

BEFORE THE BOARD OF SUPERVISORS
AND THE TOWNSHIP SEWER AUTHORITY
OF NEW GARDEN TOWNSHIP
CHESTER COUNTY, PENNSYLVANIA

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Public meeting held jointly by the Board of Supervisors and the Township Sewer Authority to consider the sale of the New Garden Sewer System to Aqua Pennsylvania Wastewater, Inc., and to consider proposed changes to the pending asset purchase agreement.

Said hearing held at the New Garden Township Building, 299 Starr Road, Landenberg, PA 19350, on Monday, September 23, 2019 beginning at 7:00 P.M.

BOARD OF SUPERVISORS: Stephen Allaband, Chairperson
Richard Ayotte
Michael Loftus
J. Patrick Little
Randy Geouque

SEWER AUTHORITY: Mike Wolfe, Chairperson
Ken Reed
David Gula
Vince Liberi

APPEARANCES:

Vince Pompo, Esquire
Solicitor for the Board

Nancy Sage Sciarretta, RPR
Official Court Reporter
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PROCEEDINGS

CHAIRMAN ALLABAND: Welcome, everyone, to our special meeting of the Board of Supervisors and Sewer Authority.

First item of business, I'm going to do a roll call. Vince Liberi; Sewer Authority?

MR. LIBERI: Here.

CHAIRMAN ALLABAND: David Gula; Sewer Authority?

MR. GULA: Here. Present.

CHAIRMAN ALLABAND: Present, okay.

Mike Wolfe?

CHAIRMAN WOLFE: Present.

CHAIRMAN ALLABAND: Kenny Reed?

MR. REED: Present.

CHAIRMAN ALLABAND: So we have a quorum for The Sewer Authority.

Then we will do the Board of Supervisors, Randy Geouque?

MR. GEOUQUE: Present.

CHAIRMAN ALLABAND: Pat Little?

MR. LITTLE: Here.

CHAIRMAN ALLABAND: Mike Loftus?

MR. LOFTUS: Here.

CHAIRMAN ALLABAND: And Rich Ayotte?

1 MR. AYOTTE: Present.

2 CHAIRMAN ALLABAND: And myself, Steve
3 Allaband.

4 Okay. With that, I'm going to turn the meeting over
5 to our solicitor, Vince Pompo.

6 MR. POMPO: Good evening, everyone. Welcome
7 to the meeting.

8 I'm going to do a little bit of a narrative, just to
9 give everyone a background of where the Township and Sewer
10 Authority has been with the proposed transaction to sell the
11 sewer system to Aqua Pennsylvania, Inc., and where we think
12 we're going.

13 We're also going to have the Township's Consultant
14 and the Recording Secretary for the Sewer Authority, Spencer
15 Andress, who is sitting up here in the front row, give a
16 little bit of background on some of the rate issues, present
17 rates, and perhaps some of what we would expect after the
18 sale of the system.

19 Before we get to that, I would like to do a couple
20 housekeeping matters. First of all, we do have a court
21 reporter here this evening up front taking notes of the
22 meeting. We did this for the two joint meetings that we had
23 a couple years ago in the past when we first did the public
24 meetings on the sale of the system and the approval of the
25 original Asset Purchase Agreement. We thought that would be

1 a good idea so that any members of the public, who cannot be
2 here this evening, could actually see what was said, see what
3 questions or concerns may have been, and see what actions, if
4 any, the Boards took so that it was word-for-word, it's not
5 whisper down the lane, it's this is what happened at the
6 meeting.

7 With that said, since it is being recorded by the
8 court reporter, we do have the one standard rule which I
9 always say at public meetings when we do conditional uses and
10 other hearings, only one person can speak at a time. The
11 only time I will really interrupt anybody is if you break
12 that rule, because while Nancy is a very talented person, she
13 can't record two people speaking at once.

14 I'd also like to recognize that we do have officials
15 from Aqua with us this evening. They're not going to do a
16 presentation, but they are present so that they can answer
17 questions, if necessary, from the Boards or from the public.

18 Gentlemen, would you like to introduce yourselves?
19 For those assembled, they're in the back of the room.

20 MARC LUCCA: Good evening. Thank you for
21 having us here tonight. My name is Marc Lucca, I'm president
22 of Aqua Pennsylvania.

23 WILLIAM PACKER: Good evening, folks. My name
24 is Bill Packer, and I'm vice president and controller of Aqua
25 Pennsylvania.

1 ALEX STAHL: Good evening, I'm Alex Stahl, I'm
2 regulatory counsel for Aqua PA.

3 THOMAS RAFFERTY: Good evening, Tom Rafferty,
4 director of business development for Aqua PA.

5 MARK BUBEL: Good evening, I'm Mark Bubel,
6 senior project Engineer for Aqua PA.

7 MR. POMPO: Thank you, gentlemen.

8 So if I can just give a little rendition of the
9 underlying factors which led to The Sewer Authority and the
10 Township to consider selling the Sewer Authority assets, the
11 resulting litigation which occurred, and the process that we
12 are going through in order to advance the effort to a
13 successful conclusion.

14 The Sewer Authority owns most of the sewer-related
15 infrastructure within the Township of New Garden. And the
16 Township owns what we call the DiBello property, which is a
17 future spray irrigation site. By the terms of a lease
18 between the authority and the Township, the Township operates
19 the facilities, sets the rates, and bills and collects those
20 rates for sewage conveyance treatment, reclamation and
21 related services. It hires personnel and consultants to
22 operate and maintain the facilities, and is responsible for
23 all the day-to-day functions related to the operation and
24 maintenance of the sewage facility.

25 Each year the Sewer Authority members review and

1 approve a capital budget. The Authority members also
2 recommend to the Board of Supervisors matters related to the
3 maintenance, repair and replacement of the components of the
4 sewage systems that should be included in the annual budget.

5 Over the years, and as the infrastructure has aged
6 and new capacity needs were projected, it became clear that
7 sewer user rates were stressed in order to generate the
8 revenue needed to meet debt service requirements associated
9 with new borrowing to complete identified projects in
10 addition to funding all of the normal operational costs.

11 Even considering the additional revenue resulting
12 from rate increases in 2014 and last year, the total revenue
13 is not sufficient to keep pace with the projected needs.
14 During the same period the anticipated number of new
15 connections to the system are relatively small, therefore
16 additional revenue from tapping fees is minimal, and from
17 sewer user fees from new connections is also minimal.

18 Every five years the system's water quality
19 management permit is reviewed and renewed by the Pennsylvania
20 Department of Environmental Protections. Oftentimes
21 requirements are added to the permit at renewal that result
22 in capital additions to the systems having to be made.

23 The conclusions reached from the Sources and Uses Of
24 Funds Analysis was with relatively small and nominally
25 growing sewer user customer base, the capacity to generate

1 and sustain the level of revenue needed for operations,
2 maintenance and capital projects was not available without
3 placing undue hardship on the sewer system customers.

4 It was also determined that the Sewer Authority and
5 the Township are really not the most logical entities to own,
6 operate and maintain the sewer systems in the long term, in
7 face of the ever increasing regulatory requirements,
8 financial limitations, limited growth opportunities, and
9 other priorities better served by local government.

10 Therefore, the Sewer Authority members and the
11 Supervisors determined it was prudent to begin to explore
12 alternatives. Consequently, Sewer Authority members and
13 Supervisors authorized the preparation of a request for
14 proposals in order to determine what level of interest, if
15 any, there might be in any entity in the wastewater business
16 acquiring the New Garden sewer facilities.

17 Three proposals were received. Upon review it
18 became clear that each of the three proposals contained
19 unique provisions and approaches to the structure of the
20 deal, which was not totally unexpected. It also became clear
21 that in order to fairly and accurately assess and compare the
22 three proposals, additional expertise was needed related to
23 valuing the infrastructure and rate making with the PUC,
24 which are critical components of the deals.

25 The money offer contained in the proposals were

1 certainly important, but there were other aspects of the sale
2 that were equally important.

3 Consequently a committee was formed comprising of
4 two members of the Sewer Authority, two members of the Board
5 of Supervisors, the Township Manager, the Solicitor and the
6 Director of Planning and Projects to determine the path
7 forward and evaluate the proposals in detail and craft the
8 content and structure of the sale.

9 In addition, the committee deliberated the use of
10 the proceeds of the sale. One of the main goals was to
11 prepare and update and define the addendum to the RFP that
12 required responses to a series of very specific requirements
13 from each of the respondents of the RFP. The goal was to
14 reduce the number of variables among the proposals in order
15 to arrive at a credible apples-to-apples comparison of the
16 proposal.

17 The committee recommended and the Sewer Authority
18 members voted, as did the Board of Supervisors, to engage the
19 services of a number of subject matter experts to assist the
20 committee as needed. The goal of the committee was to
21 investigate as many reasonable, viable options related to the
22 sale as practical during this due diligence period.

23 The committee discussed various uses, both long term
24 and short term, of the proceeds from the sale of the system.
25 Any number of ideas was discussed and considered. Some of

1 the topics included paying down existing debt, programs to
2 stimulate economic development and investment in the
3 Township, sewer rate stabilization, public safety
4 improvements, open space preservation, airport improvements,
5 capital renewal and replacement, establishing a capital
6 reserve fund, and making immediate capital improvements such
7 as addressing road and bridge, culvert and stormwater
8 infrastructure, park improvements, historical preservation
9 opportunities and future project priorities.

10 In the meantime, in 2016, the Pennsylvania
11 Legislature enacted Act 12, which encourages the
12 consolidation of smaller wastewater systems in allowing the
13 selling municipality to charge the fair market value of its
14 system, rather than its depreciated cost.

15 This statute, combined with the prior 2012 Act that
16 allows the utility to spread its acquisition costs to all of
17 its rate payers across the State, has created favorable
18 conditions for municipalities with good cause to sell their
19 systems.

20 Supplemental proposals were received by the
21 Authority in the Township and opened in March of 2016. After
22 an evaluation of the proposals, the Board of Directors of the
23 Sewer Authority and the Township Board of Supervisors
24 determined that Aqua Pennsylvania Wastewater, Inc. was the
25 most responsible bidder and represented the best reasonable

1 offer for the purchase of the sewer system.

2 The Asset Purchase Agreement was then prepared and
3 ultimately signed. It is anticipated that the sale of the
4 system will provide stability and sewer rates in the future,
5 as a direct result of economies of scale by having service
6 provided by an organization with significant resources to
7 meet ever increasing regulatory demands and infrastructure
8 needs as the sewer system ages.

9 Therefore, on August 15th, 2016, at a special joint
10 meeting of the Sewer Authority and the Supervisors, the
11 Supervisors entertained any questions or concerns from the
12 public, heard from various experts that had been retained by
13 the Township, and after hearing from the public, the Sewer
14 Authority members and members of the Board of Supervisors
15 voted unanimously to approve and enter into the Asset
16 Purchase Agreement with Aqua.

17 Obviously, the Authority members and the Supervisors
18 considered several alternatives before selecting the
19 alternative of selling the sewer system. Those alternatives
20 included such things as doing nothing, investing a minimum
21 amount of money needed to keep the systems operating, making
22 needed capital improvements and borrowing the necessary
23 money, merging with other systems including Avondale, Kennett
24 Square Borough, leasing systems to an outside entity, and
25 deferring major expenses for as long as possible.

1 There were a number of factors that influenced the
2 decision to sell, which included the limited number of new
3 connections as projected, increased rates that had already
4 taken affect in late 2014, several million dollars required
5 to be spent for capital projects; due to the age of certain
6 components of the system there will be major capital
7 expenditures needed over the next several years, unexpected
8 major expenses may occur, manpower costs continue to increase
9 as do other costs such as electricity and immediate goods and
10 services.

11 For these reasons the decision to sell became the
12 selected alternative.

13 Following this the Township, Sewer Authority and
14 Aqua entered into the Asset Purchase Agreement to sell the
15 system for the sum of \$29,500,000, subject to approval from
16 certain regulatory agencies.

17 In December of 2016 a formal application was filed
18 by Aqua with the Pennsylvania Public Utility Commission
19 requesting approval of the sale and issuance of a certificate
20 of Public Convenience to permit Aqua to purchase the sewer
21 system, and to begin serving customers in New Garden
22 Township.

23 This became the first application to the PUC for a
24 sale under the newly enacted Act 12. The PUC adopted an
25 order on June 14th, 2017, approving the application and the

1 sale. The 30-day appeal period ran from June 29th, 2017.

2 During the appeal period the PUC's Bureau of
3 Investigation and Enforcement timely filed with the PUC a
4 request for reconsideration. The PUC agreed to consider the
5 request for reconsideration, and at its meeting in October of
6 2017 the PUC adopted and issued a revised order affirming its
7 June order, which had approved the transaction with some
8 modifications.

9 The Office of Consumer Advocate then filed a timely
10 appeal with Commonwealth Court of the October 2017 PUC order.
11 The Commonwealth Court then heard oral argument on September
12 14, 2018, and issued its decision on October 11th, 2018,
13 which was over one year after the initial PUC approval and
14 order, and more than 22 months after the application was
15 filed with the PUC.

16 The Commonwealth Court decision, which was the first
17 court decision at that level interpreting the new Act 12,
18 sent the matter back to the PUC for further review and
19 action.

20 Aqua then filed a Petition for Allowance of Appeal
21 with the Pennsylvania Supreme Court. On April 23rd, 2019,
22 the Supreme Court issued its decision to deny hearing the
23 appeal, thus ending the appeal process.

24 Throughout the proceedings, the Township and the
25 Sewer Authority were kept informed and participated in a

1 limited capacity while Aqua remained the principle
2 participant. Currently, settlement discussions are ongoing
3 between the parties in the original proceeding. Objection
4 was previously made in the original proceeding related to the
5 two-year rate freeze that was in the Asset Purchase Agreement
6 and a cap on how much rates could increase over ten years,
7 which we call the CAGR.

8 And there were issues alleged by other parties for
9 not providing adequate public notice of the transaction under
10 the new statute.

11 The selling price of the sewage system has not been
12 an issue, and remains at 29 and a half million dollars. The
13 expectation is that by working through the concerns of each
14 entity involved in the approval and appeal process, agreed
15 upon settlement terms can then be presented to the PUC for
16 consideration and favorable action.

17 One of the requirements contained in the decision
18 and order of the Commonwealth Court is that notice of the
19 acquisition and potential impact on user rates be provided to
20 all existing Aqua wastewater and water customers, in addition
21 to all existing New Garden sewer customers. Notice will be
22 provided as required by the Commonwealth Court's order.

23 As discussed before, certain legislation provides
24 for the distribution of costs related to acquisition of water
25 and wastewater systems over the entire existing water and

1 sewer customer base throughout Pennsylvania of the purchaser,
2 in addition to the customers at the acquired system, when in
3 the public interest. The logic is that by spreading costs
4 equitably as determined by the PUC, user rates can be kept
5 reasonable.

6 As part of the potential settlement, New Garden and
7 Aqua will be asked to amend the Asset Purchase Agreement to
8 remove the provisions regarding the rate freeze and the
9 compound annual growth rate.

10 In the meantime, as anticipated due to the increased
11 costs, in late 2018 New Garden adopted a sewer rate ordinance
12 which provides for rate increases in 2019, 2020, and 2021.

13 In summary, the potential settlement, if approved,
14 would do the following: Allow New Garden to sell to Aqua the
15 sewer assets for the amount of 29 and a half million, and for
16 Aqua to provide sewer service in areas supplied by New
17 Garden. It would allow the implementation of New Garden's
18 existing sewer rate ordinance by Aqua, which provides for the
19 rate increases in this year, 2020 and 2021, after which times
20 rates would remain in effect until Aqua's next phased rate
21 case is approved and implemented, and other rate
22 considerations that will be discussed by Mr. Andress.

23 At the conclusion of the meeting tonight, if it is
24 the desire of both of these boards, the boards will be
25 considering whether to approve an amendment to the Asset

1 Purchase Agreement that, as discussed, would remove the rate
2 freeze in the existing agreement, and also would remove the
3 CAGR provisions.

4 With that -- and I apologize for the lengthy
5 introduction, but again, I thought it important that everyone
6 be reminded of how we got here -- I will ask Mr. Andress to
7 briefly review and address the rate issues that are before
8 the Boards.

9 MR. ANDRESS: Mr. Pompo's summary, I think,
10 did a very good job of setting some of the parameters of the
11 impact rates, talked about the CAGR, talked about the rate
12 freeze, talked about some of the regulatory issues, all of
13 which have a big part in what the rates are and will be.

14 Many of you may remember that in 2016 when the sale
15 was being considered, there was a public meeting similar to
16 this, at which the information was shared with the public and
17 potential rates were discussed. At that meeting a scenario
18 was presented that included rate projections. Now, I'm
19 talking just about residential rates and using average
20 consumptions.

21 Rates were presented if the system were to remain in
22 New Garden Township ownership that projected a 40 percent
23 increase the first year, a 27.5 percent increase the second
24 year, which would then increase the rates to \$337.90 per
25 quarter. And then later on in that schedule, there was

1 another increase of three percent, which would raise those
2 rates to \$348.04.

3 Over that period of time the compound annual growth
4 rate was about seven percent. That was compared to the
5 projected rates that Aqua would charge, starting at -- well,
6 there was a two-year rate freeze which was projected, which
7 is part of the current Asset Purchase Agreement. As Mr.
8 Pompo noted, that's under consideration to be eliminated.
9 But that would hold the rate of \$189.30 for the first two
10 years. It would then increase 14 percent, two and a half
11 percent, two and a half percent, 17 percent, two and a half,
12 percent, two and a half percent, 4.1 percent and 2.5
13 percent, taking the rates then to \$269.41.

14 And that respected the CAGR cap of four percent,
15 which was in the Asset Purchase Agreement.

16 So, in 2016, using the information that was
17 available to us that was the side-by-side comparison, if you
18 will, that was made between New Garden rates and Aqua rates,
19 as you can tell, the Aqua rates projected were lower.

20 As Mr. Pompo pointed out, there are pressing needs
21 with the sewer system, capital needs and operational needs
22 that require cash. The sewer authority has cash on hand, and
23 that cash is being used to supplement -- or up to this past
24 year used to supplement these needs.

25 The ordinance was adopted and the rates are

1 increasing over the next three years. The first year has
2 already been placed in affect, and the average increase is
3 about nine to nine and a half Percent.

4 And I say "about" because you may or may not know,
5 if you look at the details of the current New Garden rate
6 schedule, each of the three groups meaning residential,
7 commercial one and commercial two, there's an excess base
8 rate -- I'm sorry, there's a base rate, and then there's an
9 excess one rate and an excess two rate.

10 So, in essence, the more you use, the more you pay.
11 So it's not a simple matter of saying X divided by Y is Z.

12 So when I say about nine and a half percent, ten
13 percent, nine percent, that's some of the reason for doing
14 that. So each of the categories, residential, commercial one
15 and commercial two rates are increasing as a result of
16 adoption of the ordinance. And as Mr. Pompo noted, that
17 carries through 2021. So, that ordinance will become part of
18 the Aqua rebate, or tariff, once the settlement takes place.
19 So those rates are, I'll use the term "locked in" until the
20 end of 2021.

21 So what does that mean? For an average New Garden
22 residential customer the consumption or use is about 12,000
23 gallons per quarter. Again, based on the rate structure,
24 5,000 gallons of that is included in the base rate, and then
25 there would be 7,000 gallons in this scenario of excess one

1 rate. And using that framework and the rates that are in the
2 ordinance, that results in the total of \$219.10 as the charge
3 per quarter for residential use of 12,000 gallons.

4 The proposed or projected, I should say, Aqua
5 estimated rate using a different set of numbers, because
6 their tariff is different, they will adopt what New Garden
7 has on the books initially, but that is going to change over
8 time. So using the tariff that's in place now approved by
9 the PUC for other customers of Aqua, and doing the numbers
10 and making the adjustment, the projected quarterly equivalent
11 is \$254.88.

12 And, again, you can't take the New Garden total and
13 divide it by three to get a monthly rate. It's easier, or
14 somewhat more logical to take the monthly Aqua rate and
15 multiply it by three to get a quarterly rate; there's a
16 better comparison.

17 So that's what we're looking at at this point.

18 The reasons for the increases were explained by Mr.
19 Pompo in his summary. The 29.5 million dollar purchase price
20 is one of the drivers, probably the biggest, in determining
21 rates. However, there's another component that's
22 significant, and that is the capital needs of the system.
23 And as was mentioned, there are some very pressing capital
24 needs, which means that New Garden is going to have to go out
25 to the capital market and borrow money to meet these needs

1 and do it quickly, if the sale doesn't go through. And that
2 borrowing, of course, needs to be repaid. And that results
3 in debt service every year. And that's on top of operating
4 expense increases.

5 So that has a compounding affect, and what we use in
6 our projections are typically three to three and a half
7 percent per year for those increases.

8 The one analysis that we did in 2016 for comparison
9 purposes, looking at projected capital needs and operating
10 expenses over time, resulted in a 62 percent increase in year
11 one, followed by three percent, roughly three percent
12 increases each year thereafter until the next roughly five
13 years, at which time another capital borrowing would be
14 necessary to continue the capital improvements that are
15 necessary to maintain the system.

16 And in the meanwhile, the system is aging so it
17 results in other capital needs. But the major ones needed to
18 be addressed now, and lesser ones over time.

19 The background for the necessity of the rate
20 increases has been in several written communications to
21 members of the New Garden community and the Sewer Authority
22 persons that are served, and through the summary that's
23 presented tonight.

24 I don't want to bore you with a lot of numbers, but
25 just so you have some sense, the number of residential

1 accounts, I'll say EDUs, equivalent dwelling units, that are
2 being billed is just a little over 2,000. And they're broken
3 down into increments of zero to 5,000 gallons of use, five to
4 15,000, and then 15,000 and over.

5 And as I said earlier, the more you use the more you
6 pay. So, when you plot that customer base and the usage, it
7 forms a fairly nice bell curve. So that the distribution is
8 fairly equal and even, so that the impact of rate increases
9 is not going to be borne by a large group on the lower end,
10 or a large group on the upper end. That increase is, well,
11 being shared more or less proportionately across that bell
12 curve.

13 So that -- I was going to say that's encouraging,
14 but I think that puts a little bit different perspective on
15 how rates are determined and impact the user.

16 So, with that said, we're looking at, over time,
17 similar rates between New Garden and Aqua if New Garden
18 retains ownership of the system, but that time frame is
19 roughly the next six to eight years.

20 Beyond that, the New Garden capital needs are going
21 to continue to increase significantly. Whereas with Aqua,
22 those needs are going to be met more systematically over the
23 intervening years, which tends to smooth out the rate
24 increases and capital needs resulting from the system aging
25 and repairs being needed.

1 I think that covers it.

2 MR. POMPO: Thank you, Spence.

3 Are there questions that members of the Board of
4 Supervisors or the Sewer Authority have for either myself or
5 Mr. Address or for the Aqua representatives that are here
6 this evening?

7 Yes, sir?

8 MR. LITTLE: Pat Little.

9 I think this probably goes to Spence, or maybe to
10 Aqua, since 2016 when we had our first agreement -- I don't
11 know how you can do this -- can you put a cost or a dollar
12 figure on what it would cost us in addition, due to new
13 regulations like EPA or from the State?

14 I know that we were facing one at the south plant,
15 which we estimated to be about a million dollars. I'm not
16 sure if that's a regulation or what, I know that was on the
17 books. But I'm just going since our last agreement date.

18 MR. ADDRESS: I'll answer that in two ways.
19 One is indirectly by saying that in 2016 there were X-number
20 of dollars in the New Garden Township Sewer Authority bank
21 account. And that money was accumulated over a period of
22 time to use for various operating and capital expenses.

23 Because of the regulatory requirements that are
24 associated with the south plant, it has been necessary as a
25 stopgap measure to use about half of the capital reserves

1 that were on hand in 2016 just to operate.

2 So, we're looking at something in the neighborhood
3 of two, two and a half million dollars having been spent in
4 the last three and a half to four years, roughly, to keep up
5 with the regulations. And that does not account for new
6 regulations coming down the pike, which have not impacted the
7 system yet.

8 MR. LITTLE: I guess then my question would be
9 to Aqua, when you would enter a rate, how much of that is
10 allocated to new regulations? I mean, that's not a straight
11 line, but you got to have an estimate.

12 MARC LUCCA: Yes. When we put our rates in,
13 we're looking retrospectively. So we're looking at money
14 that's already been spent. And, frankly, that's why when we
15 spend money, we have to be very careful about that. Because
16 our money is spent, many times, exclusive without the benefit
17 of the PUC rendering an opinion. That occurs at the time of
18 a rate case, where we already spent the money. So we have to
19 be very, very careful about what we do.

20 We do look at existing regulation, but we're also
21 being very careful to be prepared for future regulations
22 without the burden of necessarily spending money for that.

23 MR. LITTLE: I think I understand.

24 MR. GEOQUE: I have a question for somebody
25 from Aqua. My question is probably one that could be asked

1 by the public at some point this evening, which is, from an
2 increase standpoint, in its simplest form -- aqua's rates are
3 based on their investment in the systems and everything, so
4 like I said, in its simplest form, you wouldn't be able to
5 necessarily get a rate increase without having capital
6 expenditures.

7 So I think from our standpoint is, what guarantee do
8 we have from Aqua that they will continue to invest in our
9 system?

10 MARC LUCCA: That's a good question. Thank
11 you.

12 Again, my name is Marc Lucca, President of Aqua
13 Pennsylvania. We've been around for over 130 years and our
14 process is to invest money wisely, for the reason that I just
15 said a moment ago, so that we maintain clients, so we
16 maintain service and liability for our customers. When you
17 think about how we invest money, and you look at what we
18 do -- the economies of scale, which is really what you're
19 benefiting from here -- last year we invested in over 150
20 miles of pipeline in Pennsylvania alone. We had over 300
21 million dollars in capital investment. In the seven years
22 between rate cases we invested over two million dollars.

23 All of that was invested and then submitted to the
24 Public Utility Commission for approval. So recovery of that
25 is after the fact, and with review and approval after the

1 fact with the Public Utility Commission. But it's not only
2 investment of capital, but we also have investment in labor,
3 what we might call expenses, power, pipe, which is capital,
4 but also chemicals. Our ability to purchase any one of
5 those, whether it's pipe, or chemicals, or even power, is
6 where you really benefit from having the economies of scale
7 that we bring, because we're able to buy power, chemicals and
8 pipe other things on a state-wide basis.

9 So we go in to buy power, for example, people sit
10 up and listen, they want our business. And that results in
11 more attractive rates to the customer, and something the
12 Public Utility Commission requires of us as well.

13 MR. GEOUQUE: Thank you.

14 DAVID TREXLER: I had a question.

15 MR. POMPO: Are we ready to go to public?

16 Yes. Okay. Very good.

17 Could you please state your name for the court
18 reporter, your address. We would like to know if you're a
19 resident or nonresident.

20 And if you can't be heard, you'll have to use the
21 microphone.

22 DAVID TREXLER: Okay. My name is David
23 Trexler, okay, and I'm a resident of the Harrowgate 55-plus
24 community. So, I'm just getting up to speed on all of this.

25 I was a little surprised by how much the rates are

1 going up. And I was curious how our current rates compare to
2 other townships in the area; are we currently much lower or
3 on par?

4 MR. POMPO: That's a good question.

5 MR. ANDRESS: Not to avoid your question, but
6 that's a hard one to answer, because each system has its own
7 needs. Each system has its own capital needs, operational
8 needs, some systems are operated by contract operators,
9 others, there are full time employees, and on and on and on.

10 I would say generally the New Garden rates are
11 comparable, they're in the ballpark with neighboring
12 communities. But, again, when you compare Avondale, Kennett
13 Borough, East Marlborough Township and other municipalities
14 in the area, there will be differences.

15 But I think, overall, we're in the same general
16 ballpark.

17 DAVID TREXLER: Are they also anticipating
18 large increases in their rates?

19 MR. ANDRESS: I don't know. With a regulated
20 utility such as Aqua, there's a very formal process with the
21 Public Utilities Commission that has to be filed under public
22 notice, it's required, et cetera. With municipalities and
23 municipal authorities, that same requirement doesn't exist.
24 The Board of Supervisors can advertise an ordinance in the
25 paper one time, adopt the rates at the regular meeting and

1 that's that.

2 So in these other municipalities, yes, they may be
3 considering an increase, but I may not know about it, you may
4 not know about it. It would be public somewhere, but unless
5 you're looking for those kinds of things, you might miss it.

6 MR. POMPO: Yes, sir.

7 JIM KELLY: Hi, my name is Jim Kelly. I live
8 in Geezerville -- I mean, Brittany Hills. And my question
9 relates probably from what you guys are going to have to
10 answer. As someone who lives here, uses water, flush, pays
11 the bill, I'm going to say these guys own it, so, they have
12 to make decisions about improving it, running it, the cost of
13 doing so. And that then flows back, no pun intended, through
14 my water bill from them.

15 If, however, they sell to you what I'm using, do I
16 have a current understanding that you are authorized by the
17 State of Pennsylvania to spread the cost of this acquisition,
18 this 29 and a half million, across all of your customers
19 throughout Pennsylvania, at least, including us, in our water
20 bill?

21 So we're giving you money, so you can give it to
22 them, so they can sell it to you from my pocket?

23 WILLIAM PACKER: I'll take that question.
24 Again, my name is Bill Packer, I'm the controller of Aqua
25 Pennsylvania. And relative to the sale, that's really what

1 being a private utility and providing the service has been
2 about, Pennsylvanians being able to -- for example, we have
3 430,000 water customers, and those primarily for 130 years.
4 On the wastewater side -- we just got into the wastewater
5 business in 1996, and it's a growing part of the utility.

6 So what you're seeing is that, as we acquire systems
7 and we have applications in the PUC to acquire in our system
8 10,000 customers here, 5,000 customers there, 2200 customers
9 here in New Garden, we're able to consolidate those into a
10 larger pool of customers.

11 And after we make investments, yes, we are afforded
12 the opportunity to spread those costs over a greater pool.
13 That's what makes Pennsylvania one of the better states
14 across the country that allows for what we call single tariff
15 pricing.

16 So that's certainly something that, as we grow in
17 the sewer industry, as right now we are, a lot of systems in
18 the State, not just in this state, but other states are
19 dealing with themselves because of the challenges that the
20 Board mentioned.

21 So, yeah, it is a bit of a good thing, and that's
22 what we're able to do. It's almost like an insurance pool,
23 look at it that way.

24 JIM KELLY: So once the deal is done, for the
25 next ten, 15, 20, 30 years as you remain in business and do

1 other acquisitions, those costs of those acquisitions that
2 don't benefit us at all here are going to come to us in our
3 water bill, because you're allowed to pass it through?

4 WILLIAM PACKER: When you look at it, right.
5 It goes both ways, right? So in the New Garden system,
6 right, we acquire the system, certain systems are in better
7 condition the day we acquire them than others. So what we
8 end up having is, over time, we'll be investing money where a
9 system needs it most, do it first. And as your system is
10 repaired and in good working condition, probably for the next
11 30, 40 years, we'll be diverting our attention to another
12 part of the State, putting our money there. It's just a
13 cycle.

14 JIM KELLY: So at the end of the day it may be
15 cheaper for us to do this deal with you -- at the end of the
16 day it may be cheaper for us here in the long run to do this
17 deal with you than to leave it 100 percent here, where we've
18 got to foot the bill for all the repairs, all the changes,
19 all the accommodations and changes?

20 WILLIAM PACKER: It's the reality of it,
21 right?

22 I used this as an example in my own hometown. I
23 live in Jersey. There we only have 3,000 residents, 1100
24 homes. In my town this year, we've had tons of emergency
25 repairs for stormwater and wastewater. So it's a risk.

1 You're a small town, you only have a small amount of
2 residents at home AND you have a big repair, you end up
3 seeing it in a greater, larger component in your monthly
4 bill, than you would if you were able to have that spread
5 out. So it's absolutely a fact of the reality of the world
6 we live in.

7 JIM KELLY: I totally understand. I lived in
8 New Jersey, and I realize New Jersey is the native American
9 word for wet basement.

10 WILLIAM PACKER: Appreciate it.

11 MR. POMPO: Gentleman in the back row, dark
12 shirt.

13 KEN ROBERTSON: My name is Ken Robertson. I
14 live at Somerset Lake.

15 And on the handout that I picked up -- so it says
16 what is the timing, the first quarter of 2020. So I'm
17 surprised that we have spent all this time from 2016 to where
18 we are today with no signed contract.

19 So, I assume, in the first quarter of 2020,
20 something is going happen. And if not, I assume that New
21 Garden Township and our sewer company is going to still have
22 the burden to maintain and to continue along; is that
23 correct?

24 MR. POMPO: Well, let me just first correct
25 you. We have had a signed legal contract since 2016. And

1 we've been abiding by that and Aqua has been abiding by that.
2 But that does require the approval of the PUC. So it's that
3 approval of the PUC that we had first obtained. And then
4 because of a court action that was, you know, reversed, why
5 we need to go back to the PUC for another approval.

6 So I just wanted to clarify that.

7 We would anticipate that assuming the Boards approve
8 the changes to the agreement this evening, that we anticipate
9 and we're hopeful that with that, we can then go back to the
10 PUC with the settlement agreement that the parties in the
11 matter are agreeable with, with an additional public noticing
12 period.

13 And if all that works out, then hopefully, you know,
14 by first quarter we would have a settlement and the system
15 would actually have been sold.

16 If that doesn't happen, the Township has to continue
17 to operate and The Authority has to continue to own the
18 system, and we'll continue to do that.

19 Yes, sir?

20 JERRY SMITH: Yes, sir.

21 My name is Jerry Smith. And I live in Hartfeld. I
22 have several questions I'd like to ask.

23 I assume the Sewer Authority has a budget as such,
24 and is it on a calendar year, or is it a physical year? And
25 where would we stand at this point as far as what our

1 projected gross revenues were or are, and what our expenses
2 are?

3 I mean, that's the first question I have.

4 MR. POMPO: Spence, do you want to take that?

5 MR. ANDRESS: The Authority, as the Township,
6 also operates on a calendar year.

7 JERRY SMITH: Okay.

8 MR. ANDRESS: I don't have with me tonight the
9 current budget for the Sewer Authority, so I can't answer
10 your question tonight. But I can get back to you with what
11 the budget is, where we are with respect to the budget for
12 both income and expense.

13 JERRY SMITH: Perhaps you can answer this
14 question: Have we run at a deficit in the past two or three
15 years or have we, in fact, made money?

16 MR. ANDRESS: At a deficit.

17 As I mentioned earlier, The Authority has been using
18 money that was in reserve to, use the term, "break-even".

19 JERRY SMITH: Right. Can you give me some
20 idea as to what the deficits are at?

21 MR. ANDRESS: Roughly I would say in the
22 200,000, \$250,000 a year range.

23 JERRY SMITH: Okay. So if I understand
24 correctly, we have something like 2,000 customers; is that
25 correct?

1 MR. ANDRESS: Roughly.

2 JERRY SMITH: So if -- you only need to
3 increase our sewer rate by \$100, as an average, in order to
4 be able to come up with that shortage; is that correct?

5 MR. ANDRESS: But that only brings us to
6 meeting the current operating expenses. That does not
7 address any of the capitals needs, new borrowing debt
8 service, or increase in the operating expenses.

9 JERRY SMITH: Which I understand.

10 Which leads me to the next question I have: What is
11 the estimate for the capital expenses that you have
12 forecasted?

13 MR. ANDRESS: Depends on the time frame that
14 you're addressing, but in the near term, we're looking at
15 four to five million dollars within the next two to three
16 years. Then beyond that, it's another, roughly, two to three
17 million in the next five or six years.

18 JERRY SMITH: For whatever reason, that
19 doesn't sound like an insurmountable amount of money to make.

20 And what do we have as far as current cash reserves
21 are concerned?

22 MR. ANDRESS: It's, round numbers, roughly
23 about two million.

24 JERRY SMITH: Okay. All right.

25 Last point I would like to make is a follow-up to

1 this gentleman's point over here. You know, it all sounds
2 good that the cost of this is going to be amortized over all
3 the Aqua water customers. But, of, course that's a
4 double-edged sword, because as time goes on and there's
5 other -- there's other acquisitions or capital expenditures
6 that Aqua needs to make, they're going to be amortized also
7 over -- or shall I say we're going to be paying our
8 proportionate share of those as well. So I just wanted to
9 make that point.

10 Thank you. Thank you for answering my questions.

11 MR. ANDRESS: You're welcome.

12 MR. POMPO: Mr. Perotti.

13 BOB PEROTTI: Hi. My name is Bob Perotti and
14 I live at 1022 Sara Drive, Landenberg. I got a question for
15 Spence.

16 In the bidding process, or what have you, for the
17 people who are interested in buying the sewer plant, who were
18 they?

19 MR. ANDRESS: As I recall there was Aqua,
20 Pennsylvania American, the Delaware County Regional Sewer
21 Authority -- I'm missing one.

22 CHAIRMAN WOLFE: They were the only bids we
23 received.

24 MR. ANDRESS: Bucks County Water and Sewer
25 Authority, I believe, expressed interest as well.

1 BOB PEROTTI: I guess my point is, whoever is
2 aware of it, Aqua just purchased DELCORA for 276 million
3 bucks; is that right?

4 MARC LUCCA: We've entered into an Asset
5 Purchase Agreement. We've now entered the Public Utility
6 Commission process. Not exactly the same.

7 BOB PEROTTI: I guess if you read some of the
8 articles about Aqua, and I read them because I'm a
9 stockholder, that I guess it was the person who was in charge
10 of DELCORA didn't have a bidding process between you and
11 American Water because they didn't want the price to go up
12 through a bidding war, and have the rate payers pay for that
13 increase that may have occurred through a bidding war; am I
14 correct in that?

15 MARC LUCCA: That's correct.

16 And I'll give a more complete answer, if I may.
17 DELCORA wanted to achieve certain things with the sale of
18 their asset. So, yes, it was sensitivity to purchase price,
19 and the translation of purchase price into customer ratings.
20 They also wanted someone who understood the regulatory
21 playing field here in Pennsylvania, but also more
22 importantly, in Southeastern Pennsylvania. They wanted a
23 commitment from Aqua to hire all of the employees at their
24 current rates, and that was achieved as well.

25 So there were a series of goals that they had in

1 mind, which they were able to achieve because of the way that
2 particular deal had been structured. And it's still not
3 done, as I said earlier. It does require approval by the
4 Public Utility Commission.

5 BOB PEROTTI: Thank you.

6 The point I'm getting to is, the township's going to
7 receive -- and I think the Township is at a point where they
8 have to sell it now because, you know, it's long beyond its
9 years and not going to be able to afford it anyhow. But I
10 think the fact of it is, they're spending 29 million bucks
11 for this, for the sewer. And it's nice for the Township to
12 get 29 million dollars to put in the bank, but that's at the
13 expense of the rate payers.

14 The rate payers are going to get increases, and the
15 Township is going to get 29 and a half million dollars. So,
16 how does that leave that fair to the rate payers to continue
17 paying increasing rates?

18 The Township gets 29 million for the Board of
19 Supervisors to spend money, not only this Board but Board
20 members in the future, from a sale, how do you think that
21 that's fair to the rate payers?

22 If there was going to be some kind of reimbursement
23 of some sort to the rate payers, then I would think that's
24 fair. Everyone in this room who is connected to the public
25 sewer in New Garden Township, either they paid for the EDU to

1 tie in to that system, or the person who owned their home, or
2 whatever have you, before they arrived paid for it.

3 So in a sense, what we all paid for those EDUs is
4 going back into the Township in this 29 million dollars.
5 Then we're going to continue to pay, basically, interest on
6 that. Because they're paying 29 million for something not
7 even worth 29 million. Maybe in their eyes, but not in my
8 eyes.

9 So, I don't know how you come to this conclusion
10 that maybe if they didn't pay 29 million dollars for this
11 sewer plant or this infrastructure, maybe it wouldn't be such
12 a great impact to pay every year for the next several years.

13 Anybody have any comments?

14 MR. POMPO: Well, I'll make the first comment,
15 as I had gone through in the introduction.

16 BOB PEROTTI: Excuse me. Can you talk into
17 that? I can barely hear you.

18 MR. POMPO: I'm sorry.

19 As I said in the introduction, in considering
20 whether to sell and the purchase price, the boards,
21 particularly the Board of Supervisors, has considered a
22 number of different areas for the use of the proceeds
23 including present projects, some type of capital fund that
24 could be invested wisely for future projects and other
25 matters, including rate stabilization.

1 So that has not -- and by that I mean some type of
2 program that would assist the customers should there be
3 increases in rates that might be considered to be out of
4 line.

5 Now, the Board has not considered that at a detailed
6 level, because that's really not part of the Asset Purchase
7 Agreement. And as we learned in the PUC proceeding,
8 particularly with its implementation of this Act 12, the PUC
9 doesn't really want to hear that, either.

10 The PUC has authority to set rates. And the PUC
11 holds that authority very dearly to itself. So as we
12 learned, we can't even go to the PUC and ask for an agreed to
13 rate stabilization plan between the utility and the Township.

14 So, this is not a matter that has actually been
15 finally decided by the Board as to how to address, if
16 necessary, the rate stabilization issue.

17 Spence, do you have a comment?

18 MR. ANDRESS: I would add one thing to that,
19 during the negotiations with Aqua, there were several
20 purchase price amounts put on the table. And each of those,
21 of course, had different components to the overall deal. But
22 the Board considered very carefully what you're saying, Bob,
23 the impact of the purchase price on rates. And the 29.5
24 million was decided as a good balance point between what the
25 offers were, and the impact on rate payers.

1 MR. POMPO: Mr. Lucca?

2 MARC LUCCA: I do think it's also worth
3 mentioning that under Act 12, or the Fair Market Value
4 Legislation, is protection in the Act itself in case we offer
5 a purchase price that exceeds the value of the system.

6 In that case, the excess amount is still paid -- in
7 this case to New Garden Township, if that were the case. But
8 we're not allowed to recover on that money. So that puts us
9 at risk. And there's a way that the Public Utilities
10 Commission ensures discipline in how we bid projects,
11 purchases.

12 The way that the value is determined is through a
13 common engineering assessment. So there is an assessment
14 prepared by the engineer that essentially says we, New Garden
15 Township, own this list of assets. And then we hire an
16 appraiser from a list approved by the Public Utilities
17 Commission that said the value is X. The Township does the
18 same thing with its independent appraiser. Those two numbers
19 are averaged together.

20 So there are a series of requirements to protect the
21 consumer, to protect them from us overpurchasing, and then
22 you overpaying for the system.

23 I hope that adds a little bit of light to your
24 question.

25 MR. POMPO: Yes, sir, in the second row.

1 MELVIN MORGAN: Melvin Morgan, I live in
2 Hartfeld on Brookline Court.

3 And I looked at increases that were listed in the
4 Inquirer for this business. And they went forward and asked
5 for 16.19 percent for people in 32 counties in Pennsylvania,
6 433,000 rate payers, they received 10.6 percent, if the paper
7 is correct in its publishing. And that doesn't sound like an
8 efficient business to me, if they get a step up for a 16
9 percent increase.

10 In addition, their first quarter, their profit goal
11 66.7 percent suggests that they're going to need further
12 increases. I don't know what they did in the second quarter,
13 but that's significant if it went from 50.8 to 16.9 of net
14 income. That doesn't sound like a controlled business to me.

15 They paid their CEO in 2018 three and a half million
16 dollars. So I'd like to hear more about how efficient these
17 people are going to be. When I look at the numbers,
18 ultimately they aren't very efficient.

19 MARC LUCCA: I apologize. I couldn't hear
20 everything you were saying. But I think I got the sentiment
21 of what you were getting at. And the rate process that we go
22 through to increase or change rates is essentially about a
23 nine-month process.

24 In this last rate increase there were seven public
25 input hearings around the State. There was one public input

1 hearing held telephonically for people that could not attend
2 or could not get out, or for whatever reason weren't
3 available. During that time those hearings were handled by
4 not one but two administrative law judges. People were
5 entitled to come, ask questions, have their questions read
6 into the record, and essentially be a part of that entire
7 process. The process concluded with a change in rates.

8 I understand exactly what you were saying, although
9 I didn't quite hear all the numbers. But essentially what
10 happens through that process they are looking -- the Public
11 Utility Commission is looking at all of our expenditures.
12 Some of the systems that we purchase are in such state of
13 disrepair that they require significant overhaul. For
14 whatever reasons, they're simply not able to comply with
15 current regulations, or as was mentioned earlier, even future
16 regulations.

17 So there is a considerable amount of investment
18 that's needed to begin, but then there's prolonged or future
19 investment that's required to maintain and improve the
20 systems. All of those expenditures are put into the rate
21 case proceedings. They are reviewed by the administrative
22 law judge, by the Public Utility Commission and their staff.

23 And if that is not enough, the Office of Consumer
24 Advocates, which is the Department of the Attorney General,
25 they advocate on behalf of the consumers who review, approve,

1 challenge every expenditure. So there are many, many checks
2 and balances along the way.

3 And what is very easy to say look, I saw this rate
4 increase or that, I understand the point, because some of the
5 numbers can be significant, and some make you take a step
6 back. But all of those are reviewed and approved in the end
7 in some form or fashion to some amount, in a sense it says
8 that was an approved expenditure, or, frankly, it was not.
9 And that's a risk we have to bear whenever we invest money,
10 regardless of the amount.

11 MR. GEOUQUE: I'd also like to add from an
12 efficiency standpoint, we do believe that Aqua will be more
13 efficient in running this system, as well as the
14 implementation of any capital improvements.

15 For example, every time that we have to do a large
16 capital improvement, it's going to cost us roughly 25 percent
17 because we have to pay prevailing wage. So what it cost them
18 to replace one mile of pipe, because of economies of scale
19 and their efficiencies, it's going to be a lot less than when
20 we can replace one mile of pipe.

21 BOB PEROTTI: The results don't show a lot of
22 efficiency on their part.

23 Did you get a 16 percent increase last year?

24 MR. GEOUQUE: I'm not discussing my personal
25 finances. I'm just indicating that any large capital

1 expenditures to be made, whether it's for the sewer or
2 anything else in the Township, it always costs us more money
3 than --

4 BOB PEROTTI: What disappoints me is I didn't
5 really see any numbers, any hard numbers. A lot of ifs and
6 ands and buts. If this is a professional organization, I
7 expect to see hard numbers up there on a chart, telling us
8 exactly what we're going to pay. Not an estimate or a guess.

9 Not very good, gentlemen. I'm very disappointed.

10 MR. POMPO: Well, again, I just have to
11 mention that, because of the process that rate making is
12 before the PUC, and quite honestly, it is a guess. I mean,
13 it's a snapshot in time that has to go through a regulatory
14 procedure that, as we've learned, there's a lot of
15 uncertainty that it's --

16 BOB PEROTTI: But then you put up your best
17 estimate.

18 MR. POMPO: Well, what you will see when this
19 goes back to the PUC will be estimates, because that is what
20 the PUC has been asking the utilities to do, to estimate in a
21 conservative fashion what future rates will be.

22 But they will always be estimates. Because you
23 won't know what the rates are until you go through this
24 process. And I guess the best part of that process is, it is
25 a public process, as opposed to one that can be done without

1 any notice and in a very short period of time.

2 There's a woman in the back there.

3 PAULA PANNEL-ANGELUCCI: My name is Paula
4 Pannel-Angelucci. I live at 1301 Broad Run Road in Somerset
5 Lake.

6 My question pertains to, as Mr. Perotti mentioned,
7 if the plant needs a major overall, those of us off of Broad
8 Run Road, if our properties closely abut up to the spray
9 field would the Township still have an approval process of
10 any major improvements, as they say, to that property?

11 Who would regulate Aqua? Or would Aqua then be able
12 to do whatever changes they, you know, wish to do to make
13 these enhancements for everyone else in the community, but
14 would adversely affect our property value, those of us that,
15 very closely, are on those spraying fields.

16 MR. POMPO: My response to that question, as
17 to who would regulate Aqua should there be modifications or
18 improvements to the spray fields at the south end, would be
19 that that would be the Pennsylvania Department of
20 Environmental Resources at the present time.

21 Depending on the improvements and where regulations
22 may be going, it's possible that the Delaware River Basin
23 Commission might also be involved with those types of
24 approvals.

25 From the perspective of the Township, my view would

1 be that the Township would only be involved if there was a
2 decision to increase capacity of that plant. And that
3 involvement would involve what's called the Sewage Facilities
4 Planning Program. That is a Township program that's under
5 Act 537 that would remain a Township function. So if there
6 was going to be a plan to increase the capacity of that plant
7 and the fields, that would be a Township-involved decision at
8 the planning level.

9 DON PETERS: Is it fair to ask whether or
10 not -- Don Peters from Somerset Lake. Is it fair to ask,
11 does Aqua have any current concept of any improvements in
12 this plan that we should know about?

13 MARK BUBEL: Actually, for the south end plant
14 that's been alluded to when Vince was giving his presentation
15 and report, there are problems at the south end plant.
16 There's a number of solutions, actually, that I was part of a
17 group working with the Township. We were looking into terms
18 into the various options that might be available for
19 correcting the situation at the south end plant, one of whom
20 would be to basically send water up to Route 41, create some
21 additional pipelines that don't exist today, and convey it
22 down to the Avondale plant. There is capacity within the
23 Avondale plant to take care of some flow there.

24 DON PETERS: Truck or pipe?

25 MARK BUBEL: No, pipeline, sir. It would have

1 to be piped from the south end plant. Pumping facilities
2 would be added down at the south end plant, new pipelines
3 that aren't presently in Route 41 would be, you know, would
4 be installed. And existing pipes that are there and are, as
5 I understand, breaking over the years, you know, fairly
6 routinely as I understand, those would have to be replaced.
7 Though flow could be sent to Avondale, possibly, or other
8 options to look into for correcting the situation down at the
9 south end plant.

10 MR. POMPO: Mr. Lucca, you have something else
11 to add?

12 MARC LUCCA: I do. I wanted to say one thing.
13 I'm sorry, Miss -- I'm going to refer to you as Miss Paula,
14 because I didn't hear your last name.

15 Mr. Pompo was correct in what he said about
16 permits, but we do have to follow local ordinances. So if
17 there's a noise ordinance, if there's a time of day we can
18 only work, for example, seven A.M. to seven P.M., whatever it
19 might be, we have to follow those. If we have to close the
20 road because of a road pipeline crossing or something else,
21 we also have to follow the local ordinances. So there would
22 be those things in addition to what Mr. Pompo said.

23 MR. POMPO: Mr. Gaw.

24 RICHARD GAW: I will only ask the question if
25 the other township residents -- they're first.

1 MR. POMPO: Do we have a repeat questioner?
2 Is there anybody else before we start repeating, having
3 second questions from individuals?

4 Yes, sir.

5 STAN LUKOFF: Yes, sir. Stan Lukoff, Reynolds
6 Road. I'm a present New Garden sewer customer.

7 So, I may have missed something, but why are we
8 removing the provision around the compound annual growth rate
9 and the rate freeze in the Asset Purchase Agreement Is that
10 because the New Garden sewer rates are superceding that?

11 MR. POMPO: The basic answer to the question
12 is because there were other parties in the matter, arms of
13 the PUC and the Office of Consumer Advocate that objected to
14 those provisions in the agreement. That's the simple
15 answer.

16 STAN LUKOFF: Certainly not in the customers
17 benefit to do that.

18 MR. POMPO: Well, one can argue that both
19 sides, because we thought that that was in favor of the
20 customer, but others, including the Consumer Advocate, for
21 good reason I'm not going to go into, did not follow that
22 same logic.

23 STAN LUKOFF: Few other quick questions, and
24 this is maybe directed to the Aqua technical folks.

25 Is there any technology around sewer flow metering

1 versus just using the water meters to base your rates off of?
2 Because, obviously, somebody who uses water outside going
3 into the ground, the aquifer, it's not requiring any type of
4 sewer treatment.

5 MARC LUCCA: I didn't hear the question. Alex
6 just told me what you said. There are technical options
7 available. Some people refer to them as DW meters. Some
8 people refer to them essentially as any type of metering that
9 would be utilized to characterize how much water and
10 wastewater is being generated in the home. A little more
11 difficult than a water meter, because you're dealing not with
12 something that's easily measured. But there are other
13 options out there.

14 STAN LUKOFF: So would there been any plans in
15 the future to apply that to your customers?

16 MARC LUCCA: It's something we're looking at.
17 I know it was discussed under the last rate case proceedings
18 and the Public Utility Commission has asked us to look at
19 that. So that will be looked at, but I don't have an answer
20 just yet.

21 WILLIAM PACKER: I'll follow up to that. I'm
22 the guy who does all the rate design to file the rate cases.
23 We typically address the issue of sewer metering based on
24 water with rate design, right. We establish caps or minimums
25 that you will be charged, volumetric component of your bill

1 up to a certain amount of gallons. Let's just say the
2 average use is 4,000 a month. Anything over that amount
3 would be deemed, for folks who are irrigating heavily or not,
4 that would be something that would be addressed at future
5 rate cases as we go to the Public Utility Commission.

6 MR. LOFTUS: One quick question, do you offer
7 deduct meters, or you're looking into it?

8 WILLIAM PACKER: We don't. Right now they're
9 not provided for in the Public Utility Code. They're a flow
10 measuring device, as we do water and wastewater, right. So
11 as you have a flow measuring device on the water side, we're
12 required to change those out every ten years. Put them
13 through testing to validate their accuracy.

14 Deduct metering, those administrative codes aren't
15 as prevalent and robust in the PUC codes. So it's not there
16 yet today for us to do.

17 So we have to address the rate design. Some
18 townships that we acquire do their own deduct metering.
19 That's on their own merits, right, they have volunteer, if
20 you will. Residents send in what the deduct or irrigation
21 volumes are each month or quarter, but it's largely a manual,
22 you know, one off process to the Township and municipality
23 sewer release.

24 MR. POMPO: Yes.

25 DAVID UNGER: David Unger from Somerset Lake.

1 This question is for the Board of Supervisors.

2 Given the trouble you're having with the
3 Pennsylvania Utilities Commission and the Aqua issue, do you
4 trust the Pennsylvania Utilities Commission to really look
5 out for us with sewer increases and things like that, in the
6 way that they seem to have come down pretty heavily in favor
7 of allowing the water authorities to pretty much do whatever
8 they want in regards to taking our water and those sort of
9 things?

10 Not that they're the same entity, I understand that.
11 But do you feel that the Pennsylvania Utility Commission is
12 going to be looking out for our best interests?

13 MR. AYOTTE: I'd like to take that. I don't
14 want to speak for everyone here, but what the PUC has done
15 for New Garden and this Board has made it more difficult.
16 They basically thought the deal was too good. We were
17 getting too good of a deal and they were looking out not for
18 New Garden but for everybody else. So if you flip that and
19 you were everybody else now, yeah, I think they did a great
20 job.

21 I think, while it's been a thorn in the side of the
22 Board, but it definitely renewed my faith in what they would
23 do moving forward with rate cases and with Aqua when someone
24 else comes with a deal that's like DELCORA that's 270 million
25 dollars, how that's going to play out.

1 I think they did -- again, they were a pain, but
2 they did a good job for everyone else. I don't know how
3 these other guys feel.

4 MR. LITTLE: I'll add, because I met with the
5 PUC and Vince and Spence and Aqua, and I believe that they
6 are looking after us. I don't like to deal with the PUC,
7 because it's just a bureaucracy. As you can tell by the days
8 events we're now going on six months before a decision. They
9 are looking out for us. But, boy, are they slow.

10 And the thing that ticks me off is that we continue
11 to spend money. And they're being slow, and I'm sure that
12 they have a lot of townships and everything else, we can't go
13 in and demand to be first. It did cost us a lot of money.
14 Yet we're going to -- the top line is 29.5, but I would say
15 we're down to about 25 after our expenses and what we have to
16 do to close everything out with the Sewer Authority.

17 So, it may have been 29.5 two or three years ago.
18 It's not that now.

19 MR. POMPO: Yes, sir?

20 JERRY SMITH: Yes, I'd like to direct this
21 question to Aqua. What sort of rate of return do you expect
22 on an investment like this? Let's assume you're going to
23 spend the 29 and a half million bucks, what kind of rate of
24 return are you looking for, or are you expecting on this
25 investment?

1 WILLIAM PACKER: Yeah, to answer your
2 question, again, sir, we're highly regulated. Rate of return
3 in Pennsylvania, and any time we go before the Commission and
4 largely across the country, it's one of the most visible and
5 known about numbers that you'll see in the rate case.

6 We finance our investment. Not just investments in
7 New Garden, all the other systems that we do capital on. We
8 break it up in half. We finance half of it with long term
9 debt, just like you would your house when you finance your
10 mortgage. And that hard, long term debt is roughly around
11 four and a quarter, four and a half percent in Pennsylvania,
12 right, you're pretty familiar with that number.

13 The other half of the number comes from our
14 shareholders. The shareholders who invest in our company,
15 buy stock in our company, right, that the return on
16 investment that they yield is about ten percent. And that's
17 set by the Public Utility Commission.

18 We go before the Public Utility Commission typically
19 every three years, okay, to justify our rate of return. And
20 to propose and agree on what the shareholders should recover,
21 and obviously to recover and pay our bond holders, right.
22 And that's one of the most highly debated numbers in the
23 case, what is a fair rate of return for our investors.

24 The Public Utility Commission monitors that, right.
25 They don't want to see -- they basically set our tariff

1 rates. Okay. I said the key record here is an opportunity.
2 It's an opportunity to earn ten percent. If we don't run a
3 good business, right, if the weather goes awry and we have
4 more expenses in between rate cases and, let's just say,
5 weren't efficient as we should be, we're not going to get ten
6 percent return, right. And we don't have a way to make that
7 up.

8 The only way to get there is by operating
9 efficiently and running a good business, okay. And the
10 Commission does monitor that. They don't want to see us
11 earning 15 percent, and they don't want to have us in a bad
12 position earning five percent. Most of it is in our control
13 to be efficient and achieve that return.

14 So to answer to answer your question, somewhere four
15 percent and nine percent.

16 JERRY SMITH: The final comment that I would
17 like to make to this, I would hope that the Board would make
18 a decision based on what's best for the residents of New
19 Garden Township, and not be focused on the 29 and a half
20 million bucks. What I've seen in the past, when politicians
21 have money, they spend it. And I don't want to be -- or
22 shall we say, I would not want to see, you know, five, ten,
23 15 years down the road that that money is completely
24 depleted.

25 I'm sure there are going to be other capital needs

1 that this Township is going to need over time, and I think as
2 I said, what really should drive your decision here is what
3 is best for the residents of the Township and what makes the
4 most economic sense.

5 And the only -- the final thing I would like to ask
6 for, I would like to see what -- excuse me, with the sewer,
7 the profit and loss statements look like for the past five
8 years. Thank you.

9 JIM KELLY: One other thing.

10 MR. POMPO: Yes, sir.

11 JIM KELLY: Again, Jim Kelly, from Brittany
12 Hills.

13 Not going to use guesstimates, estimates, use some
14 facts here. You take that 29 and a half million that they're
15 going to provide you, you invest it tomorrow morning, I know
16 for a fact you could generate enough money with that 29 and a
17 half million to give all 2200 retail customers a little over
18 \$900 a year.

19 Now, there's no way if I was sitting on that Board
20 I'd do that, because that 29 and a half million represents a
21 real safety valve, puts our Township, in some ways, like the
22 State of Alaska. It has a big fund that got generated, and
23 it takes a portion of that fund and gives it to the citizens
24 of Alaska. I think you could take some portion of the income
25 from that 29 and a half million, you don't have to worry

1 about Aqua or any other regulatory agency, you can take that
2 money and send every resident in New Garden Township a check
3 every year that's tax free for some amount of money. If they
4 want to use it to offset their Aqua bill, fine, their
5 electric bill, their tax bill, real estate, that's up to
6 them.

7 But it's a function of a decision you made to reduce
8 our future risk on growing expenses to run the sewer system.
9 I mean, they're better off running it than us and they're
10 going to give you money up front, and we know we're going to
11 have to pay for the sewer system every month anyway for the
12 rest of our lives. Maybe there's a way to help reduce that
13 using that 29 and a half.

14 Just a suggestion. Think about it.

15 MR. POMPO: Okay. Any other?

16 DAVID TREXLER: One final question. David
17 Trexler, again.

18 In our community, Harrowgate North, I think it's
19 called, we still own our septic pipes. And I think it was --
20 it's my understanding that dedication of these pipes to the
21 Township is part of this agreement; is that true still?

22 MR. POMPO: Spence?

23 I can't remember honestly.

24 MR. ANDRESS: As far as I know, yes; that is
25 still under consideration. And it's not part of,

1 necessarily, the Asset Purchase Agreement But there is an
2 understanding that that would become part of the system.

3 Unless you want to keep it.

4 DAVID TREXLER: We don't want to.

5 MR. ANDRESS: I don't think you want to.

6 MR. POMPO: Mr. Gaw?

7 RICHARD GAW: Richard Gaw, Chester County
8 Press.

9 Kind of facing this way because some of my questions
10 are kind of out here. Question for Spence, you and the Board
11 were criticized just a while ago for not being able to provide
12 real numbers regarding that rate increase. And while I
13 understand the criticism is valid, I understand also that
14 it's very difficult at this stage to come up with facts and
15 solid numbers at a stage where the PUC hasn't exactly signed
16 off on this, and negotiations are still underway with regard
17 to the sale.

18 But am I to believe in the matrix of numbers that
19 you provided us earlier in your report, that the barred chart
20 here listed is as adequate or accurate as possible regarding
21 the percentage anticipated of increases in rates?

22 I wanted to address that because, I think with the
23 take away, the key reason why a lot of people are here,
24 Spence, and the key take away that they wish to have is as
25 solid numbers, in terms of proposed and anticipated rate

1 increases as you could possibly provide them.

2 Any information, maybe more solid numbers would be
3 beneficial, I think, to them.

4 MR. ANDRESS: I understand that the dilemma,
5 and hopefully you appreciate what we face as well. The
6 information provided in the handout says "The table below
7 presents a nonbinding estimated incremental rate affect of
8 the proposed rate based additionally on New Garden's
9 wastewater customers as a result of the proposed settlement".

10 I think that's about as accurate as we can get.

11 RICHARD GAW: That's all I'm asking for.

12 MR. ANDRESS: We got to go through the PUC
13 process, as was mentioned earlier. There are a lot of
14 factors that come into play. We talked about spreading some
15 of the rates over water customers throughout Pennsylvania,
16 wastewater customers throughout Pennsylvania and the New
17 Garden customers. We have no idea how that's going to shake
18 out, that the rate case will be prepared and presented. But
19 it's totally up to the PUC and how they mix those numbers.

20 RICHARD GAW: I just wanted to give you the
21 opportunity to respond.

22 I have one final question that's sort of directed to
23 the folks from Aqua. At what time will rates and percentage
24 increases, et cetera, be available to the general public?

25 Around what -- I'm not asking for a day, I'm not

1 asking for a month, I'm not even asking for a year, but when
2 during that, this whole asset allocation process, purchase
3 agreement, will people find out these exact rates?

4 During what time?

5 MR. POMPO: Well, as far as the exact, the
6 proposal that's in front of the Board tonight would be for
7 Aqua, at settlement, to incorporate into a rate tariff for
8 New Garden the rates that were established by the Board of
9 Supervisor in late 2018. And that those rates would remain
10 in place until the next rate making that Aqua does,
11 generally. That that next rate making will include an
12 analysis relative to New Garden rates, and then any
13 increases, if there are, from what the tariff would be,
14 incorporating New Garden rates. Those would be determined at
15 that time.

16 And perhaps Mr. Packard or Mr. Lucca could address
17 that timing issue.

18 WILLIAM PACKER: I'll speak for the timing.
19 The estimated timing for the next time we'll be before the
20 PUC is some time between April and August of 2021. And we're
21 looking to have new rates in affect some time in 2022.

22 We had just concluded, in 2019, the rates effective
23 this past May. Our first rate case in, like, seven years for
24 Aqua Pennsylvania Water, and almost nine years on Aqua
25 Pennsylvania Wastewater. Again, that just concluded this

1 past May.

2 So we're typically going to be in every three years
3 or so. That's about the estimated timing of events.

4 Thank you.

5 RICHARD GAW: Thank you.

6 MR. POMPO: Okay. Spence?

7 MR. ANDRESS: Just one add on. At the time
8 the public notice goes out to the customer, Aqua will be
9 filing various documents with the PUC. Those documents will
10 detail what the request is, and that's public information. A
11 docket will be prepared or assigned, and anyone can access
12 that online or through direct inquiry to the PUC, but that's
13 the beginning step --

14 What shakes out after it goes through the process,
15 again, we don't know. But those facts and figures will be
16 provided to the PUC.

17 RICHARD GAW: Thank you, again.

18 MR. POMPO: Thanks, Spence.

19 The next step in this process would be to finalize,
20 hopefully, a settlement agreement at the PUC level, so that
21 the Asset Purchase Agreement be reapproved by the PUC and the
22 matter can go to closing. In order to accomplish that, we do
23 need to seek approval from the Board this evening for a third
24 amendment to the Asset Purchase Agreement which will amend
25 the agreement by removing the rate-related clauses that we

1 have discussed in somewhat detail earlier this evening.

2 So I would ask the Boards if they're prepared this
3 evening to go forward with a vote on approval of the third
4 amendment. The system itself is owned by the Sewer Authority
5 and leases to the Township, since the assets themselves, with
6 the exception of the DiBello property, are owned by the Sewer
7 Authority, I would ask the Board and the Sewer Authority if
8 they would like to proceed this evening to take a vote on the
9 third amendment. That would be done with a motion and a
10 second, as in a normal action that the authority would
11 generally take.

12 Chairman Wolfe, is the Board prepared this evening
13 to proceed?

14 CHAIRMAN WOLFE: Yes, I think we are.

15 I'll put forth a motion to adopt the third amendment
16 to the Asset Purchase Agreement.

17 MR. LIBERI: I'll second it.

18 CHAIRMAN WOLFE: All in favor?

19 (Board voted.)

20 MR. POMPO: Thank you.

21 Board of Supervisors, Chairman Allaband?

22 CHAIRMAN ALLABAND: Anyone have any questions on
23 the third amendment?

24 Hearing none, is there a motion to approve the third
25 amendment to the Asset Purchase Agreement?

1 MR. GEOUQUE: I'll make a motion to approve
2 the third amendment to the Asset Purchase Agreement.

3 CHAIRMAN ALLABAND: Is there a second?

4 MR. LOFTUS: Second.

5 CHAIRMAN ALLABAND: Further discussion?

6 All those in favor?

7 (Board voted.)

8 CHAIRMAN ALLABAND: Any opposed?

9 (No response.)

10 CHAIRMAN ALLABAND: Motion carried
11 unaniously.

12 With no further business, do we adjourn?

13 MR. AYOTTE: May I make a couple comments to
14 some of the questions that were asked? Some things were
15 raised up, maybe this will help some people.

16 You're looking for numbers. The numbers I heard, we
17 need basically nine to 11 million dollars in repairs. What
18 does that really mean? That's four to \$5,000 per sewer user.
19 It's straight math.

20 The gentleman in the black asked about other rates.
21 I own investment properties in Delaware. My sewer bills in
22 Delaware are 40 to 50 percent of what they are in New Garden
23 for the same amount of water. So they're a much bigger
24 system, 122,000 customers, 1800 miles of pipe. What are they
25 doing there that cuts the rate in half? I don't know.

1 Either we've been doing it wrong or they're just much more
2 efficient.

3 I think, obviously, the economy of scales has a lot
4 to do with it, but it's significantly less, 40 to 50 percent,
5 without a question.

6 The gentleman from Geezerville brought up about
7 investing the money. This is one of my -- you can ask these
8 guys, this is one of my areas that I focus on. You can get
9 \$900 for each customer in the real world. In the Township,
10 it's going to be less than \$200.

11 We're not allowed to take any risk, we're not
12 allowed to get any reward. If we invest 30 million dollars,
13 we're going to get about \$200 per sewer customer, not per
14 Township resident. We'll go 400 to a 1,000 a year, that's
15 it. And it will go up and down with treasuries. That's all
16 you're going to get out of that.

17 As far as the question about rate assist, we spoke
18 on that from the beginning. Most of the Board is on zero.
19 The question was, do we sell to DELCORA for less than half of
20 what Aqua would give and let Aqua decide whether or not your
21 rates go up, or does that money come back to the Township and
22 we have more control of over it?

23 Chances are, we're not going to see these guys
24 again. You guys can come by any one of our houses with
25 torches and pitch forks if you want to. To me, I would like

1 to see it come here, at least you have someone to yell at if
2 it goes south.

3 Lastly, money for the future, that's another
4 question that comes before this Board. We have a great Board
5 up here now. It's very conservative, very tight with money.
6 That's a question that came up, what happens with 30 million
7 dollars and it's all gone? Maybe we pick a collection of
8 liabilities, and now our Township budget is doubled because
9 we have to pay for new buildings, new this, new that. It's a
10 question of how do we sequester these funds, not for a couple
11 years, but even for decades, so when something comes up that
12 we don't have the money for, it will be there, whether it's
13 ten, 20, 30 years down the road.

14 Because at the end of the day, this is it. It's the
15 money in the cookie jar. This is the cash in the backyard.
16 Once it's taken to the Township, there's nothing else. So we
17 do have to find a way to hold on to it.

18 I don't think any of these decisions came lightly.
19 It's been five years of back and forth. And it's an unfunded
20 liability that, in my opinion, has to go.

21 I own a lot of property in Delaware. No one ever
22 bought a house from me or I never bought a house and no one
23 ever asked me how much is the sewer bill. It's going to come
24 up every month and you have to pay it. But as far as home
25 values, things like that, it's not going to be an issue.

1 But we're definitely going to pay more. It's when
2 do you want to pay it? Do you want to pay it double inside
3 of two years, or maybe in ten years? That's probably what
4 we're looking at.

5 MR. LITTLE: I'd add one thing to Richard. We
6 discussed this, but any money we get would not be part of the
7 operating expenses that we run the Township with. Operating
8 expenses are here, we're going to do that. Everything else
9 is going to be allocated for future spending or things like
10 the police department building, that type of stuff, bridges,
11 roads.

12 CHAIRMAN ALLABAND: Okay. With no further
13 comments, is there a motion to adjourn the meeting?

14 MR. GEOUQUE: So moved.

15 CHAIRMAN ALLABAND: Okay. Meeting adjourned.

16 (Proceedings adjourned at 8:50 P.M.)
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C E R T I F I C A T E

I HEREBY CERTIFY that the proceedings,
evidence and objections are contained fully and accurately in
the stenographic notes taken by me upon the foregoing matter
on Monday, September 23, 2019, and that this is a true and
correct transcript of same.

Nancy Sage Sciarretta, RPR
Official Court Reporter

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