

**Questions & Answers
Philadelphia Water Department
Proposed New Water and Sewer Rates
and Public Hearings**

Q. When does the Water Department plan on phasing in its proposed new rates?

A. November 2008. The new rates will be phased in over a four-year period.

Q. How much will the average customer be paying as a result of the proposed new rates?

A. The typical residential water and wastewater customer's bill will show an annual average increase of \$3.72 per month over the four-year period. These figures represent a bill for a 5/8" meter customer using approximately 700 cubic feet of water per month.

Q. How will this affect the rates for senior citizens?

A. The typical monthly bill for a qualifying senior citizen will show an annual average increase of \$2.16 per month over the same period. This figure represents the cost of water and sewer service for a 5/8" meter customer using approximately 500 cubic feet of water per month. Qualifying seniors receive a 25% discount on their bill.

Q. When was the last time new rates were phased in? How much was an average bill as a result of those rates?

A. Rates were phased in over a four-year period beginning February , 2005. The final increment was phased in beginning July 1, 2007. Since July, the typical residential bill has been \$49.35 per month. (See attachments 2 and 3 for regional rate comparison charts)

Q. What types of charges are included in the monthly bill that customers pay?

A. The customer is paying a usage charge for treatment and delivery of drinking water, the collection and treatment of sewage, and related environmental services. Each bill also includes a service charge for stormwater collection, inflow into sewers and for costs associated with metering, billing and collection operations.

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Q. Why does the Water Department need more money?

A. The proposed new rates are required so that the Department can pay for all costs associated with operating a safe, reliable and economic water and wastewater system. Some of the key costs are associated with:

- New environmental regulatory requirements
- Increase in labor & fringe benefit costs
- Mitigation of localized flooding
- Higher costs associated with funding our capital program
- Decrease in interest income
- Decrease in customer base
- Inflation

Q. What is debt service?

A. It is the annual cost for bonds used to finance the Water Department's construction program. Debt service is comprised of the annual interest owed on bonds and repayment of a portion of the principal borrowed, similar to a home mortgage payment.

Q. Why is the Water Commissioner responsible for setting rates?

A. The Water Commissioner is required by the City Home Rule Charter to set water rates to ensure that the Department is operated in a financially sound manner and by bond covenant, which requires that revenues must meet expenses and all other requirements.

Q. What is the process for setting new rates?

A. Pursuant to the Philadelphia Code, the Department is required to first notify City Council and thereafter submit its proposed rate filing to the Department of Records. The filing will also be available for review at branches of the Free Library.

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Q. Why is City Council notified first?

A. The Philadelphia Code of General Ordinances requires that the Water Department notify City Council thirty (30) days prior to its filing of notice to the Department of Records. With this notification, the Water Department must present pertinent engineering and financial data that supports the department's proposal for new rates.

Q. How can the public voice its opinion on the proposed rates?

A. A number of formal and informal public hearings will be scheduled where interested organizations and any of the department's customers may comment on the proposed rates.

Q. Who presides at the public hearings? How is this person selected?

A. An independent hearing officer who is normally selected by the Mayor, and ratified by the President of City Council and the City Controller to presides at the hearings. The hearing officer also determines the number of hearings, their dates and locations.

Q. How do these public hearings work?

A. The hearing officer conducts a formal public hearing where testimony concerning the proposed new rates are heard from both Water Department officials and formal intervenors, who may represent consumer advocates, social and community services groups and individuals. This hearing is open to the public. The general public will be provided with the opportunity to comment at a number of public hearings.

Q. How will the public learn about the hearings?

A. The Water Department will publish the dates, times and locations of these hearings in the City's newspapers, such *The Philadelphia Inquirer*, *Philadelphia Daily News*, *The Philadelphia Tribune*, *El Sol*, and *Al Dia*. These notices will be in the format of a public notice and may be easily read. They will be posted also on the Water Department's web page: www.phila.gov/water.

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Q. Can the public obtain copies of the Water Department's proposed new rates prior to the public hearings?

A. Yes, copies of the proposal will be available through the Department of Records and for review at the main library on Logan Circle and the City's three regional libraries.

Q. Has a schedule been set for the public hearings?

A. A formal schedule has not been set at this time. However, a tentative schedule calls for public hearings to be conducted this spring. The hearing officer will set the exact dates, times and locations.

Q. Has the Department taken steps to improve service and minimize costs since the last time new rates were phased in?

A. Yes, the Department has initiated numerous measures to improve service, reduce operating costs and enhance revenues which include the following:

- Rebuilding water mains and sewers saves money in the long-run by preventing water main breaks and leaks which cause loss of water and damage to property. During the past decade, the department strived to annually replace 0.8 percent of our distribution system each year, approximately 22 miles, as compared to 14 miles replaced in Fiscal Year 1994. Also rebuilding sewers prevents costly collapses and the accidental discharge of sewage into properties and waterways.
- In January 1993 the Water Department began monthly water and sewer billing, ending the more difficult to budget quarterly billing process. By billing more frequently, and on a basis that is consistent with other household bills, payment was made easier and more manageable for Water Department customers.
- In September 1997, the Water Department and Water Revenue Bureau launched its Automatic Meter Reading (AMR) project to eliminate the need for meter readers to gain access into customers' homes to obtain an accurate reading. Within a two-year period, 95 percent of the Water Department's 472,000 residential and small business customers had automatically-read meters installed.

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The benefits to both customers and the department's revenue collection efforts have been multiple: an increase in actual meter readings; accurate bills; reduced customer calls and complaints concerning their bills; and a significant reduction in meter reading costs. AMR is projected to achieve cumulative financial benefits over the 20-year useful life of the system. Those benefits are estimated to be \$25 million.

- The Water Department is expanding its wholesale services to communities beyond the city's borders. While Philadelphia already sells approximately \$7.0 million in water services and over \$28 million in wastewater services to its neighbors, the department is looking to market its high quality drinking water even further.
- The Water Department refinanced \$345 million of debt as part of a November 2007 bond issue, saving \$14.7 million. This brought the net present value savings of bonds refinanced to \$107 million since 1993.
- The Water Department defeased an additional \$24.5 million of bond debt since June 2002, resulting in a lower debt service burden on its customers.
- The Water Department continued to make annual deposits of one percent of net property, plant, and equipment (approximately \$17 million) from the Revenue Account to the Capital Account. These deposits have totaled \$220 million since 1993, thereby reducing our need to borrow money to pay for capital improvements. Additional deposits through the end of the rate period are expected to provide an additional \$90 million in capital financing.
- The Water Department continued to make annual transfers from the Water Residual Fund to the Capital Account. These deposits have totaled \$59.9 million since 2004, thereby reducing our need to borrow money to pay for capital improvements. Additional deposits through the end of the rate period are expected to provide an additional \$94 million in capital financing.
- A Revenue Protection Unit, created in Fiscal Year 2000, has investigated more than 4,300 customer accounts and recovered more than \$18 million in revenue to date.

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- The Water Department has institutionalized the significant operating savings achieved over the past decade at each of its seven major plants and facilities. These savings are valued upwards of \$40 million a year.
- Upgrades to the Water Department's bond credit ratings (Moody's A3, Standard and Poor's A-, and Fitch A-) have lowered borrowing costs.

Q. Does the Department need rate relief at this time?

A. Yes. Inflation in combination with increased labor costs, escalating regulatory requirements, the Basement Backup Protection Program, debt service associated with the flood relief program and the Department's covenants with investors, make it necessary for the Department to raise rates at this time.

Q. Does the Department have assistance programs for low income individuals or senior citizens?

A. Yes. Attached below is a summary of many of the department's assistance programs available to its customers. These include assistance for low income individuals, discounts for qualifying individuals and educational/Charitable institutions and zero interest loans for replacement of water service lines and sewer laterals for qualified owner occupied properties. (See Attachment 1)

Q. What is the current status of the plans to upgrade the department's billing system?

A. This past January, the department's new billing system went on line. This system enhances the Water Revenue Bureau's (WRB) ability to track customer billing history and enables it to automatically flag delinquent accounts as soon as this status is triggered. As we move forward, PWD and WRB plan to better integrate early notification of customer billing delinquency with the department's enforcement shut-off unit.

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The Water Department worked with the WRB, the Mayor's Office of Information Services (MOIS) and others to develop a replacement for its current legacy billing system, since late FY2003. This project has been referred to as "Project Ocean." Project Ocean was scheduled to be the first application to reside on the City of Philadelphia's Oracle ERP and was last scheduled for implementation in December 2005. Project Ocean was planned to deliver an enterprise solution; all WRB core business functions on an integrated platform. The intent of this project was to replace the 25 year old application systems then supporting WRB, and align WRB business processes with an application designed around industry "best practices." The Ocean System initiative was designed to replace the disparate applications currently supporting the WRB with a single consolidated solution. This consolidation was to facilitate the streamlining of WRB business processes, resulting in cost savings to the WRB through the elimination of redundant processes. Additionally, the CIS system was to provide expanded collection capabilities to give WRB additional tools to increase revenues.

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The system implementation plan called for the formation of a team of both consultants and in-house staff to implement the Oracle e-Business application suite. Existing business processes were to be aligned to the Oracle application that has been developed in accordance with industry "best practices." This was to be accommodated through process analysis, process acclimation, set-ups and configuration. Training curriculums were to be developed around newly configured business rules, and employee roles and responsibilities within the re-aligned business processes. Preliminary plans called for delivery and installation of the final system hardware and software in approximately May 2005. Extensive testing and training on the new system was scheduled to occur for approximately six months before the new system was placed into Revenue production. The Project Ocean team was to remain in place for support for at least six months after implementation.

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A portion of the original project work was completed, including delivery and testing of the new system hardware. During the implementation process, as is common in large computer system implantations, several problems were encountered and the project was re-engineered. Near the critical juncture, when delivery of the final system code was to be delivered for testing, the City had an evaluation performed that indicated a probability that the solution being delivered would not meet a number of the industry “best practices.” The City suspended work on the project while additional assessments were undertaken. Overall project management was turned over to MOIS. The City and Oracle negotiated a settlement agreement that resolved the status of the project. As a result, Oracle has worked with the City of Philadelphia to provide a proven, fully functioning state of the art system for implementation. This system has already been implemented in sizeable municipalities similar in volumes and functional scope to the City of Philadelphia. On January 2, 2008, the system became fully functional. A total of approximately \$24 million has been expended to date, of which approximately \$5 million was provided by general fund departments.

Q. What has the Water Department done to improve collections from delinquent customers?

A. Under the Charter, the Water Revenue Bureau is directly responsible for the billing, metering & collection of revenues for the Water Fund. The Water Revenue Bureau is part of the City’s Revenue Department, which comes under the direction of the Finance Director. Since February 2003, oversight of the Water Revenue Bureau has been under the City’s Revenue Commissioner, who reports directly to the Finance Director. Over the years, the Water Department and the Water Revenue Bureau have developed a close level of cooperation between the two entities which is expected to continue regardless of the reporting structure.

In the early 1990s, the Water Revenue Bureau began using outside collection agencies. The collection agencies’ responsibilities include the implementation of the Utility Services Tenant’s Rights Act (“USTRA”), which enables the Water Revenue Bureau to collect payments directly from the tenants when landlords refuse to pay. Collection agencies generated \$7.9 million in revenue collections, net of commissions, during Fiscal Year 2000, \$5.3 million in Fiscal Year 2001, \$5.8 million in Fiscal 2002, \$5.9 million in Fiscal Year 2003, \$2.2 million in Fiscal Year 2004, \$2.4 million in Fiscal Year 2005 and \$4.4 in FY 2006. Collection agencies are also being utilized to collect on commercial delinquencies.

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In September 1997, the Water Department and the Water Revenue Bureau began the implementation of the Automatic Meter Reading Program (the “AMR Program”) involving the replacement of all residential water meters with new meters equipped with radio transmitter meter reading devices. The AMR Program is the largest and most significant water automatic meter reading endeavor to be implemented in the country. Installation commenced September 11, 1997, on schedule. By January 2006, more than 475,091 new meters had been installed. This program has greatly improved the accuracy of billing, which has resulted in fewer billing disputes, which has had a positive effect on customer service and collections. In addition to the increased revenue that results from such billing program improvements, the AMR Program significantly reduced the costs of meter reading and related support. Today, more than 98% of PWD customers have AMR meters, drastically improving our ability to initiate and enforce collection of delinquent accounts.

PWD is currently obligated to adhere to a strict moratorium on residential water service shut-offs from November 1 to March 31. Also, an ordinance was recently enacted requiring further restrictions to our ability to enforce customer payment. This ordinance prohibits the shut off water service on holidays, Fridays and weekends throughout the year. PWD already has a thorough process for customer notification prior to any shut off activity – notification that includes multiple, certified mailed warnings to properties scheduled for shut off of water service unless the customer makes full payment or enters into a payment agreement with the WRB. The last action that PWD wishes to take is the shut off of a water service. During FY07 the department received & serviced almost 72,000 accounts for shut off. Of these almost 40,000 were either shut off or were found off. The department also restored service to approximately 24,000 accounts and collected almost \$5 million at the door as part of its shutoff process. Recently, approximately 66,000 first notices were mailed as the department enters the end of the winter moratorium.

As a general rule of thumb, only 59.8% of water/sewer bills are paid on time. Payment patterns of monthly billings have steadily increased. The percentage of bills paid within the first 120 days after being billed increased from 87.3% in Fiscal Year 2000, 88.2% in Fiscal Year 2001, 88.6% in Fiscal Year 2002, 89.8% in Fiscal Year 2003, 89.7% in Fiscal Year 2004 , 91.05% in Fiscal 2005 , 91.11 in Fiscal 2006 and 90.86 in Fiscal 2007.

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The City is required to maintain accounts receivable on its books for at least fifteen years. After that time, a panel determines what receivable, if any, should be written off. An allowance for doubtful accounts is provided for in the department's financial statements for any receivables for which collection is unlikely. The City utilizes many methods to enforce collections of delinquent receivables including the termination of service, the filing and enforcement of property liens, legal proceedings with Municipal and Commonwealth court, and Sherriff sales. Ultimately, WRB has been able to collect in excess of 97.6% of all amounts due to the department. The Water Fund accounts receivable balance also contains payment due by all city agencies (which pay on a once a year basis), and revenues outstanding from sister agencies of the City such as PHA and RDA.

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The department and the Water Revenue Bureau (WRB) have also initiated a termination of service procedure for delinquent government owned properties. WRB has also recently begun a "water only" Sherriff sale initiative whereby properties with high water delinquencies are identified for Sherriff sale. WRB and MOIS have also completed arrangements where water customers can pay their bills on line. On line payment now total over \$1 million per month. The department & WRB are also working together to improve the collection of third party accounts receivable. Procedures for follow-up notices, the payment of most permit fees in advance and denial of new permits to delinquent contractors are all being implemented.

Attachment 1

Water Department and Water Revenue Bureau Assistance Programs			
Senior Citizen Discount	A 25 percent discount is provided for senior citizens 65 years of age or older, with a total household income <= \$27,600/year.	Administered by the Water Revenue Bureau.	Provided discounts to 17,900 seniors in FY07, at a total cost of \$2.1 million.
Charitable Organization Discount	A 25 percent discount is provided for charities, churches, nonprofit hospitals, schools, and universities.	Administered by the Water Department and Water Revenue Bureau.	In FY07, the general charitable discount was used by 3,174 organizations at a total cost of \$10.8 million
Water Revenue Assistance Program (WRAP)	Grants of up to \$200 on water bills are available to prevent shutoff for low-income customers (at or below 175 percent of poverty level). Assists customers in obtaining federal energy assistance.	Administered by the Water Revenue Bureau.	In FY07, provided City grants to 5,877 customers at a total cost of \$950,000
Utility Emergency Services Fund (UESF)	Grant program to prevent shutoff for low-income customers (at or below 150 percent of poverty level). Provides up to \$500 every other year (\$250 UESF grant plus \$250 matching Water Department credit).	Administered by the nonprofit UESF; with application help available from the Water Revenue Bureau.	Served 1643 customers in FY07, requiring Water Department matching credits and administrative costs of \$437,441
Homeowners' Emergency Loan Program (HELP)	No-interest repair loan program for homeowners in imminent danger of shutoff because of a violation notice.	Administered by the Water Department.	Provided loans to 1001 homeowners in FY07 at a total cost of \$3.4 million.
Conservation Assistance Program (CAP)	Provides water conservation devices and education to low-income customers (at or below 150 percent of poverty level), yielding average water usage savings of more than 25 percent for participants.	Administered by the Energy Coordinating Agency and Neighborhood Energy Centers under a Water Department grant.	Served 827 households in FY07 at a total cost of \$327,500
Cross Connection Abatement Program	Repair program mandated by the State to correctly replace sanitary drainage lines that are connected to the storm sewer	Administered by the Water Department.	Served 78 properties in FY07 at a total cost of \$378,328
TOTAL:	The total FY07 cost of Water Department and Water Revenue Bureau assistance programs was over \$18 million.		

Attachment 2

<i>2008 Regional Residential Water Charges</i>		
Monthly Water Bill		
Aqua Pennsylvania	\$46.51	
Pennsylvania American Water	\$47.65	
New Jersey American Water	\$35.34	
North Penn Water Authority	\$24.38	
North Wales Water Authority	\$22.85	
Doylestown Township	\$30.23	
Trenton	\$21.58	
Phila. Water Department (current)	\$20.36	
<i>Phila. Water Department (proposed)</i>	\$22.56	
<p>Rates in effect on April 1, 2008</p> <p>.</p> <p>*Calculations based on 5,236 gallons/month (700 cu.ft.)</p> <p>Source: Philadelphia Water Department</p>		

Attachment 3

<i>2008 Regional Residential Sewer Charges</i>		
Monthly Sewer Bill		
Bucks County Water & Sewer Authority	\$49.76	
CCMUA (Camden County)	\$26.25	
City of Trenton, New Jersey	\$23.30	
Phila. Water Department (current)	\$19.87	
<i>Phila. Water Department (proposed)</i>	<i>\$18.00</i>	
<p>Rates in effect on April 1, 2008. Storm water charges of \$9.12 are excluded from <u>current</u> sewer calculations, and \$12.62 are excluded from <u>proposed</u> sewer charges because many jurisdictions fund such services from the general tax base or a separate utility assessment.</p> <p>Calculations based on 5,236 gallons/month (700 cu.ft.)</p> <p>Source: Philadelphia Water Department</p>		

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