SUMMARY OF QUESTIONS POSED BY LANCE HAVER AND PHILADELPHIA WATER DEPARTMENT RESPONSES

AS RECEIVED VIA EMAIL ON MARCH 3, 2021

Questions Posed by Mr. Haver	Philadelphia Water Department Responses
1. What happens if/when the PWD is not satisfied with the operation of the Water Revenue Bureau?	**Response:** The Water Revenue Bureau is part of the Department of Revenue. Under Section 6-201 of the Philadelphia Home Rule Charter, the Department of Revenue performs all functions relating to billing and collections on customer accounts for PWD through WRB. The Department of Revenue is one of ten operating departments in City government. The Water Department is more than satisfied with operation of the Revenue Department, Water Revenue Bureau
2. In the last 10 years, has there ever been differences between the projected amount in the Rate Stabilization Fund and the Actual Amount? How often did it happen?	**Response:** Yes. The Departments has outperformed its 5-Year Plan projections as detailed in the City's Five Year Financial Plan submitted to the Pennsylvania Intergovernmental Cooperation Authority. Please see response attachment LH5
3. Over the last 10 years, comparing the projections from the Mayor's 5-year plan and the ending balance in the Stabilization fund, has there ever been a year where the difference between the projection and the actual was larger than 5.9 million?	**Response:** Yes. Please see response attachment LH5.
4. If so, what actions did the PWD take in the following year to bring the difference between the projected amount to the actual amount?	**Response:** Since rates do not cover 100% percent of budget, PWD continued to monitor expenses closely.

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5. Please provide information to fill in the following chart where the projected amount refers to the projected amount in the Rate Stabilization Fund for the requested years according to the cited 5-year plan and the actual is the amount in the fund shown by the annual audit.	**Response:** Please see response attachment LH5. Note that the financial projections included in the City 5-Year Plans were developed prospectively and often reflected projections beginning two to three years prior to the initial year of the City's 5-year forecast. For example, the FY 2017 to FY 2021 5-Year Plan presented a financial forecast which was based on FY 2014 year end balances.

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6. Who invests the Rate Stabilization Fund? Where are the funds located?	**Response**: Funds are held at US Bank. The funds are invested as per the City's investment policy and the investment management firm is Standish. Interest earnings from the Rate Stabilization Fund are transferred to the Revenue Fund and counted as revenue. The City of Philadelphia Treasurer's office determines the bank which holds the Rate Stabilization Fund.
7. On Page 19 of Schedule ML-2, it appears that revenue projections are 4,642,000 more than what was projected. If that is correct, what accounts for revenues to be higher than projections? Does the 4, 642,000 off set the 5.9 million under projection in the rate stabilization fund? Why?	**Response:** In FY 2019, actual revenues collected were incrementally higher than initially projected. The Rate Stabilization Fund withdrawal in FY19 was $4,321,032 as compared to a projected withdrawal of $3,277,000. In FY2019, workforce costs, services, materials equipment and supplies, chemical costs were all higher than projected.
8. P 29 of Schedule ML-2 lists the debt ratio for Philadelphia and other water departments. What is the correlation between Debt ratio and bond rating? Please explain how that answer is derived.	**Response:** Debt ratio is one of a number of metrics that the rating agencies consider in the preparation of their opinion of the bond rating they apply to water revenue bonds, including those of the Department. Debt ratio is a calculation comparing net debt to operating revenues. A higher debt ratio negatively affects the consideration of the bond rating. Per Moody's Rating Methodology – US Municipal Utility Revenue Debt, "A utility's debt portfolio determines its leverage and fixed costs. Systems that carry a lot of debt have less ability to reduce costs if demand shrinks, and are generally more challenged to achieve higher debt service coverage."

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9. Are the projections of a "technical default" based on the past year's revenues? If not, what revenue projection are being used to project a technical default without a rate increase?	**Response:** Without additional rate revenues, and all other factors being held equal, based upon current projections for FY 2023, the Water Department would not meet the 90% test (bond covenant).

10. Why is a ratio of 1.3 the goal for Senior Debt Service Coverage when lower numbers have been accepted in other bonds? Why $ 150 million the amount of reserves considered acceptable?	**Response:** Debt service coverage is also a metric that the rating agencies consider in the determination of their opinion of the bond rating they apply to water revenue bonds, including those of the Department. A higher debt service coverage factor positively affects the consideration of the bond rating. Per Moody's Rating Methodology – US Municipal Utility Revenue Debt, "Debt service coverage is a core statistic assessing the financial health of a utility revenue system. The magnitude by which net revenues are sufficient to cover debt service show's a utility's margin to tolerate business risks or declines in demand while still assuring repayment of debt." The goal of 1.3x senior debt service coverage is part of the key attributes that result in the favorable rating of the Department which inures to the Department in the form of lower interest rates for its long-term capital borrowings. The 1.3x coverage also directly assists with attempting to meet the 20% pay-go capital funding target. In the 2018 Rate Determination, the Rate Board concluded that "a Senior Debt Service Coverage Ratio of 1.30x is a reasonable target for the future" and that "the Department's proposed 20% 'pay-go' target is reasonable for an entity with PWD's capital needs." In addition to the need to increase pay-go in order to lessen the long term debt burden, the rating agencies acknowledged that prior to the Rate Board, the Water Commissioner set rates and therefore the risk of not complying with the required rate covenant was lower. The $150 million target for reserves, comprised of the $135 million target for the Rate Stabilization Fund and the $15 million target for the Residual Fund, represents another critical metric that the rating agencies consider in the determination of their opinion of the bond rating they apply to water revenue bonds, including those of the Department. A higher amount of reserves (or "days cash on hand" as the metric is commonly quoted by the rating agencies) positively affects the consideration of the bond rating. Per Moody's Rating Methodology –

	US Municipal Utility Revenue Debt, "Cash is the paramount resource utilities have to meet expenses, cope with emergencies, and navigate business interruptions. Utilities with lots of cash and cash equivalents are able to survive temporary disruptions and cash flow shortfalls without missing important payments. A low cash balance indicates poor flexibility to manage contingencies." In the 2018 Rate Determination, the Rate Board found that "a Senior Debt Service Coverage Ratio of 1.30x is a reasonable target for the future." In the 2018 Rate Determination, the Rate Board concluded that "a $150 million combined target level for the rate stabilization and residual funds is adequate to ensure that the Department has adequate reserves to meet its financial needs, while not imposing an undue burden on customers."

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11. How well has the PWD met projected amounts in the rate stabilization and residual funds?	**Response**: Refer to response attachment LH5 for details regarding rate stabilization fund projections as compared to the 5 Year Plan. The variances between projected balance and actual amounts reflects the issue of rates only covering a portion of the budget. The residual fund projections closely track actual amounts.
12. What efforts have been made to use COVID money to re finance debt?	**Response**: To the best of my knowledge, the Water Department has not received any COVID monies to date. Assuming COVID monies are received in the future, such monies could not be used to refinance debt in any event.
13. Ms. La Buda. testifies "From both an operational and a credit rating perspective it is essential for the Department to sustain debt service coverage levels significantly above the minimum levels required by the Rate Covenants to provide rating agencies and bondholders comfort. . ." Would it be fair to say that one of the driving forces for the rate increase is the comfort level of the bond holders?	**Response**: It would be fair to say that it is essential for the Department to sustain debt service coverage levels concluded as 'reasonable' by the Rate Board and then utilized by the rating agencies in the determination of their opinion of the bond ratings they apply Department water revenue bonds. These bond ratings affect the borrowing rate that Department is able to achieve for its long-term capital borrowings. Maintaining debt service coverage is not only to provide comfort to investors/credit agencies but to create financial health and liquidity which will allow the Department to lower its dependence on debt to finance capital improvement. Utilities that are too leveraged create financial liabilities that will continue to burden future rate payers.

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14. Where in Ms. La Buda's testimony is there concern about the comfort of the rate payers?	**Response**: Ms. LaBuda has testified: "The depletion of cash reserves would leave the Department with few options on a going-forward basis to fulfill its mission of providing high-quality, reliable service to its customers." (pg. 4 of 42) "Financial support for Capital Improvement Program is needed to avoid jeopardizing the Department's ability to appropriately invest in infrastructure improvements that are needed to maintain system reliability and customer service levels." (pg. 12 of 42) "PWD is trying to balance its needs to remain operationally and financially sound with customer needs." (pg. 20 of 42)
15. Ms. La Buda testifies "From both an operational and a credit rating perspective it is essential for the Department to sustain debt service coverage levels significantly above the minimum levels required by the Rate Covenants" In this context, what does "significantly" mean and how was the definition derived? In the context of the testimony what does the word minimum refer to, if not the amount accepted by bond counsel and bond buyers?	**Response**: In this context, "significantly" means 0.1x or an increase from the General Ordinance required 1.20x coverage. Please note that the Rate Board concluded that the 1.30x coverage target was reasonable in its 2018 Rate Determination. In the context of PWD Statement 2, "minimum" means the 1.20x General Ordinance required rate covenant.

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16. Bond buyers accepted the minimum cover ratio in the past, will they no longer accept the minimum ratio? How is this known to you?	**Response**: It is not a question of whether bond buyers will accept the minimum ratio. It is a matter of the increase in borrowing rate that bond buyers will demand during a bond sale in exchange for the lower debt service coverage proffered by the Department. It should be noted that increased debt service coverage results in both lower borrowing rate in the bonds as well as the funding of pay-go capital, which itself then avoids a degree of borrowing that would otherwise be necessary. Additional debt service coverage does not result in additional costs to the system, but instead avoids costs. The revenue from additional coverage does not leave the system but inures to rate payers. Higher borrowing rates on bonds, as a result of lower debt service coverage, does result in additional costs to the system and burden to the rate payers. It is critical to understand that even at the 1.2 times required coverage, the total reliance on debt to finance capital needs will become unsustainable in the future. The Department needs to be able to generate resources to fund some percentage of capital needs with pay-go resources. In other words, pay go funding only requires 1 times coverage; debt requires a 1.2 times coverage.
17. Please provide all the request for proposals (RFPs) issued by the PWD seeking to lower costs.	**Response**: RFPs related to debt and refinancing are generated by the City Treasurer's office. Please refer to the City's eContract website for more details: https://philawx.phila.gov/ECONTRACT/default.aspx
18. Please provide all RFP's for using the resources of the PWD to generate funds from sources other than water sales to Philadelphia rate payers.	**Response**: To the best of our knowledge, there are no documents responsive to this question.

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19. Please list all RFPs seeking vendors to install "instream electrical generation" in the PWD infrastructure.	**Response**: The Department has reviewed in-pipe turbine technology. Based on that review, the Department determined that the payback period for using these technologies is not economically feasible at current electric rates. The Department reviewed these matters in 2011 and 2013
20. Please provide all the analysis of the joining buying cooperatives, creating a buying cooperative and/or buying materials with other City Departments, including PGW.	**Response**: The Water Department procures all materials and supplies via the City of Philadelphia Procurement Department processes.
21. Please list all vendors used by the PWD that have headquarters, employees and/or factories located in the City of Philadelphia.	**Response**: To the best of our knowledge, there are no documents responsive to this question. Please refer to the City's eContract website for a list of all selected vendors: https://philawx.phila.gov/ECONTRACT/default.aspx
22. Please list all non-residential users who the PWD created incentives for in order to have them locate In Philadelphia and/or keep them in Philadelphia. Please provide all work products that show what efforts the PWD undertook, the cost benefit analysis of those efforts and the projected increased revenues flowing to the PWD.	**Response**: After reasonable investigation, PWD was unable to generate a list of customers fitting the description set forth in the question.

Response Attachment
LH-A5

Mayors 5-year plan - FY 2011-2015	2011	2012	2013	2014	2015
Projected Year End Balance	$ 83,537,000.00	$ 59,342,000.00	$ 47,892,000.00	$ 45,607,000.00	$ 45,502,000.00
Actual	$ 156,917,957.86	$ 165,641,269.81	$ 161,238,923.47	$ 184,631,006.34	$ 206,297,540.12
	$ 73,380,957.86	$ 106,299,269.81	$ 113,346,923.47	$ 139,024,006.34	$ 160,795,540.12

Mayors 5-year plan - FY 2012-2016	2012	2013	2014	2015	2016
Projected	$ 121,293,000.00	$ 106,148,000.00	$ 88,913,000.00	$ 68,243,000.00	$ 45,993,000.00
Actual	$ 165,641,269.81	$ 161,238,923.47	$ 184,631,006.34	$ 206,297,540.12	$ 205,600,500.60
	$ 44,348,269.81	$ 55,090,923.47	$ 95,718,006.34	$ 138,054,540.12	$ 159,607,500.60

Mayors 5-year plan - FY 2013-2017	2013	2014	2015	2016	2017
Projected	$ 88,582,000.00	$ 67,232,000.00	$ 72,782,000.00	$ 87,002,000.00	$ 101,587,000.00
Actual	$ 161,238,923.47	$ 184,631,006.34	$ 206,297,540.12	$ 205,600,500.60	$ 201,759,397.28
	$ 72,656,923.47	$ 117,399,006.34	$ 133,515,540.12	$ 118,598,500.60	$ 100,172,397.28

Mayors 5-year plan - FY 2014-2018	2014	2015	2016	2017	2018
Projected	$ 102,912,000.00	$ 99,992,000.00	$ 83,597,000.00	$ 90,667,000.00	$ 95,017,000.00
Actual	$ 184,631,006.34	$ 206,297,540.12	$ 205,600,500.60	$ 201,759,397.28	$ 178,876,738.53
	$ 81,719,006.34	$ 106,305,540.12	$ 122,003,500.60	$ 111,092,397.28	$ 83,859,738.53

Mayors 5-year plan - FY 2015-2019	2015	2016	2017	2018	2019
Projected	$ 157,548,000.00	$ 155,043,000.00	$ 164,283,000.00	$ 158,378,000.00	$ 189,178,000.00
Actual	$ 206,297,540.12	$ 205,600,500.60	$ 201,759,397.28	$ 178,876,738.53	$ 177,971,172.00
	$ 48,749,540.12	$ 50,557,500.60	$ 37,476,397.28	$ 20,498,738.53	$ (11,206,828.00)

Mayors 5-year plan - FY 2016-2020	2016	2017	2018	2019	2020
Projected	$ 166,833,000.00	$ 155,533,000.00	$ 127,433,000.00	$ 148,333,000.00	$ 147,833,000.00
Actual	$ 205,600,500.60	$ 201,759,397.28	$ 178,876,738.53	$ 177,971,172.00	$ 150,651,575.15
	$ 38,767,500.60	$ 46,226,397.28	$ 51,443,738.53	$ 29,638,172.00	$ 2,818,575.15

Mayors 5-year plan - FY 2017-2021	2017	2018	2019	2020	2021
Projected	$ 150,006,000.00	$ 111,006,000.00	$ 123,306,000.00	$ 123,406,000.00	$ 122,206,000.00
Actual	$ 201,759,397.28	$ 178,876,738.53	$ 177,971,172.00	$ 150,651,575.15	
	$ 51,753,397.28	$ 67,870,738.53	$ 54,665,172.00	$ 27,245,575.15	

Projected * Source Budget Book (Mayor 5 Year Plan)
Actual ** Source Comprehensive Annual Financial Report