

**City of Philadelphia**  
**Water Department**  
**Commercial Paper Letter of Credit Questions**  
**January 21, 2021**

**1. Will PWD accept partial proposals for the CP backup facility?**

Response: Yes, we will accept proposals for less than the full \$400 million.

**2. What is the expected usage/funding for the Commercial Paper Program? Please provide a takedown schedule or amortization.**

Response: The expected use of the commercial paper program is to fund a portion of the Water & Wastewater System capital improvement program. A major focus of the program will be for projects funded or planned to be funded via the Pennsylvania Infrastructure Investment Authority State Revolving Fund (PennVest). As of January 20, 2021 the Department has been awarded three loans totaling approximately \$180 million for three projects.

**3. The July Official Statement states that “As of July 6, 2020, the following accounts are eligible for shut-off but have not been disconnected due to the moratorium: 5,658 commercial accounts, 56,755 residential accounts, and 2,532 TAP accounts, for a total of 64,945 accounts” -- Are there more recent updated figures for accounts eligible for shut-off? How do these numbers compare to the Department’s typical delinquency levels? Is the Department still forecasting a 93% collection rate, per the most recent Official Statement? What is the current delinquency rate? Are shutoffs and disconnects still suspended, and if so is there a target date to lift the moratorium?**

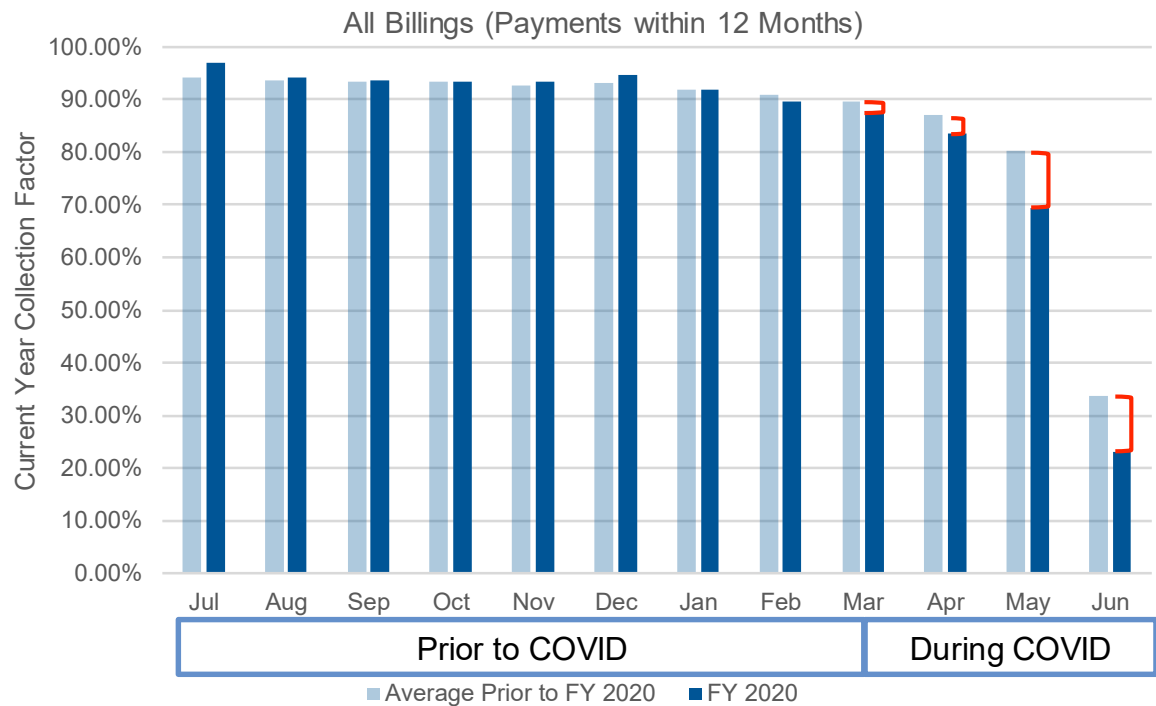
Response: *Shut-off Moratorium* — Per the Governor’s order and in accordance with the City’s directive, the Philadelphia Water Department (“Department” or “PWD”) suspended water service terminations beginning in March 2020. The Water Department waived shut-off and reconnect fees on March 20, 2020 and started restoring service to most delinquent accounts on March 25, 2020. As of the end of December 2020, over 72,000 accounts were eligible for shut-off, but none had been disconnected due to the moratorium. The duration of the shut-off moratorium is unknown at this writing. However, the City expects that the number of shut-off eligible accounts will continue to rise, and impact collections without the lack of an enforcement mechanism.<sup>1</sup>

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<sup>1</sup> Please see the Advance Notice of the Department’s proposed rate increase filed on January 15, 2021 with Philadelphia City Council and the Philadelphia Water, Sewer, and Storm Water Rate Board (“Rate Board”). The Advance Notice precedes PWD’s formal rate filing to be made on February 16, 2021 which will be subject to the review and authorization of the Rate Board. The Department’s Summary Fact Sheet explaining why the rate increase has been proposed and regulations impacted by the proposed rate change may be viewed by visiting the Rate Board’s website at: [www.phila.gov/water/rateboard](http://www.phila.gov/water/rateboard).

*Decreased Collections* — Changes in collection patterns typically take a few months to manifest after an economic event. Figure 1 below bears out this observation and shows that collections on billings during the first three months of COVID (April-June 2020) are as much as 10% less than the historical average for the corresponding period during fiscal years 2012 through 2019. The data clearly shows a greater rate of decline as the pandemic lengthens and suggests that the Water Department may not yet have seen the lowest month of collections, since the above data only reflect numbers through June 2020. Data trends suggest that fiscal year 2021 collections may be lower by 5 to 10% overall.

Figure 1 Impact of Pandemic on Collections



For more information, please see <https://www.phila.gov/departments/water-sewer-storm-water-rate-board/rate-proceedings/2021-rate-proceeding/>, PWD Statement 7A – Direct Testimony and Schedules of Black and Veatch.

4. **Please summarize the assistance programs and payment plans available for eligible customers and the degree to which customers are using such programs at this time.**

Response: The City offers a variety of payment assistance for PWD customers through Standard Payment Agreements, Extended Payment Agreements, the Water Revenue Assistance Program (“WRAP”), the Tiered Assistance Program (“TAP”), the Senior Citizen Discount and Matching Grants.

- Standard Payment Agreements – City entered into approximately 21,232 standard payment agreements in calendar year 2019 and 3,937 standard payment agreements in calendar year 2020 as of November 30, 2020.

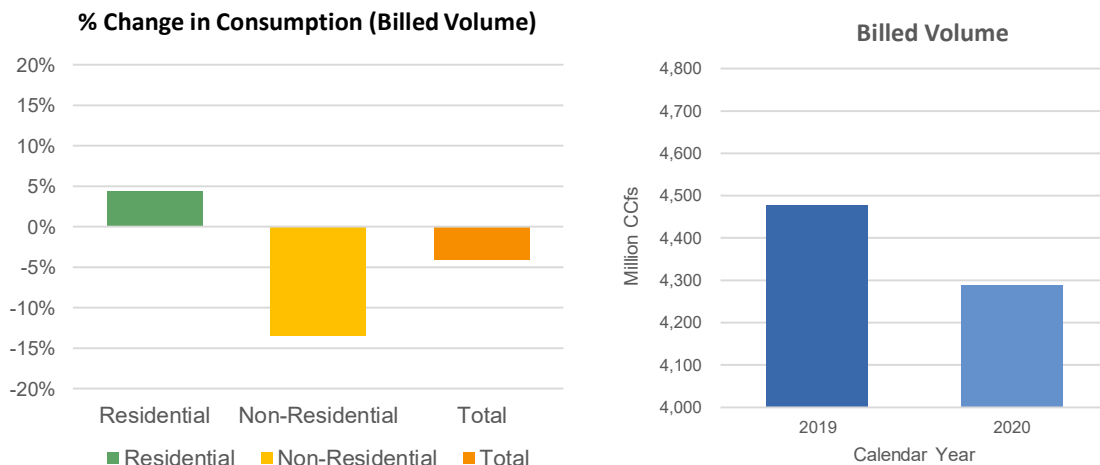
- Extended Payment Agreements – City entered into approximately 1,147 extended payment agreements in calendar year 2019 and 411 extended payment agreements in calendar year 2020 (as of November 30, 2020).
- WRAP - There were approximately 74 active WRAP agreements as of January 1, 2020. There were approximately 54 WRAP payment agreements in calendar year 2020 (as of November 30, 2020). WRAP is a legacy customer assistance program offered by the City.
- TAP - TAP was launched on July 1, 2017, and assists low-income households at or below 150% of the FPL and those with a special hardship (e.g., losing a job). Under this program, monthly water, sewer, and stormwater bills are tied to household income. Payments range from 2% to 4% of monthly household income. Qualified TAP customers, who have made 24 payments, will also receive forgiveness of all arrears accumulated by the Customer prior to entering the program (i.e., pre-TAP arrears). The City enrolled 13,355 unique accounts in TAP in calendar year 2019. Of those, 4,199 were enrolled in TAP for the first time. In calendar year 2020, approximately 15,000 unique accounts were enrolled in TAP (as of July 2020). Of those, 4,655 were enrolled for the first time.
- TAP Payment Agreements - TAP payment agreements are available to customers enrolled in TAP and have delinquent TAP bills. The City entered into approximately 939 TAP payment agreements in calendar year 2019 and 179 TAP payment agreements in calendar year 2020 (as of November 30, 2020).
- Senior Discount - The Senior Citizen Discount program is available to customers 65 or older with household incomes not exceeding \$33,300 per year with the implementation of the FY 2022 rates. As of June 30, 2019, there were 24,000 customers receiving the Senior Citizen Discount. As of June 30, 2020, approximately 23,200 customers received the senior discount.
- Matching Grant - The Utility Emergency Services Fund (“UESF”) is a not-for-profit, tax-exempt, charitable organization. UESF provides financial assistance to low income individuals and families who are facing utility terminations or who have had their utilities shut off. PECO, the Philadelphia Gas Works (“PGW”), and the Department match each dollar of financial assistance provided by UESF in the form of a matching bill credit on their respective utility accounts. UESF’s Utility Grant program is administered by UESF, not the City. The program is designed to bring a customer’s delinquent account up to date.

For further information please see <https://www.phila.gov/departments/water-sewer-storm-water-rate-board/rate-proceedings/2021-rate-proceeding/>, PWD Statement 5.

**5. How has water consumption changed since the beginning of the pandemic? What is the year-over-year percent change in usage?**

Response: Please see Figure 2 which illustrates how consumption levels have decreased during the onset of the COVID-19 pandemic. Specifically, the Water Department reports a 4% overall reduction in consumption between late March through December 2020 compared to the same period in the prior fiscal year. The increase in residential consumption due to work-from-home orders and the shut-off moratorium is 4.4%. Still, the 13.5% decline in non-residential usage is so large as to negate increased residential consumption.

**Figure 2 Change in Demand During COVID**



For more information, please see <https://www.phila.gov/departments/water-sewer-storm-water-rate-board/rate-proceedings/2021-rate-proceeding/>, PWD Statement 7A – Direct Testimony and Schedules of Black and Veatch.

**6. How is revenue trending in the current Covid-19 environment? What are collections 2020 year-to-date?**

Response: Please see the response to Question 3.

**7. What is the revenue breakdown between residential, commercial and industrial sales?**

Response: Based on the projected revenues under existing rates reflected in the financial projections included in the Water Department’s Advanced Notice, revenues consist of approximately 55% residential, 39% non-residential, and 6% wholesale customers.

**8. Have you or will you receive any CARES Act funds, and if so, how much?**

Response: The Department, as part of the City of Philadelphia, has incurred certain costs due to COVID-19 which are potentially eligible for reimbursement as part of the City's reimbursement by CARES Act funds.

**9. Has PADEP granted the Department with an extension in compliance with the COA pursuant to the force majeure provision? If not, when is a decision expected to occur? Has the PA Department of Environmental Protection agreed to extending the consent order and agreement under the force majeure clause? How is PWD handling compliance with consent orders and other environmental compliance?**

Response: The City has notified the Pennsylvania Department of Environmental Protection ("PADEP") of anticipated delays in completing some of the Ten-Year Milestones and deliverables under the Consent Order and Agreement, dated June 1, 2011 with PADEP ("COA") and of the City's intent to seek an extension for compliance with the aforesaid milestones pursuant to the force majeure provision of the COA. Communication is ongoing between the City and the PADEP. The City has not yet formally requested a specific extension related to its COA, as the COVID 19 pandemic is still on-going.

**10. Per the Investor Presentation linked in the RFP (page 13), the Department made transfers from its DSRF to the revenue fund in 2017 and 2018. Can you please expand upon the usage of such funds?**

Response: The General Water and Wastewater Revenue Bond Ordinance of 1989, Section 4.09, Debt Serve Account, details that any money in the Debt Reserve Account in excess of the Debt Reserve Requirement shall be transferred to the Revenue Fund at the written direction of the City. In Fiscal Years 2017, 2018 and Fiscal Year 2020, the Debt Reserve Account was in excess of the Debt Reserve Requirement, as such, the funds were transferred to the Revenue Fund.

**11. What resources and mechanisms are at the Department's disposal, if needed, in the event of additional prolonged revenue loss due to COVID-19?**

Response: The Department's only source of additional revenue is through its customer base. New revenues are needed in FY 2022 and FY 2023 as PWD transitions away from austerity measures implemented because of the pandemic and seriously addresses its current financial deficit. The Department has no choice but to request rate relief for FY 2022 and FY 2023.

12. Is there an update to the capital plan from the July 2020 Official Statement, as outlined below? What percentage of expenditures in FY21 and FY22 are non-critical and can be deferred, if needed?

	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>
Capital Expenditures	611,385	545,985	714,385	493,385	594,985
Debt-Funded	175,510	511,010	459,895	544,085	523,305

What changes given COVID-19 have you made to the Capital Improvement Program?

Response: The pandemic forced the Department to prioritize projects planned for FY 2021 and only bid those projects deemed critical in order to utilize the limited amount of capital funds in the most prudent manner. That prioritization caused less critical projects that were planned for FY 2021 to be delayed. These projects, however, cannot be delayed indefinitely, since the circumstances that necessitated the projects, in the first place, have not changed.

The proposed FY 2022 capital budget of \$378.9 million is \$232.5 million less than the FY 2021 budget because of the decrease in projects bid in FY 2021 given the pandemic. However, there is a carry-forward (from FY 2021 to FY 2022) of unused approved FY 2021 capital budget appropriations. With the carried-forward appropriations, the Department anticipates encumbered costs of approximately \$611 million for capital projects in FY 2022.

For more information please see <https://www.phila.gov/departments/water-sewer-storm-water-rate-board/rate-proceedings/2021-rate-proceeding/> PWD Statements 7A, 3 and 2.

13. Are projected rate increases, if any, to support CIP needs known at this time?  
**Rate increases beyond 2021: The 2018 Rate Determination memo proposed increases that would have raised overall rates by 1.60% in FY19, 4.50% in FY20 and 4.50% in FY21. Have there been discussions of rate increases beyond 2021?**

Response: Please see <https://www.phila.gov/departments/water-sewer-storm-water-rate-board/rate-proceedings/2021-rate-proceeding/>, PWD Exhibit 2- Summary Fact Sheet and PWD Statement 2.

14. How much is the RSF projected to be drawn down by in FY 2021?  
**What is the projected balance of the Rate Stabilization Fund over the next several years?**

Response: The Fiscal Year 2021 projected withdrawal from the Rate Stabilization fund is approximately \$41 million. Please see <https://www.phila.gov/departments/water-sewer-storm-water-rate-board/rate-proceedings/2021-rate-proceeding/>, PWD Statement 7A – Direct Testimony and Schedules of Black and Veatch, pdf page 57 of 510 for projections over the next five years.

**15. Can you confirm this is a new CP program?**

Response: Yes, this is a new program.

**16. Will CP dealer proposals be accepted in conjunction with liquidity proposals?**

Response: As noted in the REI, the City reserves the right to select the chosen provider to also serve as dealer on the Commercial Paper. Additional Dealer proposals are not necessary.

**17. Can you confirm if the intent of this program is to issue tax-exempt CP for capital project purposes and later take out with long-term bonds?**

Response: The assumption in the above Question is correct.

**18. Please confirm the City expects the CP Notes to be tax-exempt  
Will the facility be taxable or tax exempt?**

Response: The CP Notes are anticipated to be tax-exempt.

**19. Does the City have updated cash flow projections similar to those on pages 47 & 48 (Tables 11A and 11B) of the Water & Wastewater Revenue Bond Official Statement dated July 22, 2020? If so, could those please be provided?**

Response: Please see <https://www.phila.gov/departments/water-sewer-storm-water-rate-board/rate-proceedings/2021-rate-proceeding/>, PWD Statement 7A – Direct Testimony and Schedules of Black and Veatch, pdf page 57 of 510.

**20. Will you please provide the most recent PWD engineering report (i.e., if one was issued in connection with the recent ordinance)**

Response: For the most current information, please see <https://www.phila.gov/departments/water-sewer-storm-water-rate-board/rate-proceedings/2021-rate-proceeding/>.

**21. Will you please provide anticipated amounts and timing of PWD new money bond issues and Pennvest loans through fiscal year 2025 or 2026**

Response: For the most current information, please see <https://www.phila.gov/departments/water-sewer-storm-water-rate-board/rate-proceedings/2021-rate-proceeding/> PWD Statement 7A – Direct Testimony and Schedules of Black and Veatch, pdf page 385 of 510.

**22. Will you please provide updates to the “Recent and Upcoming Financings” section of the City’s most recent official statement, as may be available**

Response: Please see the response to Question 21.

**23. What is debt service coverage projected to be in the next several years?**

Response: The Department is projecting 1.20 times debt service coverage for the near term. PWD will maintain the longer term goal of 1.30 times debt service coverage for revenue bonds. However, due to the COVID-19, pandemic the interim focus is on 1.20 times for FY 2022 and FY 2023. The interim focus avoids a violation of the Rate Covenants for the near term, recognizing the 1.30 times is the appropriate longer term goal.

For more information please see PWD Statement No 2.