



# CITY OF PHILADELPHIA

WATER DEPARTMENT  
JEFFERSON CENTER  
1101 Market Street  
Philadelphia, PA 19107-2994

RANDY E. HAYMAN, Esq.  
Water Commissioner

February 26, 2021

SUBMITTED VIA ELECTRONIC MAIL

Maria D. Quiñones Sánchez  
Councilwoman, 7th District  
City Hall, Room 508  
Philadelphia, PA 19107-3290

Dear Councilwoman Quiñones Sánchez:

We share a common goal: to do what is best for the City of Philadelphia and its nearly 1.6 million residents. For the Philadelphia Water Department (PWD or the Department) that specifically means delivering safe, clean water to homes and businesses in the City of Philadelphia, managing the city's wastewater system, and reducing pollution through stormwater management.

While we appreciate and share your concern for the individuals most impacted economically by the COVID-19 pandemic, the fact of the matter is that recalling the proposed rate increase would be financially devastating for the Department, and would put the health and wellbeing of all of our customers at risk. Furthermore, we remain committed to promoting and enrolling customers in assistance including the following:

- Standard and Extended Payment Agreements
- Water Revenue Assistance Program (WRAP)
- Tiered Assistance Program (TAP)
- TAP Payment Agreements
- Senior Citizen Discount Program
- Utility Emergency Services Fund (UESF) Utility Grant Program

## **Why is the Philadelphia Water Department requesting rate relief?**

The Department is requesting rate relief because it needs additional revenues to<sup>1</sup>:

- address changes in consumption patterns and collection rates
- maintain existing service levels
- fund its ongoing capital improvement program, and
- replenish the Department's depleted financial reserves.

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<sup>1</sup> PWD Exhibit No 2 – Summary Fact Sheet. Note: The rate filing, including these exhibits and statements, is available on the Water, Sewer, and Storm Water Rate Board website at [www.phila.gov/water/rateboard](http://www.phila.gov/water/rateboard).

Absent rate relief, the Department's financial condition would deteriorate. This would jeopardize the Department's ability to appropriately invest in critical infrastructure improvements related to water and wastewater treatment plant upgrades, clean water storage tanks, pumping stations, and water main and sewer replacements, as necessary to maintain system reliability and customer service levels.

### **Reduction in Consumption**

The effects of the pandemic have had a significant impact on the financial stability of the Department. We have experienced a 4% overall reduction in consumption between late March through December 2020 compared to the same period in the prior fiscal year. While we did note a 4.4% increase in residential consumption due to work-from-home orders and the shut-off moratorium, the 13.5% decline in non-residential usage is so large that it negates any potential revenue gains achieved by the residential demand increase<sup>2</sup>.

### **Reduction of Revenues**

Also, our projections indicate the Department's revenue may be down by as much as \$38 Million by the end of FY 2021 when compared to the FY 2020 year-end figures. The data show a greater rate of decline as the pandemic lengthens and suggests that the Department may not have seen the lowest month of collections yet since the data only reflect numbers through June. Data trends suggest that fiscal year 2021 collections may be lower by 5 to 10% overall<sup>3</sup>.

### **Withdrawals from Rate Stabilization Fund**

The Department made a \$33 Million withdrawal from the Rate Stabilization Fund in fiscal year 2020 to meet obligations and debt service coverage and is projected to withdraw another \$41 Million from the Rate Stabilization Fund in fiscal year 2021 to meet ongoing obligations.<sup>4</sup> Making additional significant withdrawals from the Department's reserves would further lower those reserves below long-term targets and seriously weaken the Department's financial condition.

In connection with the rate proceeding that occurred in July 2018, the Rate Board adopted a reserve policy target of \$135 million in the Rate Stabilization Fund and \$15 million residual fund, which have current balances of \$150 million and \$16 million respectively. This level is at the low end of what the credit agencies view as acceptable liquidity especially for the Department's current rating.<sup>5</sup>

The Department is currently holding reserves of approximately 210 "days cash on hand" (metric for comparing size of reserves to size of operating system) in comparison to 475 "days cash on hand" for similarly rated credits (metrics from 2018).

The projected days cash on hand, after the projected FY 2021 withdrawal from the Rate Stabilization Fund of \$41 million, will be significantly reduced to balances of \$109 million and \$16 million. This will be closer to a 160 "days cash on hand" metric. Depleting reserves will have negative credit implications and will further stress the Department's ability to have resources available for future emergencies.

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<sup>2</sup> PWD Statement No. 7A - Schedule BV-5 Page ES-15 (PDF Page 218)

<sup>3</sup> PWD Statement No. 7A - Schedule BV-5 Page ES-16 (PDF Page 219)

<sup>4</sup> PWD Statement No. 2 - Direct Testimony of Melissa La Buda on behalf of The Philadelphia Water Department Page 8 (PDF Page 10)

<sup>5</sup> PWD Statement No. 2 - Direct Testimony of Melissa La Buda on behalf of The Philadelphia Water Department Page 8 (PDF Page 10)

## **Use of Long-Term Debt**

In accordance with the First Class City Revenue Bond Act, pursuant to which the City enacted the General Ordinance, debt issued under the General Ordinance must finance the costs of acquiring, constructing, renovating, improving and equipping capital projects relating to the Water and Wastewater System, regardless of whether the debt is taxable or tax-exempt. The City cannot borrow under the General Ordinance for operating expenses.

However, the Department does use long-term debt to fund nearly 90% of its capital program with a repayment period typically averaging 20 years. This practice does spread the cost of the asset over the period in which its expected to be useful.

## **Actions in Response to the COVID-19 pandemic**

Toward the beginning of the COVID-19 pandemic, the Department reduced its operating budget for FY 2021 by approximately \$25 million through a series of temporary cuts. In addition, we reviewed capital improvement plans to minimize costs where appropriate and put off costly – but necessary – infrastructure improvements to our nearly 200-year-old system. However, the Department cannot continue these measures without jeopardizing its ability to provide safe, high quality drinking water and wastewater services without any major service interruptions or system failures.<sup>6</sup>

## **Actions taken to protect vulnerable customers**

The Department also took steps to protect our most vulnerable customers. We restored water to an estimated 15,000 customers who had water service terminated (pre-pandemic) for long-term failure to pay. We halted all shutoffs as a public health measure, preventing approximately 70,000 customers from losing water during uncertain economic times. We suspended all penalties and late fees for unpaid water bills. These actions had financial impacts but were invaluable investments in maintaining public health in the city.

For lower income customers currently enrolled in the Tiered Assistance Program (TAP) and Senior Citizen Discount, the current moratorium will remain in place until April 1, 2022. The moratorium for the remainder of our customers will be extended past March 31, 2021 to the Summer of 2021. In the meantime, our staff will continue to work diligently with our customers who have fallen behind on payments to ensure they are aware of and know how to access the resources available to them, including, but not limited to, those who qualify for TAP. We are, and will continue to be, grateful for your support in communicating the resources available to our families and for your partnership in developing such a resource that so many have depended on.

## **Potential Federal Assistance**

While the U.S. Congress is currently developing legislation to provide direct financial aid to state and local governments, we do not know for certain at this time how much aid may be allocated to Philadelphia and whether any of the funds would be provided to the Water Department to offset revenue loss.

## **Conclusion**

No rate increase proposal is ever taken lightly, and on the heels of a global pandemic, the seriousness of proposing a rate increase was even heavier. However, after significant discussion,

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<sup>6</sup> PWD Statement No. 2 - Direct Testimony of Melissa La Buda on behalf of The Philadelphia Water Department  
Pages 9-10 (PDF Pages 11-12)

debate, research, and cost analyses, we knew that an increase was required so that we are able to stay committed to our driving mission of providing safe, clean water to our residents, community members, and businesses. To continue to put off capital improvements would be irresponsible at best and devastating at worst.

To that end, it is imperative that we move forward with the proposed rate increase this year. We are sure you can appreciate the complexities we face, and we welcome the opportunity to continue a conversation.

Respectfully,

A handwritten signature in blue ink, appearing to read "Randy E. Hayman".

Randy E. Hayman, Esq.  
Water Commissioner

cc: James Kenney, Mayor  
Darrell L. Clarke, Council President  
Sonny Popowsky, PWRB Chairperson