

RESPONSE TO
PUBLIC ADVOCATE'S INTERROGATORIES
AND
REQUESTS FOR PRODUCTION OF DOCUMENTS
QUESTIONS 1-17

Dated: February 2021

1 **PA-V-1.** PLEASE PROVIDE THE DEPARTMENT’S FINANCIAL STATEMENTS FOR
2 FY 2018 THROUGH FY 2020 AND ANY INTERIM FINANCIAL
3 STATEMENTS FOR FY2021.
4

5 **RESPONSE:**

6 The City reports its financial performance for each Fiscal Year on a consolidated basis in its audited
7 Comprehensive Annual Financial Report (“CAFR”), which is published not later than February 28
8 of each year. The City’s CAFR for Fiscal Year’s 2018 and 2019, which includes audited financials
9 of and other information relating to the Water Fund, was filed on the Electronic Municipal Market
10 Access System of the Municipal Securities Rulemaking Board (“MSRB”) on February 25, 2020 and
11 is available at <http://www.emma.msrb.org>. The City’s Fiscal Year 2020 CAFR is expected to be
12 available on or before February 28, 2021.
13

14 Please see response attachment for the FY 2018 and FY 2019 statements pertaining to the Water
15 Fund. The FY 2020 statements are expected to be available on or before February 28, 2021. The
16 Department does not produce interim financial statements.
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18 **RESPONSE PROVIDED BY:** Melissa LaBuda, Philadelphia Water Department
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1 **PA-V-2.** REFER TO MS. LA BUDA'S TESTIMONY BEGINNING AT PAGE 3, LINE
2 24. PLEASE PROVIDE THE DATE ON WHICH THE DEPARTMENT
3 WITHDREW THE \$33 MILLION FROM CASH RESERVES.
4

5 **RESPONSE:**

6 The Department's FY 2020 transfer from the Rate Stabilization Fund was submitted to
7 Central Accounting on or about October 19, 2020.
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9 **RESPONSE PROVIDED BY:** Melissa LaBuda, Philadelphia Water Department
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1 **PA-V-3.** REFER TO ATTACHMENT PA-ADV-4.XLSX. PLEASE UPDATE THE
2 “USAGE” TAB TO REFLECT JANUARY TO JUNE 2019 AND NOVEMBER
3 AND DECEMBER 2020.
4

5 **RESPONSE:**

6 Please refer to response attachment PA-V-3. The usage data for July 2020 to December
7 2020 presented in PA-V-3 is based on the basis2 production database as of 2/1/2021.

8 Note that the July 2020 to October 2020 usage data reflected in PA-ADV-4.xlsx was
9 based on the basis2 production database as of 11/1/2020 and has been subject to revisions
10 since that time.
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12 **RESPONSE PROVIDED BY:** Black & Veatch Management Consulting, LLC
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1 **PA-V-4.** REFER TO ATTACHMENT PA-ADV-7.XLSX.

2 A. PLEASE INDICATE WHERE, IN THE WORKSHEETS, THE 8%, 4% AND 2%
3 REDUCTION TO THE BILLING YEAR COLLECTION FACTORS IS
4 DEMONSTRATED OR CALCULATED.

5 B. PLEASE UPDATE THE SCHEDULES IN THE "SUMMARY" TAB TO
6 REFLECT DATA THROUGH JANUARY 2021 OR THE MOST RECENT
7 MONTH AVAILABLE.

8
9 **RESPONSE:**

10 A. As discussed in the previously provided response to PA-ADV-7 and further explained
11 in Section 1.3.2 on page 1-4 of Schedule BV-5 (included in PWD Statement No. 7A),
12 May and June data indicate that billing year collections are 10% lower in FY 2020
13 compared to the corresponding month's average during the prior years (FY 2012 to FY
14 2019). Therefore, this data implies that the billing year collections may be as much as
15 10% lower compared to prior years. Based on this observation, the Cost of Service
16 analysis assumes collections will be impacted in FY 2021 by 8%, followed by a partial
17 recovery in FY 2022 and FY 2023 before returning to historical average levels by FY
18 2024.

19 B. The response attachment to PA-ADV-7 is based upon the FY 2020 Payment Patterns
20 Report as provided by Raftelis. This report is included as Schedule RFC-6 in Raftelis'
21 direct testimony (PWD Statement No. 6) and covers the period through the end of the
22 fiscal year June 30, 2020. As indicated in response to PA-III-38, no reporting through
23 December 2020 (covering July 1, 2020, through the end of the calendar year) is
24 available.

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26 **RESPONSE PROVIDED BY:** Black & Veatch Management Consulting, LLC
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1 **PA-V-5.** REFER TO THE RESPONSE TO PA-ADV-8.

2 A. HAS THE WATER DEPARTMENT RECEIVED WRITTEN DIRECTION OF
3 THE CITY TO TRANSFER EXCESS FUNDS IN THE DEBT RESERVE
4 REQUIREMENT TO THE REVENUE FUND?

5 B. DO THE EXCESS FUNDS IN THE DEBT RESERVE REQUIREMENT MEAN
6 THAT THE EXCESS FUNDS ARE PERMANENT?

7 C. COULD THE EXCESS FUND POSSIBLY BE USED FOR THE PURPOSE OF
8 REDUCING THE COST OF SERVICE?
9

10 **RESPONSE:**

11 A. Section 4.09 of the General Bond Ordinance details that any money in the Debt Reserve
12 Account in excess of the Debt Reserve Requirement shall be transferred to the Revenue
13 Fund. This calculation occurs annually and is completed by the City.

14
15 In Fiscal Years 2017, 2018, and Fiscal Year 2020, the Debt Reserve Account balance was
16 in excess of the Debt Reserve Requirement; thus, the excess funds were transferred to the
17 Revenue Fund.

18
19 The projected release to the Revenue Fund of excess funds from the Debt Reserve
20 Account for FY 2021 is contemplated as part of the cost of service analysis and is detailed
21 in Schedule BV-1 Table C-3 Line 14.
22

23 B. The excess funds projected to be in the Debt Reserve Account as of the end of FY 2021
24 should not be considered permanent. If such funds projected to be in the Debt Reserve
25 Account as of the end of FY 2021 (in excess of the Debt Reserve Requirement) are not
26 released to the Revenue Fund in FY 2021, this amount in the Debt Reserve Account will
27 be utilized to meet the FY 2022 Debt Reserve Requirement allocated to meet the Debt
28 Reserve Requirement for the additional bonds projected to be issued in FY 2022, which

1 is currently projected to be funded by proposed bond proceeds as presented in Schedule
2 BV-1 Table C-8 Lines 2 and 8. Without the Debt Reserve Account's projected release
3 in FY 2021, it would be necessary to increase the projected transfer from the Rate
4 Stabilization Fund in FY 2021 by at least \$19.8 million. In addition, the resulting senior
5 debt service coverage excluding the rate stabilization fund transfer would not meet the
6 0.90 coverage required by the General Bond Ordinance.

7
8 C. As noted in response to item B above, the excess funds should not be considered
9 permanent and would not be available to reduce the cost of service in test year 2022.

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11 **RESPONSE PROVIDED BY:** Melissa LaBuda, Philadelphia Water Department and Black &
12 Veatch Management Consulting, LLC

1 **PA-V-6.** REFER TO MS. LA BUDA'S TESTIMONY BEGINNING AT PAGE 4, AT
2 LINES 4 TO 7 AND LINES 10 TO 13. SHE STATES THAT THE
3 DEPARTMENT IS PROJECTING THAT IT WILL BE REQUIRED TO
4 WITHDRAWAL OVER \$41 MILLION FROM CASH RESERVES TO MEET
5 OBLIGATIONS AND MINIMUM DEBT SERVICE COVERAGE
6 REQUIREMENTS. PLEASE EXPLAIN HOW IT IS POSSIBLE FOR THE
7 DEPARTMENT TO HAVE TO WITHDRAW \$41 MILLION FROM CASH
8 RESERVES TO MEET MINIMUM DEBT SERVICE REQUIREMENTS WHILE
9 PROJECTING IT WILL HAVE TO REMIT EXCESS DEBT RESERVE
10 REQUIREMENT TO THE CITY.
11

12 **RESPONSE:**

13 The General Ordinance permits monies to be transferred in each Fiscal Year from the
14 Residual Fund to the City's General Fund in an amount not to exceed the lesser of (A) all
15 Net Reserve Earnings (as defined below) and (B) \$4,994,000. "Net Reserve Earnings"
16 means the amount of interest earnings during the Fiscal Year on amounts in the Debt
17 Reserve Account and the Subordinated Bond Fund less the amount of interest earnings
18 during the Fiscal Year on amounts in any such reserve funds and accounts giving rise to a
19 rebate obligation pursuant to Section 148(f) of the Internal Revenue Code of 1986, as
20 amended.

21 The Department expects its Debt Reserve Account to have Net Reserve Earnings as such
22 transfers to the General Fund are expected in Fiscal Years 2021, 2022 and 2023.

23
24 In Fiscal Years 2018, 2019 and 2020, the Water Department transferred \$1,627,838,
25 \$4,094,824, and \$4,994,000 respectively, from the Residual Fund to the City's General
26 Fund.
27
28

1 The Department's projected \$41 million withdrawal is from the Rate Stabilization Fund and
2 not from the Debt Reserve Account.

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4 **RESPONSE PROVIDED BY:** Melissa LaBuda, Philadelphia Water Department and Black &
5 Veatch Management Consulting, LLC
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PA-V-7. REFER TO THE RESPONSE TO PA-ADV-9.
A. WHY DID THE DEPARTMENT DECIDE TO SLOW DOWN CERTAIN ITEMS FOR FISCAL YEAR 2022?
B. SPECIFICALLY IDENTIFY THE ITEMS THAT THE DEPARTMENT DECIDED TO SLOW DOWN.

RESPONSE:

Due to the COVID-19 pandemic, Department's Operation Division reviewed its various maintenance requirements and at this point in time plans to slow down certain items related to cleaning digesters in Fiscal Year 2022.

RESPONSE PROVIDED BY: Philadelphia Water Department

1 **PA-V-8.** REFER TO THE RESPONSE TO PA-ADV-11. THE RESPONSE DID NOT
2 ANSWER WHAT WAS ASKED. PLEASE EXPLAIN WHETHER THE
3 CAPITAL COSTS INCLUDED IN THE COST OF SERVICE REFLECTS ONLY
4 **FUNDED** CIP PROJECTS.
5

6 **RESPONSE:**

7 Cost of service examines CIP at a programmatic level and reflects projected funded
8 projects.
9

10 **RESPONSE PROVIDED BY:** Black & Veatch Management Consulting, LLC
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1 **PA-V-9.** REFER TO THE RESPONSE TO PA-ADV-12.

2 A. FROM YOUR RESPONSE, IS IT CORRECT TO INFER THAT VEHICLE
3 PURCHASES IN FY 2021 WILL BE HIGHER THAN NORMAL BECAUSE OF
4 THE ROLLFORWARD OF REMAINING FY 2020 BUDGET
5 APPROPRIATIONS ASSOCIATED WITH VEHICLE PURCHASES?

6 B. FROM YOUR RESPONSE, IS IT CORRECT TO INFER THAT CAPITAL
7 EXPENDITURES IN FY 2021 WILL BE HIGHER THAN NORMAL BECAUSE
8 OF THE ROLLFORWARD OF REMAINING FY 2020 BUDGET
9 APPROPRIATIONS ASSOCIATED WITH BIDDING AND PROJECT-
10 RELATED DELAYS?
11

12 **RESPONSE:**

13 A. FY 2021 vehicle purchases under the Capital Program will include both FY 2021
14 purchases and the portion of FY 2020 vehicle purchases which were delayed temporarily.
15 The overall level of vehicle purchases for FY 2020 and FY 2021, will be in line with other
16 fiscal years. The roll-forward of vehicle purchases more accurately reflects when these
17 expenses will be incurred in the construction fund.
18

19 B. No it is not correct to infer that capital expenditures in FY 2021 will be higher than
20 normal because of the rollforward. Actual project expenditures associated with FY 2021
21 encumbrances will occur over a period of years. See also, the response to PA-V-8 and PWD
22 Statement 3 at 4-5.
23

24 **RESPONSE PROVIDED BY:** Black & Veatch Management Consulting, LLC
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1 **PA-V-10.** REFER TO SCHEDULE BV-6: WP-1 PAGE 11. PLEASE RECONCILE THE
2 FOLLOWING STATEMENTS:

- 3 • “THE WATER DEPARTMENT’S CIP BUDGET IS NOT ADJUSTED FOR
4 INFLATION.”
- 5 • “TO EVALUATE CIP PROGRAM FUNDING, BLACK & VEATCH
6 ESTIMATED THE EXPECTED ENCUMBRANCES FOR EACH FISCAL
7 YEAR OF THE STUDY PERIOD, BASED UPON THE WATER
8 DEPARTMENT’S CIP BUDGET AND ADJUSTED TO REFLECT THE
9 FOLLOWING... ANNUAL INFLATION OF 3.0% BASED ON INDUSTRY
10 CONSTRUCTION COST INDICES FOR FY 2023 TO FY 2026 CAPITAL
11 PROGRAM COSTS (SEE APPENDIX H)”
12

13 **RESPONSE:**

14 As previously noted in response to PA-ADV-12 and further detailed in PWD Statement 7A
15 (see Page 24 Lines 3 to 22), the CIP budget as provided by the Water Department to Black
16 & Veatch is an appropriations-based budget presented in FY 2022 dollars and does not
17 include inflation. In order to project the financing needed to support the CIP, Black &
18 Veatch applied an annual inflation of 3.0% beginning in FY 2023 to FY 2026 to estimate
19 the capital program costs for each fiscal year.
20

21 **RESPONSE PROVIDED BY:** Black & Veatch Management Consulting, LLC
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1 **PA-V-11.** REFER TO MS. LA BUDA'S TESTIMONY AT PAGE 5, AT LINES 4 TO 6.
2 SHE STATES THAT THE DEPARTMENT IS PROJECTING TO RUN
3 OPERATING DEFICITS IN FY 2021. PLEASE PROVIDE DOCUMENTATION
4 SUPPORTING THE FY 2021 OPERATING DEFICITS.

5
6 **RESPONSE:**

7 Please see PWD Statement 7A, Table C-1, for FY 2021 projections detailing a deficit and
8 therefore a withdrawal from the Rate Stabilization Fund.

9
10 **RESPONSE PROVIDED BY:** Melissa LaBuda, Philadelphia Water Department and Black &
11 Veatch Management Consulting, LLC

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1 **PA-V-12.** REFER TO MS. LA BUDA'S TESTIMONY AT PAGE 10, LINES 7 TO 25.
2 PLEASE CONFIRM THAT THESE COSTS HAVE ALREADY BEEN
3 INCLUDED IN THE FY 2022 AND 2023 BUDGETS.
4

5 **RESPONSE:**

6 The FY 2022 proposed budget includes the funding of the Stormwater Management
7 Incentives Program (SMIP) at pre-pandemic levels of \$25 million, includes equipment
8 purchases at pre-pandemic levels and further reflects the reduction of certain maintenance
9 items.

10
11 The FY 2023 City budget process has not yet commenced.
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13 **RESPONSE PROVIDED BY:** Melissa LaBuda, Philadelphia Water Department
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1 **PA-V-13.** ACCORDING TO FOOTNOTE 3 ON PAGE 12 OF MS. LA BUDA'S
2 TESTIMONY, THE CITY MAY RECEIVE STATE OR FEDERAL GRANTS
3 PERIODICALLY. HAS THE DEPARTMENT EXPLORED THE POSSIBILITY
4 THAT THERE MAY BE SUCH FUNDS AVAILABLE TO THE
5 DEPARTMENT UNDER THE VARIOUS COVID-19 RELIEF LEGISLATION?
6 IF YES, PLEASE PROVIDE AN EXPLANATION OF THE DEPARTMENT'S
7 EFFORTS TO OBTAIN THE AVAILABLE FUNDING. IF NO, PLEASE
8 EXPLAIN WHY THE DEPARTMENT HAS NOT EXPLORED THE
9 POSSIBILITY OF THE FUNDING.
10

11 **RESPONSE:**

12 The City of Philadelphia is seeking reimbursement for certain eligible expenses from
13 CARES Act funding. To date, the Department has submitted \$2.1M to the City for its overall
14 request for reimbursement.

15
16 The City is also supporting the Philadelphia Housing Development Corporation ("PHDC")
17 and Utility Emergency Services Fund ("UESF") in distributing its CARES Act funding to
18 support one-time debt relief for customers.

19
20 Finally, the Consolidated Appropriations Act of 2021 included a "Low-Income Household Drinking
21 Water and Wastewater Emergency Assistance Program," appropriating \$638 million for the
22 Department of Health and Human Services to provide grants to states to help low income families
23 struggling to pay their water bills. The Act did not provide specific guidance on the allocation
24 formula to states, eligibility guidelines or administrative funding. The City is following this matter
25 closely.

26 **RESPONSE PROVIDED BY:** Philadelphia Water Department and Water Revenue Bureau
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- 1 **PA-V-14.** REFER TO MS. LA BUDA'S TESTIMONY AT PAGE 14, AT LINES 1 TO 3.
2 MS. LA BUDA STATES THE DEPARTMENT MAY SUBMIT OTHER
3 APPLICATIONS TO PENNVEST TO OBTAIN LOW-COST LOANS OR
4 GRANTS IN FY 2021 AND IN THE RATE PERIOD. PLEASE PROVIDE THE
5 DETAILS OF THIS TRANSACTION.
- 6 A. WHAT IS THE VALUE OF THE LOANS AND THE TERMS (LENGTH,
7 INTEREST RATE, TRANSACTION COSTS, ETC.) OF THE LOAN?
8 B. WHAT EXISTING DEBT DOES THE DEPARTMENT INTEND TO
9 REPLACE?
10 C. WHEN IS THE TRANSACTION EXPECTED TO OCCUR?
11 D. PLEASE SHOW HOW THE COSTS AND SAVINGS HAVE BEEN
12 REFLECTED IN THE COST OF SERVICE.

13
14 **RESPONSE:**

15 Building Resilient Infrastructure & Communities (BRIC) and Flood Mitigation Assistance
16 (FMA) Grants - In January 2021 the City of Philadelphia acting through the Philadelphia
17 Water Department has applied to PEMA/FEMA for grant funding under BRIC/FMA to
18 mitigate flooding. The estimated cost of Phase 6 of the project is \$25,000,000. The City /
19 Department is seeking a Federal grant of \$18,750,000 (75% of total project costs). The
20 nonfederal share will be funded through the Department's Capital Program.

21
22 The City / Department expects to be notified summer 2021 (FY 2022) should the project be
23 considered for further review by FEMA. It is the Department's understanding technical
24 review ranges from 9 to 12 months. Since this grant is a funded on a reimbursement basis,
25 the Department would use its commercial paper program to pay expenses and seek
26 reimbursements. As such, BV included the CP program financing beginning in FY 2022.
27
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1 Pennsylvania Infrastructure Investment Authority (“PennVest”) - The City of Philadelphia
2 acting through the Philadelphia Water Department is preparing a financial assistance
3 application for the Manayunk Schuylkill Canal Improvement project totaling approximately
4 \$15,000,000. The application will be submitted on or about May 5, 2021. The City /
5 Department anticipates a PennVest Board decision sometime during October 2021. As this
6 application was developed following the issuance of the COS analysis and is still subject to
7 approval, B&V did not directly reflect PennVest Financing for this project. The CP program
8 is intended to provide short-term funding for projects such as this. Reimbursement of these
9 costs is not expected until after the requested Rate Period.

10
11 **RESPONSE PROVIDED BY:** Melissa LaBuda, Philadelphia Water Department and Black &
12 Veatch Management Consulting, LLC

- 1 **PA-V-15.** WITH REFERENCE TO THE COMMERCIAL PAPER PROGRAM
2 DISCUSSED IN MS. LA BUDA'S TESTIMONY, PLEASE FULLY EXPLAIN
3 HOW COMMERCIAL PAPER DIFFERS FROM THE DEBT FINANCING
4 CURRENTLY USED BY THE DEPARTMENT.
- 5 A. SPECIFICALLY, EXPLAIN WHAT COSTS ARE AVOIDED AND WHETHER
6 IT WOULD RESULT IN LOWER INTEREST RATES.
- 7 B. PLEASE EXPLAIN WHAT IS MEANT BY THE "PROGRAM WILL ALSO
8 BENEFIT THE WATER FUND, SINCE THE CASH THEREIN WILL NOT BE
9 NEEDED TO MANAGE EXPENSES RELATED TO THESE LOANS".
- 10 C. HAS THE DEPARTMENT REFLECTED ANY COSTS AND/OR BENEFITS
11 OF THE COMMERCIAL PAPER PROGRAM IN THE COST OF SERVICE? IF
12 SO, PLEASE SPECIFICALLY SHOW WHAT HAS BEEN REFLECTED IN
13 THE COST OF SERVICE.

14
15 **RESPONSE:**

16 A. & B.

17 Commercial paper (CP) can be used as a flexible financing tool to fund capital projects
18 on an interim basis, and the CP is taken out with permanent financing when the
19 projects are completed. This structure allows borrowers to lower the carrying cost of
20 debt during construction.

21
22 Commercial paper notes are short-term obligations that mature within 270 days issued
23 by municipal entities backed by a letter of credit with a bank. The commercial paper
24 program is established at a certain maximum outstanding principal amount, and
25 commercial paper may not be outstanding in an amount greater than the program size
26 or the amount of the supporting Letters of Credit.

27 C. As presented in PWD Statement 7A, the Cost of Service reflects the use of the
28 commercial paper (CP) program beginning in FY 2022. The use of commercial paper

1 allows the Water Department to provide sufficient funding to the City's CIP funding
2 policy requirements (see Schedule BV-1: Table C-8). The repayment of initial CP
3 issuance in FY 2023, effectively delays the onset of the full debt service costs
4 associated with approximately \$200 million in capital financing in FY 2022 (see Table
5 C-9).

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7 **RESPONSE PROVIDED BY:** Melissa LaBuda, Philadelphia Water Department and Black &
8 Veatch Management Consulting, LLC

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1 **PA-V-16.** REFER TO MS. LA BUDA’S TESTIMONY AT PAGE 33, LINES 12 TO 13.
2 SHE STATES “[T]HE DEPARTMENT BEGAN PREPARATION OF ITS
3 OPERATING BUDGET FOR FY 2021 IN SEPTEMBER 2020.” PLEASE
4 EXPLAIN HOW THIS CAN BE GIVEN THAT FY 2021 BEGAN IN JULY
5 2020, AND THE MAYOR PRESENTED THE FY 2021-2025 FIVE-YEAR
6 FINANCIAL PLAN TO THE CITY COUNCIL ON MARCH 5, 2020.

7
8 **RESPONSE:**

9 The above referenced sentence contains a typographical error. FY 2021 budget preparation
10 began in September 2019.

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12 **RESPONSE PROVIDED BY:** Melissa LaBuda, Philadelphia Water Department
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1 **PA-V-17.** IN THE DEPARTMENT'S 2018 GENERAL RATE PROCEEDING, MS. LA
2 BUDA EXPLAINED THAT A CHANGE IN CITY-WIDE BUDGETING AND
3 ACCOUNTING POLICIES SHIFTED CERTAIN EXPENDITURES FROM THE
4 CAPITAL FUND TO THE OPERATING FUND. IF THE CHANGE
5 OCCURRED AS FAR BACK AS 2018, WHY IS IT STILL NECESSARY TO
6 ADJUST THE COST OF SERVICE? SHOULDN'T THIS CHANGE IN
7 ACCOUNTING POLICY ALREADY BE REFLECTED IN THE BUDGET FOR
8 FY 2022 AND BEYOND? PLEASE FULLY EXPLAIN.

9
10 **RESPONSE:**

11 As stated on page 5 of PWD Statement No. 2 from the 2018 General Rate Proceeding, the
12 implementation of the policy started in FY 2019 and will continue for the next several
13 years. See, Table C-8 of Schedule BV-6 (Line 1) attachment PA-ADV-13. PWD
14 management is utilizing an incremental transition of staffing costs from capital to
15 operating budgets to minimize the impact on rates.

16
17 **RESPONSE PROVIDED BY:** Melissa LaBuda, Philadelphia Water Department and Black &
18 Veatch Management Consulting, LLC