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**ISSUE DATE: MAY 22, 2020**  
**DUE DATE: JUNE 24, 2020**

## **REQUEST FOR EXPRESSIONS OF INTEREST**

### **DIRECT PAY LETTER OF CREDIT AND ALTERNATIVE VARIABLE RATE FINANCINGS CITY OF PHILADELPHIA, PENNSYLVANIA Gas Works Revenue Refunding Bonds, Eighth Series D**

The City of Philadelphia (the “City”) is hereby seeking proposals for the provision of a Direct Pay Letter of Credit (the “Facility”) or alternative refinancing structure (i.e., privately placed SIFMA notes) to provide credit enhancement and liquidity for the Gas Works Revenue Refunding Bonds, Eighth Series D.

The City is conducting a competitive process for the provision of credit enhancement and liquidity on the following outstanding bonds with letters of credit from highly rated credit and liquidity providers on the outstanding bonds listed below. Both current and new bank facility providers are strongly encouraged to participate.

<b>Credit</b>	<b>Underlying Rating (Moody's/S&amp;P/Fitch)</b>	<b>Series</b>	<b>Facility Amount</b>	<b>LOC Exp. Date</b>
Philadelphia Gas Works	A3/A/BBB+	Eighth Series D	\$40,845,000	9/1/2020

For rating agency press releases, latest official statements, and other information, please see the City’s investor website at <http://www.phila.gov/investor>. Presentations regarding all of the City’s credits can be found at <https://www.phila.gov/investor/Pages/InvestorConference.aspx>.

### **Alternative Variable Rate Financing Proposals**

The City will consider proposals for alternative variable rate refinancing structures outside of a Direct Pay Letter of Credit. Alternative Bank Facility Financings would include private placement index notes. If your firm is an authorized underwriter in the current PGW pool, you can also submit public-market variable rate proposals. Any alternative proposal submitted should be detailed, including pricing, terms and condition, and should only be included if it is a firm offer.

### **Anticipated Schedule of Events**

The preliminary Schedule of Events for the proposals solicited hereby is set forth below.

<b>Issue REI</b>	<b>Friday, May 22, 2020</b>
<b>Deadline to Submit Questions</b>	<b>Friday, May 29, 2020</b>
<b>City Responses to Questions Posted</b>	<b>Friday, June 5, 2020</b>
<b>PROPOSAL SUBMISSION DEADLINE</b>	<b>Wednesday, June 24, 2020 @ 5:00 pm EST</b>
<b>Select Facility Providers</b> <i>(Final award is subject to approval by the City of terms of the Facilities)</i>	<b>Thursday, July 2, 2020</b>

## **Proposal Information**

Prospective providers who have received this document from a source other than the City, and who wish to assure receipt of any changes or additional materials related to this REI, should immediately e-mail Matthew Bowman ([Matthew.Bowman@phila.gov](mailto:Matthew.Bowman@phila.gov)) and provide their name and mailing address so that amendments to the REI or other communications may be sent to them.

Please respond on behalf of your firm only; the City will not consider joint proposals.

The expenses of your proposal will not be the responsibility of the City or any of their respective counsel or advisors. The City reserves the right to waive any irregularity in any proposal, negotiate with one or more firms and to reject any or all proposals. The City reserves the right not to proceed with the execution of the Facility.

THE CITY ENCOURAGES SUBMISSIONS BY MINORITY, WOMEN, AND DISABLED OWNED FIRMS. THE CITY REQUIRES THAT ANY FIRM SELECTED TO PARTICIPATE AS PROVIDER FOR A CITY FINANCING AGREE NOT TO DISCRIMINATE NOR PERMIT DISCRIMINATION AGAINST ANY PERSON BECAUSE OF RACE, COLOR, RELIGION, NATIONAL ORIGIN, OR SEXUAL ORIENTATION. IN THE EVENT OF SUCH DISCRIMINATION, THE CITY RESERVES THE RIGHT TO TERMINATE THE FIRM'S APPOINTMENT TO THE ISSUE.

## **Proposal Submission & Deadline**

Please submit your proposals via e-mail by **no later than 5:00 PM EST on, Wednesday, June 24, 2020** to Jacqueline Dunn ([Jacqueline.Dunn@Phila.gov](mailto:Jacqueline.Dunn@Phila.gov)) and Matthew Bowman ([Matthew.Bowman@Phila.gov](mailto:Matthew.Bowman@Phila.gov)). The subject title should read, "REI-Submission - Direct Pay LOC - [insert firm name]".

Your response should follow the format in Exhibit A which is attached. THE CITY ANTICIPATES NEGOTIATING COMPLETE TERM SHEETS AFTER RESPONSES HAVE BEEN RECEIVED.

Interested parties must indicate by when they would expect to be able to receive **final credit approval**. A form of the Direct Pay Letter of Credit and Reimbursement Agreement or relevant legal documents for alternative proposals to be entered into by the City and the Facility provider must be made available to the City promptly upon notice to the respondent that they are the apparent choice of the City.

## **Questions**

The City will accept written questions from prospective Providers. Questions and presentation requests will be accepted by e-mail to Matthew Bowman at [Matthew.Bowman@phila.gov](mailto:Matthew.Bowman@phila.gov). **The deadline for written questions is Friday, May 29, 2020 at 5:00 PM, Local Time.**

NO QUESTIONS ARE TO BE DIRECTED TO THE MAYOR'S OFFICE, OR TO ANY OTHER CITY DEPARTMENT, AGENCY, OR PERSONNEL.

Answers to all substantive questions that are not clearly specific only to the requestor, will be distributed to all vendors who are known to have received a copy of the REI. Such distribution may include the posting of such information on the City's website [www.phila.gov/REI](http://www.phila.gov/REI). The City will respond to questions by Friday, June 5, 2020.

## **Evaluation Criteria and Selection**

Selection shall be made to the responsive and responsible providers whose proposals are deemed to be the most advantageous to the City, along with any relevant performance data and other information available to the City. Proposals will not be opened publicly.

## **Revisions to the REI**

If it becomes necessary to revise this REI before the due date for proposals, amendments will be provided to all prospective providers who were sent this REI or otherwise are known by the City to have obtained this REI. Amendments made after the due date for proposals will be sent only to those Providers who submitted a timely proposal.

Acknowledgment of the receipt of all amendments to this REI issued before the proposal due date must accompany the provider's proposal in the transmittal letter accompanying the proposal. Acknowledgement of the receipt of amendments to the REI issued after the proposal due date shall be in the manner specified in the amendment notice. Failure to acknowledge receipt of amendments does not relieve the provider from complying with all terms of any such amendment.

## **Reservation of Rights**

The City reserves the right to cancel this REI, accept or reject any and all proposals, in whole or in part, received in response to this REI, to waive or permit cure of minor irregularities, and to conduct discussions with any or all qualified or potentially qualified providers in any manner necessary to serve the best interests of the City. The City also reserves the right to award a contract based upon the written proposals received without discussions or negotiations. In the event negotiations with any respondent(s) are not satisfactory to the City, the City reserves the right to discontinue such negotiations at any time; to enter into or continue negotiations with other respondents; and/or to solicit new responses from providers that did not respond to this REI. The City reserves the right not to enter into any contract with any respondent, with or without the re-issuance of this REI, if the City determines that such is in the City's best interest. The City reserves the right to change the details at any time. Nothing in this REI shall bind the City to enter into any agreements pursuant to this solicitation.

*Thank you for your interest in serving the City.*

## **Exhibit A**



### **CITY OF PHILADELPHIA, PENNSYLVANIA Gas Works Revenue Refunding Bonds, Eighth Series D**

### **REI for Direct Pay Letters of Credit and other Alternative Credit Enhancement and Liquidity Fee Proposal Form**

*Proposals submitted must complete this form or include responses to all items on this form in order to be considered.*

#### **SECTION 1 – GENERAL INFORMATION**

**Full Legal Name of Provider:** \_\_\_\_\_

**Contact Person:** \_\_\_\_\_ **Phone:** \_\_\_\_\_

**Fax:** \_\_\_\_\_ **E-mail:** \_\_\_\_\_

**Bank's Ratings:**

Fitch:	Long-term _____	Short-term _____	Outlook/Credit Watch _____
Moody's:	Long-term _____	Short-term _____	Outlook/Credit Watch _____
Standard & Poor's:	Long-term _____	Short-term _____	Outlook/Credit Watch _____

1.1. Please indicate if your firm has overall limits for providing credit and/or liquidity to the City and would capacity be available for other City owned credits

1.2. Maximum Principal Amount for the Bonds: \_\_\_\_\_ (plus required interest coverage)

1.3. Timeframe for Credit Approval: \_\_\_\_\_

#### **SECTION 2 – PRICING**

2.1 Complete the fee table below and separately provide a downgrade pricing grid.

Facility Length	Annual Fee
1 Year/365 days	
2 Years	
3 Years	
4 Years	

2.2 Term-Out Provisions (including interest rates and conditions)

2.3 Bank Counsel: Firm Name and primary contact: \_\_\_\_\_

Legal Fees and Expenses: Estimated at \$ \_\_\_\_\_; capped at \$ \_\_\_\_\_

#### **SECTION 3 – COVENANTS**

3.1 Please itemize and briefly describe all required Security Covenants

3.2 List all Termination Events and Events of Default.

#### **SECTION 4 – ALTERNATIVE PROPOSALS (LIMIT: 2 PAGES)**

Please include a description, terms and pricing associated with any proposed alternative variable rate financing proposals. Indicate whether the proposal is a firm offer. Proposals should not exceed two pages.

## PGW Questions

1. Has PGW seen an increase in delinquencies, or been providing relief to individuals unable to pay their bills?

**RESPONSE:** PGW has been following all PUC guidelines related to customer service and related payment programs. The winter shut-off moratorium has been extended while the “Proclamation of Disaster” issued by Governor Wolf on March 6, 2020 is in effect. Customers are not being assessed late payment charges which approximate \$1.3 million per month.

Delinquencies have increased recently due to several factors. Since the shut-off moratorium has been in place, customers whose gas service would have been terminated for non-payment are still receiving gas service. This is reflected in an increase in overdue A/R. Since write-offs of accounts are not taking place, this too, has increased delinquent accounts. PGW does not expect this to be a long-term result. When the moratorium is lifted and PGW proceeds with its normal business process the delinquent account balance should reduce.

2. Is PGW able to use the Stabilization Fund that is typically used to balance weather related demand fluctuations and apply it to meet rate covenants in the event COVID/recession may impact collections?

**RESPONSE:** PGW does not have a “Stabilization Fund”. The Weather Normalization Adjustment (WNA) is strictly weather based and does not take into account fluctuations related to non-weather based variations in usage. This would be more akin to a decoupling mechanism and PGW does not have “decoupled” rates.

3. Can PGW provide interim financial information?

**RESPONSE:** Attached please find the PGW financial statements for the eight months ended April 2020.



April 2020 Financial  
Statements.pdf

4. Can the City increase the \$18mm annual transfers from PGW and what procedure or conditions would be necessary for this to take place?

**RESPONSE:** The City fee can only be increased 10.0%, or \$1.8 million, without PUC approval. The City has not budgeted for, nor requested a change in, the \$18.0 million City fee.

5. What is PGW’s projection of FY2020 operating revenue and collection rates given the coronavirus effects?

**RESPONSE:** PGW is estimating a drop in revenue due to warmer than normal weather experienced prior to the impact related to COVID-19. At the fiscal year end, August 31, 2020, the variance from budget in revenue is estimated to be \$44.3 million with a corresponding decrease in the cost of natural gas purchased in the amount of \$33.0 million for a net loss of contribution margin in the amount of \$11.3 million. Because of the slowdown in construction and related overtime, PGW anticipates decreased operating expenses to mitigate this loss of contribution margin. The delay in the sale of the bonds will

also lower FY 2020 interest expense from budget. The net of all of these changes is an anticipated reduction in net income of approximately \$1.8 million.

PGW's collection rate for the eight months ended April 2020 was 97.35%, above the target of 96.0%.

UNAUDITED  
PGW  
STATEMENT OF INCOME  
EIGHT MONTHS ENDED APRIL 2020 AND 2019 WITH COMPARISONS  
(Thousands of Dollars)

Line No.	FY2019 Actual		FY2020		Increase/(Decrease) Actual FY2020 vs. Budget	
			Actual	Budget	Amount	%
		<u>Operating revenues</u>				
1	\$ 19,153	Non-heating	\$ 17,696	\$ 17,572	\$ 124	1
2	51,347	Gas transport service	52,078	51,253	825	2
3	506,767	Heating	455,045	500,827	(45,782)	(9)
4	19,185	Unbilled gas adjustment	17,290	18,194	(904)	(5)
5	(25,695)	Appropriation for uncollectible reserve	(27,028)	(26,028)	(1,000)	4
6	570,757	Total gas revenues	515,081	561,818	(46,737)	(8)
7	4,862	Appliance & other revenues	4,389	4,255	134	3
8	9,314	Other operating revenues	6,572	7,675	(1,103)	(14)
9	584,933	Total operating revenues	526,042	573,748	(47,706)	(8)
		<u>Operating expenses</u>				
10	182,340	Natural gas	145,810	178,052	(32,242)	(18)
11	15	Other raw material	19	10	9	90
12	182,355	Sub-total fuel	145,829	178,062	(32,233)	(18)
13	402,578	CONTRIBUTION MARGIN	380,213	395,686	(15,473)	(4)
14	12,183	Gas processing	15,826	14,719	1,107	8
15	52,991	Field operations	52,575	55,950	(3,375)	(6)
16	2,700	Collection	2,488	2,876	(388)	(13)
17	9,580	Customer services	9,353	9,978	(625)	(6)
18	5,635	Account management	5,135	6,130	(995)	(16)
19	2,725	Marketing	2,748	3,271	(523)	(16)
20	50,528	Administrative & general	46,180	53,788	(7,608)	(14)
21	13,962	Health insurance	16,380	16,893	(513)	(3)
22	(6,527)	Capitalized fringe benefits	(6,788)	(5,348)	(1,440)	27
23	(5,916)	Capitalized administrative charges	(6,057)	(9,434)	3,377	(36)
24	22,146	Pensions	20,536	19,687	849	4
25	20,217	Other post-employment benefits	11,928	11,928	-	-
26	5,706	Taxes	5,783	6,073	(290)	(5)
27	-	Cost savings	-	523	(523)	-
28	185,930	Total operating expenses	176,087	187,034	(10,947)	(6)
29	216,648	Operating income before depreciation	204,126	208,652	(4,526)	(2)
30	41,508	Net depreciation	42,286	43,401	(1,115)	(3)
31	409,793	Total operating expenses	364,202	408,497	(44,295)	(11)
32	175,140	Operating income	161,840	165,251	(3,411)	(2)
33	7,422	Investments gain (loss) and other income	5,274	3,071	2,203	72
34	182,562	Income before interest	167,114	168,322	(1,208)	(1)
		<u>Interest</u>				
35	32,244	Long-term debt	29,189	29,347	(158)	(1)
36	(3,509)	Other	(2,695)	(3,247)	552	(17)
37	(728)	Allowance for funds used during construction	(1,354)	(1,085)	(269)	25
38	28,007	Net interest expense	25,140	25,015	125	0
39	\$ 154,555	Net income	\$ 141,974	\$ 143,307	\$ (1,333)	
40	\$ (12,000)	Distribution to the City	\$ (12,000)	\$ (12,000)		
41	\$ 142,555	Net earnings after distribution to the City	\$ 129,974	\$ 131,307		



**PGW**  
**BALANCE SHEETS APRIL 2020 AND 2019**  
(Thousands of Dollars)

**ASSETS**

Line No.		FY2020	FY2019
<b>Non-current assets</b>			
<b>Utility plant, at original cost</b>			
1	In service	\$ 2,514,400	\$ 2,412,982
2	Under construction	104,324	102,251
3	Total	2,618,724	2,515,232
4	Less accumulated depreciation	(1,160,829)	(1,100,408)
5	Utility plant - net	1,457,895	1,414,824
6	Sinking fund - revenue bonds	109,120	104,093
7	Capital improvement funds	-	11,869
8	Unamortized bond issuance cost	241	269
9	Regulatory asset - environmental	37,102	31,593
10	Other non-current assets	6,035	9,129
11	<b>Total non-current assets</b>	1,610,393	1,571,777
<b>Current assets</b>			
12	Cash and temporary investments	188,604	173,566
13	Current portion of capital improvement fund	(0)	61,000
14	Restricted investment workers' compensation	2,735	2,680
Accounts receivable			
15	Customers	212,283	208,137
16	Others	6,111	8,083
17	Accrued gas revenues	22,238	23,812
18	Accumulated provisions for uncollectible accounts	(70,647)	(69,092)
19	Accounts receivable - net	169,984	170,941
20	Materials and supplies	40,391	40,794
21	Other current assets and deferred debits	11,575	19,101
22	<b>Total current assets</b>	413,289	468,083
<b>Deferred outflows of resources</b>			
23	Accumulated fair value of hedging derivatives	11,279	1,541
24	Unamortized loss on bond refunding	33,545	38,530
25	Deferred outflows related to pension	14,421	24,943
26	Deferred outflows related to OPEB	91,175	81,048
27	<b>Total deferred outflows of resources</b>	150,419	146,062
28	<b>Total assets and deferred outflows of resources</b>	<u>\$ 2,174,101</u>	<u>\$ 2,185,921</u>

**PGW**  
**BALANCE SHEETS APRIL 2020 AND 2019**  
(Thousands of Dollars)

**EQUITY AND LIABILITIES**

			<b>FY2020</b>	<b>FY2019</b>	Line No.
<b>Long term debt</b>					
<b>City of Philadelphia bonds</b>					
<u>Issued</u>	<u>Original amount</u>	<u>Current portion</u>			
2004	207,820	-	30,000	30,000	1
2009	313,285	-	122,810	122,810	2
2010	150,000	3,755	57,080	60,835	3
2011	88,855	4,410	14,750	19,160	4
2015	261,770	15,720	177,970	193,690	5
2016	312,425	21,680	231,885	253,565	6
2017	273,140	4,445	255,435	259,880	7
Total issued		50,010	889,930	939,940	8
Unamortized debt discount/premium		<u>9,580</u>	<u>81,960</u>	<u>91,323</u>	9
<b>Total long-term bond debt</b>		59,590	971,890	1,031,263	10
<b>Current liabilities</b>					
Current portion of revenue bonds			\$ 59,590	\$ 68,321	11
Notes payable			-	-	12
Accounts payable			23,198	35,278	13
Current portion of long-term liabilities			7,553	9,171	14
Customers' deposits			2,737	2,991	15
Other current liabilities and deferred credits			37,834	32,444	16
Accrued accounts:					
Interest, taxes and wages			12,922	12,456	17
Distribution to the City			<u>1,500</u>	<u>1,500</u>	18
<b>Total current liabilities</b>			145,334	162,162	19
<b>Non-current liabilities</b>					
Long-term revenue bonds			971,890	1,031,263	20
Net pension liabilities			247,246	261,261	21
Net OPEB liabilities			335,673	386,772	22
Other non-current liabilities			<u>65,486</u>	<u>55,895</u>	23
<b>Total non-current liabilities</b>			1,620,294	1,735,191	24
<b>Deferred inflows of resources</b>					
Deferred inflows related to pension			19,081	16,540	25
Deferred inflows related to OPEB			<u>51,856</u>	<u>17,773</u>	26
<b>Total deferred inflows of resources</b>			70,937	34,313	27
<b>Net position</b>			337,536	254,255	28
<b>Total liabilities, deferred inflows of resources, and net position</b>			<u>\$ 2,174,101</u>	<u>\$ 2,185,921</u>	29