

**ANSWERS TO SUBMITTED QUESTIONS FOR  
DIRECT PAY LETTERS OF CREDIT**

CITY OF PHILADELPHIA  
WATER AND WASTEWATER REVENUE BONDS

Below are answers to questions that the City views as applicable to the Water and Wastewater Revenue Bond credit. There were some questions that we received which we felt did not apply directly to the Water Department or the Water and Wastewater Variable Rate Series 2003 bonds and therefore we did not include them on the list of questions and answers.

1. If joint proposals are not allowed, how do you intend to arrange for the full \$370.0 million? Are you planning to select an agent bank or do you intend to have separate reimbursement agreements and separate series supported by LOCs?

Depending on the responses we receive to this REI, we may have one LOC or a combination of a few letters of credit and fixed rate bonds. We are not planning to select an agent bank. If we decide to have more than one LOC, we will have separate reimbursement agreements.

2. Will you accept proposals for funded tax exempt loans? Or are you only accepting LOC proposals?

If you have a proposal for something other than a LOC, please submit the information on Exhibit A, #3- Please state any other information that you deem material to your proposal.

3. Please confirm the senior lien nature of these bonds? Or, if not senior, where are they vis a vis other debt of the System?

As stated in the REI: The bonds were issued pursuant to the City's Restated General Water and Wastewater Revenue Bond Ordinance of 1989, as amended and supplemented (the "General Ordinance"). The bonds are secured on an equal and ratable basis with the other Water and Wastewater Revenue Bonds issued under the General Ordinance by a pledge of and security interest in all Project Revenues (as defined in the General Ordinance) derived from the City's Water and Wastewater Systems and moneys deposited into the Water and Wastewater Funds (as defined in the General Ordinance).

4. When were the 3 ratings on the Water System reviewed/re-affirmed last?

The ratings on the Water system were affirmed on the recent 2005B LOC restructuring. The reports were included in the response to #13 below.

5. Does the City intend to utilize LOC capacity it receives to secure variable rate bonds in connection with 2007 Swap Agreements with Merrill Lynch and Wachovia? If not, what is the City's expected use of the LOC capacity it receives and what plans does the City have to secure LOC capacity on the 2007 Swap Agreements?

The City and Water will evaluate the proposals it receives; however, as stated in the REI our first priority is the \$370 million of Water and Wastewater Variable Rate Bonds, Series 2003.

6. Is the City opposed to a firm proposing a syndicated deal?

As stated in the REI: The City is interested in your firm's letter of credit capacity without syndication.

7. Financial statement. Full audited, draft audited or internal financial statement for FYE 6/30/09 for the City as a whole and the Water Department as a separate entity, preferably on a GAAP basis.

Audited financials are not yet available. Unaudited basic financial statements are attached hereto.

8. Debt Service coverage. Please provide the pledged revenue coverage chart for FYE 6/30/09.

Revenue bond coverage information for FY2009 is included in the information provided under item # 7 above.

9. Legislative. Please update the status of the temporary 1% sales tax increase and changes to the pension systems.

The legislation related to the 1% sales tax increase and changes to the pension system have been approved by the Commonwealth. The 1% sales tax increase only benefits the City's General Fund.

10. New debt. Describe new debt anticipated for FYE 6/30/10 and current year debt service requirements of that debt.

Water anticipates issuing \$180,000,000 of new money before August 1, 2010. These bonds are currently tied to two forward swaps for \$90,000,000 each as described in the 2005B remarketing circular.

11. Unions. Please provide the current status of union contracts.

Contracts for the four major bargaining units representing City employees expired on June 30, 2009. Negotiations are underway with District Councils 33 and 47. The contract with the FOP is in arbitration. Arbitration for the IAFF Local 22 has begun.

12. General Ordinance. Is a complete copy of the General Ordinance available electronically?

Please see the General Ordinance posted on the [www.phila.gov/rfp](http://www.phila.gov/rfp) website.

13. Rating reports. Please provide the most current Moody's, S&P and Fitch reports.

The rating reports for Moody's, S&P and Fitch released in April 2009 related to the \$140 million new money bonds are posted on the [www.phila.gov/rfp](http://www.phila.gov/rfp) website.

14. Water ratios. If available, please provide reports of standard Water department performance ratios versus the national medians.

Please go to [www.phila.gov/investor](http://www.phila.gov/investor)- Bond Calendar to review the Water and Wastewater 2005B Remarketing Circular which contains as Appendix II- Engineering Report dated April 30, 2009. Also, the Water department's 6-30-09 monthly manager's reports is attached hereto for additional information.

15. Rate autonomy. Are there any State regulations or other impediments to autonomously increasing water rates?

The 1951 Home Rule Charter established a process whereby City Council creates the standards for water and sewer rates. The Water Department approves the actual rates and charges to customers, but must ensure that those rates and charges cover the operating expenses and debt service obligations. There is a rate setting process whereby proposed rate increases must be submitted to City Council thirty days in advance of a formal filing with the City's Department of Records. Rate increase hearings take place and at the conclusion of the hearings the Hearing Officer reviews all testimony and based on the record provides the Water Commissioner with a report and a recommended decision on the rates. The Water Commissioner is responsible for making the final determination on rates. In making his Final Determination, the Water Commissioner must fully consider and give substantial weight to the Hearing Officer's report. If the Commissioner disagrees with the report, he must state the reasons for that disagreement citing to support in the record for his decision. The Commissioner's Rate Determination can be appealed by any party to the Court of Common Pleas. PWD has never been subject to PUC oversight.

A chart of the current rate process is posted on the [www.phila.gov/rfp](http://www.phila.gov/rfp) website.

16. Is the Water Departments Fiscal Year 6/30/2009 audited financial statements available? If yes, please forward to my attention. If they are not available please forward the 6/30/2009 unaudited financial statements. The latest financial statements that we have are for 6/30/2008.

Audited financials are not yet available. Unaudited basic financial statements were included in the response to #7 above.

17. Is the Fiscal Year 2010 budget available? If yes, please forward as well.

Yes, a copy of the water fund budget and the water department budget for fy2010 are posted on the [www.phila.gov/rfp](http://www.phila.gov/rfp) website.

18. Has there been any updates to the projections that were prepared by Black & Veach?

There have been no updates to the financial feasibility report since the 2005B remarketing.

19. Are the rate increases included in the Black & Veach projections for FY2010 through FY2015 still valid?

The department's rates for the period FY09 to FY12 have been officially filed with the records department and approved by the Water Commissioner. Rates beyond FY12 have not yet been filed.

20. Question regarding the City's Water Department and its remedies in the event of non-payment by a rate payer. In some states, Cities are permitted to take a lien on the property of a rate payer for failure to pay his/her water bill. Does the City have the ability to take such a lien?

The Water Department can lien real estate for delinquencies and routinely files liens for delinquent fees and penalties with the prothonatary.