71,457	73,601	75,809	78,083	80,425
Utilities	166,412	174,733	183,469	192,643	202,275	212,389	223,008	234,158	245,866	258,160	271,068
Chemicals/Chlorine	42,934	45,081	47,335	49,701	52,187	54,796	57,536	60,412	63,433	66,605	69,935
Sludge/Grit removal	108,355	111,606	114,954	118,402	121,955	125,613	129,382	133,263	137,261	141,379	145,620
Janitorial Services	1,394	1,436	1,479	1,523	1,569	1,616	1,665	1,714	1,766	1,819	1,873
Gas & Oil	4,278	4,492	4,716	4,952	5,200	5,460	5,733	6,020	6,321	6,637	6,968
Equipment	3,766	3,879	3,995	4,115	4,239	4,366	4,497	4,632	4,771	4,914	5,061
Operating Supplies	344	354	365	376	387	399	411	423	436	449	462
Uniforms	2,995	3,085	3,177	3,273	3,371	3,472	3,576	3,683	3,794	3,908	4,025
Permits & Testing	21,823	22,478	23,152	23,847	24,562	25,299	26,058	26,840	27,645	28,474	29,328
Certification & Training	858	884	910	938	966	995	1,024	1,055	1,087	1,119	1,153
Small Tools	3,821	3,936	4,054	4,175	4,301	4,430	4,562	4,699	4,840	4,986	5,135
Insurance	30,273	31,181	32,117	33,080	34,073	35,095	36,148	37,232	38,349	39,499	40,684
Misc. Expenses	1,213	1,249	1,287	1,325	1,365	1,406	1,448	1,492	1,537	1,583	1,630
Property Damage	26,232	27,019	27,830	28,664	29,524	30,410	31,322	32,262	33,230	34,227	35,254
Line Rental Expense	100,000	103,000	106,090	109,273	112,551	115,927	119,405	122,987	126,677	130,477	134,392
Sewer-Line Reimbursement	200,000	206,000	212,180	218,545	225,102	231,855	238,810	245,975	253,354	260,955	268,783
Subtotal - Operating Expenses	3,192,085	3,048,012	3,155,828	3,267,578	3,383,410	3,503,480	3,627,946	3,756,975	3,890,739	4,029,419	4,173,201
Net Operating Surplus (Deficit)	(37,013)	1,209,077	1,526,436	1,414,868	1,299,223	1,179,345	1,055,076	926,248	792,690	887,970	744,405
Capital											
Pay-Go Capital Expenses		1,050,834	1,498,534	316,034	431,534	-	376,534	233,534	-	288,534	-
Debt Service		-	-	-	-	164,892	164,892	164,892	448,903	448,903	448,903
Subtotal - Capital		1,050,834	1,498,534	316,034	431,534	164,892	541,426	398,426	448,903	737,437	448,903
Net Operating Surplus (Deficit) After Capital & Debt	(37,013)	158,243	27,902	1,098,834	867,689	1,014,453	513,649	527,822	343,787	150,533	295,502

APPENDIX B

20-Sep-2023 | 18:16 EDT

Beaver Falls, PA Series 2017AB GO Bond Rating Outlook Revised To Stable From Positive On Expected Fund Deficits

TORONTO (S&P Global Ratings) Sept. 20, 2023--S&P Global Ratings revised its outlook to stable from positive and affirmed its 'BB+' rating on Beaver Falls, Pa.'s series 2017A general obligation (GO) notes and 2017B GO bonds.

"The outlook revision reflects the delay of the sale of the bonds to 2024, which resulted in expected general fund deficits in fiscal years 2022 and 2023," said S&P Global Ratings credit analyst Bobby Otter.

The 2017A notes and 2017B bonds are general obligations of the city, secured by its full faith, credit, and taxing power, which benefits from an unlimited ad valorem property tax.

Beaver Falls expected to sell its wastewater treatment plant in 2022 to Aqua (Essential Utilities Inc. is the parent company) for \$41.25 million. However, the sale was, and remains, delayed due to surrounding municipalities making a claim on the sale. Officials expect the claims will be resolved shortly, a mediator is reviewing these claims, after which

the Pennsylvania Public Utility Commission will review the sale once again. As a result, the sale is not expected to be finalized until early 2024. Due to the delay in the sale, the city expects to report a \$1.5 million deficit in fiscal 2022 and continues to work to reduce expenditures in fiscal 2023. While the fiscal 2022 audit is not yet available, the city's fund balance will likely be negative, and we expect its liquidity position will decline as well. The city received two \$1 million non-refundable upfront payments from Aqua in 2021 and 2023, providing sufficient liquidity to ensure the city meets all its debt obligations.

We continue to view the city's finances as structurally imbalanced, as expenditures continue to outpace revenue. While federal funds boosted the city's finances, the decision to reduce property taxes prior to the sale of the plant has created a new budgetary pressure. If the sale is delayed beyond the second half of 2024 or is not approved, we believe the city's finances and liquidity will be pressured further.

Voter approval to change to a home-rule charter city from a third-class city, which went into effect Jan. 1, 2022, provided the city's legal flexibility to raise revenue and reduce expenditures it previously did not have. However, we believe Beaver Falls still has long-term challenges because its practical ability to raise revenue is hampered by a weak tax base and limited capacity to reduce spending. Favorably, the city's pension plans are not a pressure, and it has made strong plan funding progress in recent years. It has a dedicated 0.5% earned income tax for pensions, which has been generating amounts above its annual required contributions.

The one-year stable outlook is based upon the likelihood the sale of the city's wastewater treatment plant, which should occur in the next year, vastly improving the city's finances and liquidity position. The stable outlook is also based upon the recent one-time upfront payment from Aqua, which stabilized the city's liquidity position over the outlook period.

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Beaver Falls GO (BAM) <i>Unenhanced Rating</i>	BB+(SPUR)/Positive	Outlook Revised

Many issues are enhanced by bond insurance.

Rating Action

S&P Global Ratings revised its outlook to positive from stable on Beaver Falls, Pa.'s series 2017A general obligation (GO) notes and 2017B GO bonds. At the same time, we affirmed our 'BB+' rating on the city's bonds.

The positive outlook reflects the continued improvement in Beaver Falls' liquidity position due to one-time federal stimulus revenue and the potential for a significant increase in the city's reserves and liquidity following the sale of its wastewater treatment plant that is pending approval by the Pennsylvania Public Utility Commission (PUC). We still view the city's general operating performance as structurally imbalanced, which caps the rating.

The 2017A notes and 2017B bonds are GOs of the city, secured by its full faith, credit, and taxing power, which benefits from an unlimited ad valorem property tax.

Credit overview

Beaver Falls' general fund operations have been structurally imbalanced for several years. We view its 2022 budget as structurally imbalanced as well because it relies on at least \$500,000 (6% of the budget) of one-time revenue from the sale of its wastewater treatment plant. The asset purchase agreement with Aqua (an Essential Utilities Co. rated 'A/Stable') has been approved by the city council for \$41.25 million and would be financially transformative for the city. Officials report that the sale is expected to close in the fall of 2022, though on a recent earnings call, the chairman and CEO of Essential Utilities estimated approval may happen just after Jan. 1, 2023. If the sale does not take place until after the end of the fiscal year, we expect Beaver Falls will close with another deficit, but the city's cash position is expected to remain healthy due to federal stimulus funding and a \$1 million non-refundable upfront payment from Aqua that was received in 2021. Management reports that 2022 will be the first year that it does not have to cash-flow borrow in more than a decade. If the sale is delayed beyond 2023 or is not approved, we believe the city's finances will be pressured.

Another significant change for the city is recent voter approval to change to a home-rule charter city from a third-class city, effective Jan. 1, 2022. The change increased the city's legal flexibility to raise revenue and reduce expenditures; however, we believe it still has long-term challenges because its practical ability to raise revenue is hampered by a weak tax base and limited capacity to reduce spending. Favorably, the city's pension plans are not a pressure, and it has made strong plan funding progress in recent years. It has a dedicated 0.5% earned income tax (EIT) for pensions,

which has been generating amounts above its annual required contributions (ARCs).

The 'BB+' rating reflects our assessment of the city's:

- Weak economy with very low wealth and income metrics, but some access to the Pittsburgh metropolitan statistical area (MSA);
- Vulnerable Financial Management Assessment (FMA), but a very strong institutional framework as a home-rule charter city;
- History of structural imbalance and very weak reserve and liquidity levels, coupled with a limited capacity to reduce expenditures or raise revenues; and
- Very weak debt and contingent liability position relative to its tax base.

Environmental, social, and governance

We view Beaver Falls' low wealth and income levels as a social risk that could inhibit the city's ability to raise or collect revenue. Its approval by voters to change to a home-rule charter city is a governance opportunity that will increase its legal ability to raise revenue; however, its demographic profile limits its practical ability to do so. We view environmental factors as neutral in our credit analysis.

Stable Outlook

Upside scenario

We could raise the rating, potentially by multiple notches, if the city's cash position substantially improves due to the sale of its wastewater treatment plant.

Return to stable scenario

If the city's liquidity does not improve as expected because the sale of the wastewater treatment plant is not approved and the city does not make the necessary revenue or expenditure adjustments to maintain a stronger cash position, we would likely take negative rating action.

Credit Opinion

Very low wealth and income metrics limit practical revenue-raising capabilities

Beaver Falls is in Beaver County about 30 miles northeast of Pittsburgh. Resident incomes are significantly lower than the U.S. average. The Beaver County economy was once dominated by the steel industry, but as the steel mills closed in 1980s and 1990s, the local economy became more reliant on smaller manufacturing and service-oriented industries. As a result, unemployment spiked at 18.2% in April 2020 at the height of the COVID-19 shutdown, and its average annual rate was above 10% in 2020. It has come down to 5.5% as of March 2022 but was still somewhat higher than the state and national rates for the same period. If the U.S. were to enter a recession, we believe it's likely that the Beaver Falls economy will contract at a greater rate than the U.S. (For more information on S&P Global Ratings' view of the U.S. economy, see "U.S. Business Cycle Barometer: Testing The Economy's Resilience," published May 20, 2022, on RatingsDirect.)

The county's property values are also significantly lower than average. Beaver County has not completed a reassessment since the 1980s, but a reassessment is underway and expected to be completed by 2023. The city believes that there may be significant changes for individual resident assessed values (AVs), but it is not anticipating a substantial change in total AV.

The city may see some residual benefits from a \$6 billion Shell ethane cracker plant that is under construction about 10 miles to the south. The plant will provide an estimated 600 permanent jobs and numerous business opportunities for local companies. Officials report that they are seeing some growth in the city's downtown, where redevelopment is incentivized through a local economic revitalization tax assistance (LERTA) designation. However, our view of the city's economy is likely to remain weak, given its lower wealth and incomes as well as its greater share of jobs susceptible to economic cycles.

Vulnerable FMA due to lack of financial policies and a history of structural imbalance

Our overall assessment of management is weak because the city lacks policies in many of the areas we believe are most critical to supporting credit quality and it has a history of structural imbalance without an adequate plan to correct it at this time. Following the city's change to a home-rule charter city, it hired a CFO, a position that had not previously existed. The new CFO is in the process of setting up new financial policies, procedures, and software. The city also continues to work with the state's Strategic Management Planning Program (STMP) to address its fiscal difficulties, and it has received a distressed communities technical assistance grant through the federal government and is working to create a plan to address its structural imbalance.

Currently, the management team's key practices include:

- Reviewing five years of historical trends to project revenue and expenditure for its budget and using outside sources of information;
- Monthly revenue and expenditures reports provided to council;
- Monthly reports on investment holdings and earnings to council;
- Planning to mitigate risks posed by cyber-attacks;
- No formal or informal long-term financial or capital plans; and
- No investment, debt, or reserve policies.

History of structural imbalance and deficit financing

The city's general fund has been structurally imbalanced for several years. In some years, these deficits have been masked by transfers from its sewer fund or by deficit financings. Its general fund balance increased in 2019 due to a deficit financing, so we have adjusted the city's available fund balance to show what it would have been without that financing.

Beaver Falls' 2022 budget assumes that the sale of its wastewater treatment plant will be approved this fiscal year and the city will net \$39.8 million from the sale. It plans to transfer \$39.3 million out of the general fund to be divided between a trust fund to generate interest income for the city (\$25 million) and various debt and capital expenditures (\$14.3 million). The city will use \$500,000 (6% of recurring budgeted expenditures) from the sale during fiscal 2022 to

offset increased general fund expenses and lower revenue; therefore, we believe that the 2022 budget is structurally imbalanced. In anticipation of the windfall revenue and as property tax relief for residents, the city lowered its property tax rate by 5 mills, or roughly \$300,000. Officials report they plan to keep property taxes at this lower level. Despite the structural imbalance in 2022, we believe the rating could improve due to the windfall revenue given the significant improvement in reserves and liquidity. Over the long term, further upward rating potential would depend on the creation of a plan to eliminate its structural imbalance.

The city's 2021 budget was break-even, but preliminary estimates from management show just over a \$1 million surplus due to one-time revenue. Its revenues were \$1.6 million better than budget, mostly due to \$495,000 of federal American Rescue Plan Act (ARPA) and other state grants as well as a \$1 million upfront payment from Aqua related to the asset sale. Expenditures were \$585,000 higher than budget due to the spending of grant funds, as well as various higher costs for items like fuel, building repairs, and overtime. As a result, we expect the city's general fund balance to increase considerably for 2021.

We believe the city's 2020 general fund results improved somewhat from prior years. After adjusting out roughly \$500,000 of one-time additional contributions to its pension plans above its minimum municipal obligation (MMO), we believe it would have posted a slight surplus. Still, we note that the operating results were likely affected somewhat by \$233,000 of federal aid received during 2020. The city's total general fund balance decreased by \$430,000, and its unassigned balance fell by \$140,000 due to some increases in its non-spendable balances. Overall, if it had not completed its deficit financing in 2019, we believe its general fund balance would still be negative.

The city's largest revenues come from charges for services (36% of 2022 budgeted recurring general fund revenue), property taxes (23%), and other Act 511 taxes (15%). Its ability to raise these revenues was very limited as a third-class city, but as a home-rule charter city, it is no longer subject to state property tax caps. However, practically, it may be difficult to raise property taxes given its lower wealth and incomes.

Improved liquidity projected due to federal stimulus

In assessing the city's cash position, we removed \$600,000 of bond proceeds from its cash figures as we expect them to be spent down, and we also removed \$1.7 million in its Joint Sewer Users Fund as these funds are restricted and cannot be used for cash flow. In our view, the city has had strong access to external liquidity. In addition to long-term bonds, it issues tax anticipation notes (TANs) to help with cash flow during the year and reports no difficulty accessing bank loans. Notably, officials tell us that 2022 will be the first year in a long time that it does not need to borrow for cash-flow purposes because the federal stimulus funds have improved its cash position.

We view Beaver Falls' 2019 GO note (\$495,898 par outstanding), issued with First National Bank of Pennsylvania, as a contingent liquidity risk because it contains events of default that we consider permissive as well as cross-default provisions. In the event of default, the city is required to pay all unpaid principal and accrued interest on demand by the bank. The amount subject to acceleration is 39% of the city's total governmental cash and 6% of general fund revenue.

Very high debt burden relative to tax base but moderate relative to budget

In our view, Beaver Falls' debt and contingent liability profile is adequate, because annual debt service costs are moderate and the city benefits from a rapid amortization schedule. However, its overall debt metrics relative to market

value are very high, indicating that overall affordability is weak.

The city historically issued TANs for cash-flow purposes, which it repays during the same fiscal year. It issued \$600,000 in TANs in 2021 but will not need to issue them in 2022 due to the liquidity provided by ARPA funds. Management reports that it does not have any additional debt plans, and is working to eliminate one-time revenues from its budgets.

Pension and other postemployment benefit liability profile

We consider Beaver Falls' pension liabilities large relative to the city's budget, but do not view them as a budgetary pressure given our understanding of recent strong funding progress and the city's dedicated EIT for pension costs. Beaver Falls has not yet adopted Governmental Accounting Standards Board Statement No. 68 reporting requirements; however, we reviewed the plans' Jan. 1, 2021 actuarial reports to inform our understanding of the plans' funding progress. The city does not offer other postemployment benefits.

Beaver Falls participated in the following plans (as of Jan. 1, 2021):

- Police Pension Plan: 92.4% funded, with an unfunded actuarial accrued liability (UAAL) of \$958,257;
- Firemen's Pension Plan: 94.0% funded, with an UAAL of \$325,628; and
- General Employees' Pension Plan: 111.8% funded, with assets over its actuarial accrued liability of \$874,552.

Beaver Falls' pension contributions were \$1.66 million (18.7% of total governmental fund expenditures) in 2020, which we consider very high; however, contributions were well above the ARC that would have been a more moderate 8.7% of total governmental fund expenditures. The city has dedicated EIT revenue that has been more than sufficient to cover its required contributions, and that cannot be used for another purpose. As a result, management reports the city contributed an additional \$498,000 to the plans above its required amount in 2020, which improved funded levels.

There is an actuarial plan in place to reach full funding for all three plans, and consistent contributions are expected due to the level-dollar amortization basis. As of the Jan. 1, 2021 actuarial valuation, the plans were scheduled to be fully funded within eight and 11 years for the Police and Firemen plans, which is stronger than S&P Global Ratings' guideline of 20 to effectively pay down unfunded liabilities. The General Employees Plan is fully funded. The funds recently lower their interest rate assumption to 6.75% from 7.0%, but this is still higher than our guideline of 6.0%; therefore, we believe there is some risk of cost escalation due to market volatility.

Beaver Falls, PA -- Key Credit Metrics

	Most recent	Historical information		
		2020	2019	2018
Very weak economy				
Projected per capita EBI % of U.S.	61			
Market value per capita (\$)		19,463		
Population		8,376	8,508	8,566
County unemployment rate(%)		10.3		
Market value (\$000)		163,025	159,151	159,498
Ten largest taxpayers % of taxable value	17.6			

Beaver Falls, PA -- Key Credit Metrics (cont.)

	Most recent	Historical information		
		2020	2019	2018
Weak budgetary performance				
Operating fund result % of expenditures	4.9	(2.8)	(13.5)	
Total governmental fund result % of expenditures	2.6	(4.0)	(11.7)	
Very weak budgetary flexibility				
Adjusted available reserves % of operating expenditures	(1.3)	(0.3)	(4.5)	
Adjusted total available reserves (\$000)	(109)	(23)	(377)	
Strong liquidity				
Total government cash % of governmental fund expenditures	9	18	5	
Total government cash % of governmental fund debt service	111	164	58	
Weak management				
Financial Management Assessment	Vulnerable			
Weak debt & long-term liabilities				
Debt service % of governmental fund expenditures	8.4	11.1	9.2	
Net direct debt % of governmental fund revenue	83			
Overall net debt % of market value	10.5			
Direct debt 10-year amortization (%)	75			
Required pension contribution % of governmental fund expenditures	9.2			
OPEB actual contribution % of governmental fund expenditures	N/A			
Very strong institutional framework				

EBI--Effective buying income. OPEB--Other postemployment benefits.

Related Research

- Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022

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