

1 approximately 80% of its capital program with tax exempt bonds and monitors closely its
2 capital spending. Once the decision has been made to finance a capital project by issuing
3 bonds, a financing team is assembled to develop offering documents, to prepare for any
4 rating agency and investor presentations, to market the bond offering to investors, to price
5 the bonds and close the transaction.

6
7 There are several specific areas where CTO takes the lead, they are described below:

- 8
- 9 1) Bond Issuance Calendar: The CTO is tasked with coordinating the timing of the
10 City's bond offerings, including general obligation and tax-backed financings as
11 well as the enterprise debt including the Philadelphia Gas Works, Philadelphia
12 Water Department and the Philadelphia Airport. The bond calendar schedule is
13 determined in large part by the capital needs of each of the funds as well as market
14 timing for possible refunding opportunities. The CTO relies on the individual
15 CFO's of each fund to inform the office on the required timing to fund capital needs.
16 In general, CTO attempts to have financings separated by at least one to two weeks
17 to avoid over-saturation and provide for better market access.
 - 18
 - 19 2) City Council Approvals: The CTO coordinates, with the City Law Department, the
20 submission of all required City Council ordinances related to bond financings. The
21 CTO relies on the Department for input regarding specific legal requirements or
22 bond terms required in the Ordinances.
 - 23
 - 24 3) City Related Disclosure: The CTO oversees all of the City related disclosure which
25 is Appendix IV, Government and Financial Information of the City of Philadelphia
26 and Appendix V, City of Philadelphia Socioeconomic Information. These are
27 required as a component of the Department's bond offering document. The
28 disclosure related to the Department is overseen by Department. The Director of

1 Finance, Mr. Rob Dubow, signs the final disclosure document for all City bond
2 offerings, including the Department's offerings.

3
4 4) Selection of Underwriting Team: The CTO coordinates the selection of the
5 underwriting team with input from each of the enterprise funds. The CTO prepares
6 a memo which is submitted to the Director of Finance for approval. Please see the
7 response attachment which includes a notice of underwriter selection.

8
9 5) Pricing the Bonds: The CTO along with the Department, and the financial advisors
10 oversee the marketing and pricing of the bonds. The Director of Finance signs the
11 Bond Purchase Agreement and has final approval for bond pricing.

12
13 6) Coordinating Closing: The CTO coordinates the closing and ensures that the bond
14 proceeds are deposited with City's Fiscal Agent for Water & Wastewater Revenue
15 Bonds. Investment decisions are governed by the City's investment policy and are
16 made in consultation with the Department finance professionals based on anticipated
17 capital plan expenditures.

18
19 There are specific areas where PWD takes the lead, they are described below:

20
21 7) Consulting Engineers Report and Financial Plan: Melissa LaBuda and Jaclyn Rogers
22 are the lead points of contact for the completion and / or update of an Engineering
23 Report ("Report"). The Report summarizes the findings of engineering studies
24 performed by Black & Veatch Management Consulting, LLC ("Black & Veatch")
25 related to the water and wastewater systems of the PWD. The Restated General
26 Water and Wastewater Revenue Bond Ordinance of 1989 and the amendments and
27 supplements set forth in the First through the Twentieth Supplemental Ordinances
28 (together the "General Ordinance") require the preparation and submission of an

1 Engineering Report as a condition to be met prior to the authorization and issuance
2 of bonds under the General Ordinance. The CTO is not involved in this process.

3
4 The Engineering Report presents the results of the financial plan of the water and
5 wastewater systems, which are based on a review of the PWD’s financial data,
6 records, and other information. The Report also addresses the condition of the
7 system infrastructure, adequacy of system capacity, organization and management,
8 operation and maintenance practices, and staffing levels of the water and wastewater
9 systems. It includes a review of the proposed Capital Improvement Program (“CIP”)
10 of the PWD. In the preparation of the Report, “the Black & Veatch team performed
11 site visits and conducted inspections of major water and wastewater facilities during
12 the months of June and July 2017. Black & Veatch reviewed the current condition,
13 and operation and maintenance of the water and wastewater systems. The team also
14 met with key Water Department staff during June to August 2017 to discuss other
15 facilities, regulatory compliance, staffing, and the overall mission of the Water
16 Department. Staff interviewed during our studies included representatives from the
17 following six of the seven divisions within the Water Department: Finance;
18 Operations; Engineering and Construction; Public Affairs; Human Resources; and
19 Planning and Environmental Services.”¹

20
21 The financial data used in the report is from the Water Department's historical
22 audited financial statements through fiscal year 2016, the approved operating and
23 capital budgets for fiscal year 2018. Melissa LaBuda and Jaclyn Rogers are the
24 points of contact for this information.

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¹ Source: *Engineering Report For Twentieth Supplemental Ordinance of Water and Wastewater Revenue Bonds for Fiscal Years 2019 and 2020.*

1 The Report and accompanying financial plan update are an important part of Official
2 Statement. The Official Statement is a “document prepared by or on behalf of a state
3 or local government in connection with a new issue of municipal securities. In some
4 respects, an official statement is comparable to a prospectus for a corporate equity
5 or debt offering. An official statement describes the essential terms of the bonds. It
6 typically provides the most detailed description of the terms and features of the
7 bonds through maturity, unless and until these terms have been modified.”²
8

9 8) Official Statement: As detailed above, Melissa LaBuda and Jaclyn Rogers are the
10 lead points of contact for the completion and / or update of the disclosure concerning
11 the Water Department contained in the Official Statement. To accomplish this,
12 Melissa LaBuda and Jaclyn Rogers work closely with the Department’s Disclosure
13 Counsel, Greenberg Traurig, LLP.
14

15 9) Financial Performance and Financial Plan– See description below.
16

17 10) Rating Agency Matters – The rating agencies assess the credit quality of the
18 Departments bonds, assign a rating to debt and also periodically update ratings while
19 debt is outstanding. Melissa LaBuda and Jaclyn Rogers lead these efforts for the
20 Department and work closely with PFM and Acacia, the Department’s financial
21 advisors, to formulate and present the Department’s credit summary. Ms. LaBuda
22 and Ms. Rogers are also the points of contact for any follow-up items related to the
23 rating agency questions concerning Department specific matters. To the extent that
24 rating questions arise regarding other City related issues and concerns, CTO
25 provides assistance.
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27
28

² Source: MSRB education center.

1 11) Investor Matters – Melissa LaBuda and Jaclyn Rogers lead these efforts for the
2 Department and work closely with PFM and Acacia to formulate and present the
3 Department’s investor summary. Ms. LaBuda and Ms. Rogers are also the points of
4 contact for any follow-up items related to the investor questions concerning
5 Department specific matters. To the extent that investor matters arise regarding other
6 City related issues and concerns, CTO provides assistance.

7
8 **PWD Non-Current Liabilities (Indebtedness)³**

9 The Department and CTO interact with regard to reporting non-current liabilities. As of
10 June 30, 2017, the Water Fund had \$2.5 billion of non-current liabilities outstanding which
11 include Water and Sewer Revenue Bonds (\$1.7 billion), Pennsylvania Infrastructure
12 Investment Authority Loans (\$138 million) which are also considered revenue bonds, Net
13 Pension Liability (\$455 million) and other items. These interactions do not neatly fit within
14 the categories of advice, suggestions or requests, but take the form of an exchange of
15 financial information to comply with applicable reporting requirements.

16
17 **Financial Plan Assumptions, Financial Performance and Financial Statements**

18 The CTO is not involved in discussions concerning financial performance goals and
19 metrics used in the Financial Stability Plan. These goals and metrics are developed
20 as described below.

21
22 1) The Department works with Black & Veatch, Raftelis, PFM and Acacia to formulate
23 its Financial Plan assumptions. Melissa LaBuda and Jaclyn Rogers lead this effort
24 for the Department. The Department updates its financial plan, at least annually, or
25 more frequently as needed to provide updated financial information for debt
26

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³ City of Philadelphia, Pennsylvania, Comprehensive Annual Financial Report Fiscal Year Ended June 30, 2017 and
City of Philadelphia, Philadelphia Water Department Financial Report Fiscal Year Ended June 30, 2017.

1 issuance matters as described above. The City Treasurer’s office is not involved in
2 these discussions as such no advice, suggestions or requests were given.

3
4 2) Financial Plan Assumptions: The Department’s financial planning process involves
5 projecting revenues and expenditures over a planning period (typically five years)
6 using various assumptions, including existing debt position, future spending
7 patterns, and other salient variables. As described in the rate filing the Department
8 utilizes the City’s Five-Year Plan to formulate some of its assumptions. This is
9 critical as the Department’s share of the City’s net pension liability totaled \$455
10 million as of June 30, 2017 as detailed in the response to PWD Non-Current
11 Liabilities. The City’s Five-Year Plan is developed by the City’s Finance
12 Department and the Director of Finance’s office.

13
14 3) Financial Performance Goals and Metrics used in the Financial Stability Plan
15 (“Plan”) submitted by the Department are developed by the Finance Staff at the
16 Department (Melissa LaBuda and Jaclyn Rogers), in consultation with their
17 financial advisors and engineer. The Department, with the support of their financial
18 advisors, conducts peer reviews, reviews rating agency ratios, industry credit
19 publications, and individual credit rate reports in order to develop the goals and
20 objections provided in the Plan.

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22
23 **RESPONSE PROVIDED BY:** Katherine Clupper, PFM, Peter Nissen, Acacia Financial and
24 Melissa LaBuda, Philadelphia Water Department
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HO-I-2. PLEASE STATE WHAT THE DEPUTY DIRECTOR FOR FINANCE REMEMBERS ABOUT ADVICE, SUGGESTION, RECOMMENDATION OR REQUESTS, IF ANY, FROM THE OFFICE OF THE CITY TREASURER TO THE DEPARTMENT REGARDING PWD REVENUE BONDS, PWD INDEBTEDNESS OTHER THAN REVENUE BONDS, PWD REVENUES, PWD FINANCIAL PERFORMANCE, PWD FINANCIAL GOALS, AND ASSUMPTIONS ON THESE TOPICS TO BE INCLUDED IN THE FINANCIAL STABILITY PLAN AND THE RATE CASE:

RESPONSE:

Please see response to Hearing Officer Ruling Set I, question 1.

RESPONSE PROVIDED BY: Katherine Clupper, PFM, Peter Nissen, Acacia Financial and
Melissa LaBuda, Philadelphia Water Department