

Philadelphia Water, Sewer, and Storm Water Rate Board
Meeting Notes
5/2/2018, 3 p.m., 1515 Arch Street, 18th Floor, The Glass Room

Members Present:

Irwin “Sonny” Popowsky, Chair
Tony Ewing
Rasheia Johnson
Folasade A. Olanipekun-Lewis

Also Present

Daniel Cantú-Hertzler	Kathy Clupper
Nancy Brockway	Jaclyn Rogers
Ed Markus	Cody Williams
Andre Dasent	
Rob Ballenger	
Debra McCarty	
Susan Crosby	
Melissa LaBuda	
Jolene Price	

1. Mr. Popowsky called the meeting to order at 3:04 p.m.
2. Mr. Popowsky noted that a fifth member of the Board, Abby Pozefsky, has been nominated by Mayor Jim Kenney. Ms. Pozefsky will undergo the confirmation process through City Council.
3. Ms. Johnson moved to approve the minutes from the April 18, 2018 monthly meeting without additions or corrections. The motion was seconded by Mr. Ewing. Motion approved with Mr. Popowsky, Mr. Ewing, and Ms. Johnson in favor, Ms. Olanipekun-Lewis abstaining, and no members opposed.
4. Mr. Ed Markus prepared a written report which reflected the questions he raised at the April 18, 2018 monthly Board meeting, which was distributed as a hand-out.

Mr. Markus noted that the Board-approved Water Department revenue and expenditures for 2017 and 2018 closely tracked actual figures in 2017 and projected figures in 2018. Mr. Markus recommends that the Board examine debt service coverage, the projected balances and minimums for both the rate stabilization and residual funds; the benefits and drawbacks of cash or bond financing of construction projects, and other financial policies or guidelines, including the Tiered Assistance Program rider. Presenting actual, projected, and proposed expenses from 2015 to 2021, he highlighted collective bargaining increases in employee compensation, the addition of new personnel, the cost of fringe benefits and pension contributions, the transition of previously capital-eligible costs to operating expenses, and inflation in non-labor expense as drivers of projected and proposed expenditure increases.

Debt service on 97% of outstanding bonds (along with PENNVEST loans) will remain the same, barring refundings or defeasances. Less than 3% of outstanding bonds carry variable rate debt, upon which debt service can vary as interest rates change. Debt service on future bond issues are variable, depending on the size of the borrowing (a factor which includes whether and to what extent a given capital program is cash- or debt-financed), bond terms, level principal, and all the other variables that come into play with debt service.

Mr. Markus noted that the pace of capital spending is proposed to increase in 2019-2021 by about \$100 million per year from 2017, and even more from prior years.

The historical, projected, and proposed revenue figures presented by Mr. Markus included two non-recurring transfers from the Debt Service Reserve Fund in 2017 and 2018 of \$11.8 million and \$19 million, respectively. His table also breaks out revenue increases requested by the Department in 2019, 2020, and 2021. Drivers of projected and proposed revenue changes include the Department's requested rate variations, changes in water sales and sewer use (including wholesale users), changes in storm water customer characteristics, participation in the Tiered Assistance Program, variations in collection rates, and possible changes in payment for fire protection services.

Mr. Markus presented data about historical and projected changes to sales volume and billable storm water area. He touched on long-term changes in sales and fixture replacement by customers, the state of the economy, urban development and redevelopment within Philadelphia, the addition or loss of users, changes in billable storm water area, and changes among wholesale customers as drivers of changes in the customer base.

Mr. Markus brought to attention the differential between the collection rates between customers who are billed for storm water only vis-à-vis customers who also are billed for water or sewer usage. The collection rate for the latter is significantly less, resulting in a gross difference is approximately \$20 million, which must be recouped from other ratepayers. Another factor impacting revenue is enrollment in the Tiered Assistance Program; the proposed TAP rider reconciles the difference between the actual and projected expectations for lost revenue due to the Tiered Assistance Program.

Drawing attention to the historical, projected and proposed figures for the Rate Stabilization Fund, Mr. Markus pointed out that the Water Department projects that the year-end balance of said Fund is projected to increase in 2018, and proposes that it then be drawn down year-on-year until 2021. The Board must now consider whether to make a policy decision concerning a minimum target for the Rate Stabilization Fund, considering the historical differentials between planned and actual deposits and withdrawals.

Turning to debt service coverage, Mr. Markus explained that minimum service requirements are contained within the bond legal documents and underpin the Department's ability to issue debt. The Department has proposed to borrow \$867 million over 2019-2021 to support the capital program and a target of 1.30 in debt coverage. He emphasized that revenues raised for cash-financed construction are not expenses and therefore they improve revenue bond coverage rather than detract from it.

Rounding back to the difference in collection rates between storm water only customers and the general customer base, Mr. Markus stated that an increase in the collection rates of storm water only customers of 10 percent would yield approximately \$2 million, which are monies that would not have to be recouped from other ratepayers. He also advised the Board to make further inquiries about the seemingly under-proportionate share of investment from the Commonwealth of Pennsylvania in the form of PENNVEST loans.

The Board would do well to also query the Department about the structuring of principal and interest payments on future bonds -- it has a strongly declining structure on existing debt -- bearing in mind the various factors involved in this structure, including legal obligations and the credit ratings.

Returning to the Rate Stabilization Fund, Mr. Markus encouraged the Board to seek the reasoning for the proposal to increase the minimum balance from \$110 million to \$150 million, and to ask for an updated projection of the 2018 year-end balance in light of 2016 balance increase and lower-than-expected withdrawals in 2017 and 2018.

Lastly, there is a financial capability analysis for the Long-Term Control Program, part of the Combined Sewer Overflow capital program. Mr. Markus recommends that the Board request this analysis.

5. Hearing Officer Nancy Brockway reported on the procedural status of the rate proceeding. The underlying process is proceeding ahead, with some occasional challenges presented by a lay participant in the rate proceeding. There have been nine public hearings scheduled, with the final one that evening. The two which were latterly scheduled had been sparsely attended. Public participants have largely focused on affordability questions, particularly the hardships that a rate increase would entail and encouragement for the Water Department to collect now-outstanding bills before raising rates.

Technical hearings begin on Thursday, May 10, 2018; the schedule of the hearings will be a collaboration between the Department and the Public Advocate; Ms. Brockway imagined that the hearings will begin by addressing matters relating to the Tiered Assistance Program, customer service issues, and fire protection.

6. Mr. Popowsky moved on to the final agenda item, relating to the Public Advocate's Motion to certify the issue of law raised in the previous Motion to Recuse Rasheia Johnson to the Court of Common Pleas and to stay the rate proceeding. Ms. Olanipekun-Lewis moved for a Special Meeting of the Board on Wednesday, May 9, 2018 at 3pm. Mr. Ewing seconded the motion. The motion carried, with Mr. Popowsky, Ms. Johnson, Mr. Ewing, and Ms. Olanipekun-Lewis in favor and without any members opposed or abstaining.

7. Mr. Ewing moved to adjourn the meeting; Ms. Olanipekun-Lewis seconded. The motion was approved with Mr. Popowsky, Ms. Olanipekun-Lewis, Mr. Ewing, and Ms. Johnson in favor, no members opposed and no members abstaining. The meeting was adjourned at 3:36 p.m.

Prepared by Cody Williams, Legal Assistant