

**BEFORE THE  
PHILADELPHIA WATER, SEWER AND STORM WATER RATE BOARD**

<b>In Re: The Philadelphia Water</b>	)	
<b>Department's Proposed Change in Water,</b>	)	
<b>Wastewater and Stormwater Rates and</b>	)	<b>Special Rate Filing:</b>
<b>Related Charges</b>	)	<b>Reconciliation Proceeding</b>
	)	<b>for Fiscal Year 2023</b>

**April 28, 2022**

**PUBLIC ADVOCATE**

**HEARING EXHIBIT**

## Summary:

# Philadelphia; Water/Sewer

### Credit Profile

US\$228.73 mil wtr and wastewtr rev bnds ser 2021C due 10/01/2051		
<i>Long Term Rating</i>	A+/Stable	New
Philadelphia wtr & swr		
<i>Long Term Rating</i>	A+/Stable	Affirmed

## Rating Action

S&P Global Ratings assigned its 'A+' long-term rating to Philadelphia's series 2021C water and wastewater revenue bonds. At the same time, we affirmed our 'A+' long-term ratings and underlying ratings (SPURs) on the city's existing \$2.3 billion of water and wastewater revenue bonds. The outlook on the ratings is stable.

The city will use the series 2021C bond proceeds to finance capital improvements to its water and wastewater systems.

Securing debt service are net revenues of the water and sewer fund, which include (net of operating expenses) rates and charges of the system, transfers from the rate stabilization fund (RSF), and interest earnings. Rates must be set to generate revenues and charges plus transfers from the RSF that represent at least 1.2x annual debt service on senior revenue bonds and 1.0x coverage when including all subordinate debt (if outstanding, which currently they are not) and certain other transfers. The city can issue additional debt as long as it is complying with the rate covenant at the time of issuance and net revenue projections are sufficient to provide for rate covenant compliance for the two fiscal years following the debt issuance. There is an additional test that requires that the city maintain net system revenues (excluding transfers from the RSF) totaling at least 90% of operating requirements (90% test). This provides additional bondholder protection, in our view, since this effectively limits how much the system can rely on draws from the RSF. This provision also applies to the additional bonds test.

### Credit overview

Our 'A+' rating reflects our view that the service territory benefits from serving a large metropolitan center that serves as an anchor for employment throughout the region, despite facing ongoing headwinds due to challenges keeping its utility rates affordable for all its ratepayers. While the city's Rate Board has historically supported rate increases to maintain ample capacity for Philadelphia Water Board's (PWD's) operations and capital needs, we foresee future challenges that could place downward pressure on PWD's financial position, most notably funding of a large capital improvement program (CIP) while concentrating on rate affordability. However, we believe that the city has flexibility in dealing with future revenue pressures, and because of this the rating outlook is stable. Examples of this flexibility include the following:

- The ability to reprioritize its CIP, as it has demonstrated during 2020 and 2021 due to the COVID-19 pandemic.
- Less than 25% of the six-year CIP 2022-2027 is related to regulatory mandates of its Consent Order and Agreement

**Rating Action: Moody's assigns A1 rating to Philadelphia Water & Sewer Enterprise, PA's Series 2021C; outlook stable**

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17 Sep 2021

New York, September 17, 2021 -- Moody's Investors Service has assigned an A1 rating to the City of Philadelphia Water & Sewer Enterprise, PA's \$229.3 million Water and Wastewater Revenue Bonds, Series 2021C. Concurrently, Moody's maintains the A1 rating on roughly \$2.23 billion of parity debt outstanding as of April 30, 2021. The outlook is stable.

**RATINGS RATIONALE**

The A1 rating speaks to Philadelphia Water and Sewer Enterprise, PA's (or Philadelphia Water Department (PWD), or "the department") satisfactory current financial position, with revenues supported by its large and diverse service area - primarily the city of Philadelphia (A2 stable) and its immediate suburbs. The rating also reflects the department's sizeable consent order and the system's aging infrastructure, both of which require significant ongoing capital investment. The A1 rating incorporates our expectation of substantial future debt issuance in the coming years to support the department's capital improvement plan.

The Water Department's conservative financial forecasts continue to project moderate revenue pressure in the near term due to the continued effects of the coronavirus pandemic, particularly high residential customer delinquencies. Higher than average delinquencies are expected to persist until the end of the city's water shut-off moratorium, anticipated in April 2022. Favorably, actual results for fiscal 2021 outperformed budget expectations by a healthy margin. Of concern, however, is the department's continued projections for fairly narrow "legally enacted" debt service coverage. Also of material concern is the rate board's continued limitations on the department's revenue raising ability, which serves to materially curtail management's operating flexibility. While these financial challenges do not pose an immediate risk to the department's credit profile, prolonged economic stress in the customer base, coupled with continued limitations on the department's operating flexibility, could present downward rating pressure.

We regard the coronavirus outbreak as a social risk under our ESG framework, given the substantial implications for public health and safety. Philadelphia Water and Sewer Enterprise has faced both fiscal and operating challenges as a result of the coronavirus, and continues to capably manage through the pandemic's after-effects.

**RATING OUTLOOK**

The outlook is stable given consistent historical results and our expectation that management will continue to act to maintain structural operating balance and meet coverage covenants despite near-term revenue pressures. Annual debt service requirements are currently manageable, with several consecutive years of decline embedded in the current schedule. This should serve to keep costs reasonable, even with annual new money issuances to support the department's sizeable CIP. Engineer and financial consultant reports are required for each bond issuance, also adding to operational stability and comprehensive debt planning. Incorporated into the stable outlook is an expectation that the department will use its rate stabilization reserve to meet debt service coverage covenants in fiscal 2021 and 2022. However, we also anticipate that the reserve usage will be modest, temporary, consistent with rate covenants, and still in line with the current rating.

**FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATING**

- Considerable improvement in debt service coverage
- Service area expansion / revenue growth beyond expected rate increases

**FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATING**

- Failure to meet bond coverage covenants
- Inability to increase rates commensurate with coverage requirements and in line with the department's

16 SEP 2021

## Fitch Rates Philadelphia (PA) Water and Wastewater Revs 'A+'; Outlook Stable

Fitch Ratings - New York - 16 Sep 2021: Fitch Ratings has assigned an 'A+' rating to the following Philadelphia, PA (the city) revenue bonds:

--Approximately \$228.7 million water and wastewater revenue bonds, series 2021C.

The bonds are anticipated to be sold via negotiation the week of Sept. 27. Proceeds will be used to fund a portion of the capital improvement program and pay issuance costs.

The Rating Outlook is Stable.

### ANALYTICAL CONCLUSION

Fitch's 'A+' rating reflects the Philadelphia Water Department's water and wastewater system's (PWD or the system) leverage profile within the context of its strong revenue defensibility and very low operating risk profile. The rating and Outlook incorporate Fitch's expectations that PWD will secure rate adjustments sufficient to maintain the current financial profile, while continuing to implement its substantial capital improvement plan (CIP).

Revenue defensibility reflects the system's role as an essential service provider within a well-defined service territory, stable demographic trends, and a rate setting process that constrains rate flexibility. The operating risk profile incorporates investment needs that are expected to remain elevated for the foreseeable future as the system faces long-term asset rehabilitation needs and continues progress toward addressing combined sewer overflows.

Fitch's analysis incorporates a base and stress scenario, which includes the system's CIP and anticipated debt issuance as well as expectations for revenue that reflect the continuing impact of the coronavirus and the recently approved rate package. Leverage, as measured by net adjusted debt to adjusted funds available for debt service, was approximately 8.9x in fiscal 2020. Fitch expects additional debt issuance and compressed financial margins over the next few years will lead to an increase in the leverage ratio. Leverage should remain below 10x over the next five years but is dependent on key assumptions, including continuing approval of rates to support operations and the CIP and management of debt issuance that minimizes the impact on leverage.

### CREDIT PROFILE

The Philadelphia Water Department provides potable water to all of the nearly 1.6 million residents of the city as well as a small wholesale customer that serves accounts in neighboring Montgomery and Delaware Counties. The wastewater service area, which includes the city as well as portions of the surrounding counties through wholesale contracts, serves a larger population estimated at nearly 2.3 million. The retail customer base is highly diverse, comprising predominantly residential users. The 10 largest customers

**PA Special Hrg. Exh. 3**

**(1) Table C-1A: Projected Revenue and Revenue Requirements.**

	Settlement Proposal		
(dollars in 1000s)	FY 2022	FY 2023	Total
Line 10	\$10,411	\$47,011	\$57,422

**(a) FY 2022**

As shown on Line 5 (for FY 2022) in Appendix 1 (Table C-1A), the Settlement is designed to produce additional annual water, wastewater, and stormwater revenue of \$10.411 million to become effective on September 1, 2021, for FY 2022.

That agreed-upon amount is a \$38.453 million reduction from the Department’s original request of \$48.864 million in additional revenues for FY 2022.

**(b) FY 2023**

As shown on Line 6 (for FY 2023) in Appendix 1, the Settlement is designed to produce additional incremental annual water, wastewater, and stormwater revenue of \$34.110 million to become effective on September 1, 2022, for FY 2023. As shown on Line 10 (for FY 2023) in Appendix 1, the Settlement is designed to produce total additional annual water, wastewater, and stormwater revenue of \$47.011 million for FY 2023.

That total amount shown on Line 10 is (a) a \$45.086 million reduction from the Department’s original request of \$92.096 million in annual additional revenues in FY 2023 and (b) the FY 2023 annual incremental portion of such additional revenues (\$34.110 million) is subject to further adjustment/reconciliation, as described below.

**(2) Reconciliation Adjustments to FY 2023.**

**(a) Reconciliation Procedure.**

The agreed-upon FY 2023 approved rate increase includes incremental additional revenues of \$34.110 million (“FY 2023 Base Rate Incremental Increase”). The FY 2023 Base Rate Incremental Increase is subject to two potential adjustments related to (i) Federal Stimulus Funding; and (ii) Changes in FY 2021 Financial Performance, as described below.

The above adjustments will be addressed in a Special Rate Reconciliation Proceeding for FY 2023.

The Special Rate Reconciliation Proceeding is intended to be simple, limited to the two adjustments defined in Paragraph 11.A.(2) (a), and analogous to the TAP-R Reconciliation Proceeding. By approving the Settlement, the Rate Board is agreeing (in advance) to the use of the Special Rate Reconciliation Proceeding. Both the Department and the Public Advocate will be deemed to be Participants in the Special Rate Reconciliation Proceeding without notification to the Rate Board.

The Department shall initiate the Special Rate Reconciliation Proceeding. Any adjustment or reconciliation will be implemented effective September 1, 2022. It is anticipated that the Department will commence the above-described Special Rate Reconciliation Proceeding by filing an Advance Notice on or before March 1, 2022. In the Department's sole discretion, the Special Rate Reconciliation Proceeding may or may not be presented as part of the annual TAP-R Reconciliation Proceeding. In any event, the Public Advocate and other stakeholders shall be afforded a reasonable period of time to review and conduct discovery in order to evaluate the Department's reconciliation adjustments and may submit testimony and briefs supporting the Department's requested reduction or a different reduction to the FY 2023 Base Rate Incremental Increase.

**(i) Reconciliation Framework (Federal Stimulus).**

Subject to Paragraph 11.A.(2)(a) and this subparagraph (i), the FY 2023 approved rate increase is subject to reduction on a dollar-for-dollar basis via the Special Rate Reconciliation Proceeding to reflect the impact of "Stimulus Funding" (defined below) received by PWD during the "Receipt Period" (from July 1, 2021 to December 31, 2021).

- **Definition:** "Stimulus Funding" is defined as:
  - Except as excluded by the footnote below,<sup>9</sup> amounts from (a) the U.S. Department of Health and Human Services (HHS) or Philadelphia Housing Development Corporation (PHDC) under the Consolidated Appropriations Act of 2021,

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<sup>9</sup> For this purpose, "Stimulus Funding" excludes: (i) any amounts received directly by PWD from the City, HHS, PHDC or other state or local agencies administering federal funds for infrastructure or capital projects;(ii) any amounts allocated and/or received directly by PWD customers under the federal legislation, or other state or federal action, to alleviate potential or actual financial hardship of PWD's customers; (iii) any amounts allocated and/or received directly by PWD from Utility Emergency Services Fund ("UESF") in connection with UESF's locally funded programs including the Utility Grant Program, Water Conservation Housing Stabilization Program, and the Customer Assistance Program for Water; and (iv) any amounts adopted by City Council through the budget process and/or received directly by PWD, beyond the Receipt Period.

enacted on December 27, 2020 (“CARES Act”)<sup>10</sup> and (b) the American Rescue Plan Act, enacted on March 11, 2021 (“ARPA”)<sup>11</sup> (collectively, the “federal legislation”), that are allocated by City Council to PWD in the FY 2022 budget and/or received directly by PWD, during the Receipt Period, in either case, that can be used to reduce operating expenses that would otherwise be paid by ratepayers.

- During the Receipt Period, any amounts received directly by PWD for reimbursement of PWD operating expenses submitted under the CARES Act.
- **Best Efforts:** PWD will utilize its best efforts to secure Stimulus Funding.
- **Threshold Bucket:** Downward adjustment will occur, if PWD receives \$2 million or more in Stimulus Funding (“Minimum Threshold”). No adjustment will be made if less than the above Minimum Threshold is reached.
- **Adjustment, Mechanics:** Provided the Minimum Threshold is met, an across-the-board reduction to the FY 2023 Base Rate Incremental Increase will be made in an amount equal to the Stimulus Funding received.
- **Maximum Adjustment:** Reconciliation under this adjustment, separately or in combination with other adjustments, cannot lower the FY 2023 Base Rate Incremental Increase below zero dollars.

**(ii) Reconciliation Framework (Changes in FY 2021 Performance).**

Subject to Paragraph 11.A.(2)(a)(i) and this subparagraph (ii), the FY 2023 Base Rate Incremental Increase is subject to reduction on a dollar-for-dollar basis via the Special Rate Reconciliation Proceeding and within the parameters described below.

- **Adjustment, Mechanics:** The Department shall file a reconciliation request for FY 2023, setting forth the amount by which it requests the Rate Board reduce the FY 2023 Base Rate Incremental Increase to share with customers the benefit of

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<sup>10</sup> 116 P.L. 260; 134 Stat. 1182. Section 501 of the Consolidated Appropriations Act allocates \$638 million to the U.S. Department of Health and Human Services (HHS) to carry out a Low-Income Household Drinking Water and Wastewater Emergency Assistance Program. See, e.g., 15 USC § 9058a.

<sup>11</sup> Public Law No: 117-2. Section 9901 of the American Rescue Plan Act, *inter alia*, provides funds to certain governmental entities that may be used, among other things, to make necessary investments in water, sewer, or broadband infrastructure. Section 2912 of American Rescue Plan Act allocates \$500 million to the HHS to assist low-income households that pay a high proportion of household income for drinking water and wastewater services. The funds under Section 2912 of American Rescue Plan Act are in addition to the funds under Section 501 of the Consolidated Appropriations Act.

FY 2021 amounts above a minimum threshold<sup>12</sup> in the Rate Stabilization Fund. The Department shall include the City’s annual financial report for such fiscal year and a statement explaining the basis for the Department’s requested reduction (which may be any amount, including zero, up to \$34.110 million).

- **Maximum Adjustment:** Reconciliation under this adjustment, separately or in combination with other adjustments, cannot lower the FY 2023 Base Rate Incremental Increase below zero dollars.

## **B. Rates and Rate Impacts**

Appendix 2 includes Tables C-4 (residential) and C-5 (non-residential) which show the impact of proposed rates on the bills of typical customers, if the Partial Settlement rates are approved.<sup>13</sup> The rate impacts depicted in the above tables reflect proposed rates and charges that are based on the Joint Petitioners’ agreement with regard to cost allocation, rate structure, and rate design for the proposed increased revenues.<sup>14</sup>

The Joint Petitioners submit that the proposed rates and charges should be approved as they are just and reasonable, comply with the ordinances governing this proceeding and provide a reasonable basis for recovery of revenues sufficient to meet the Department’s obligations.<sup>15</sup>

## **C. Cost of Service**

### **(1) Cost and Benefit Allocations.**

PWD will convene stakeholder meetings to evaluate alternative ways of sharing the costs/benefits of ratepayer-funded non-residential stormwater overflow remediation projects. PWD will develop proposals prior to the next base rate proceeding.

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<sup>12</sup> The settling parties expressly agree that participants in the Special Rate Reconciliation Proceeding may propose different “minimum thresholds” and that a “minimum threshold” has not been established in connection with the Reconciliation Framework (Changes in FY 2021 Financial Performance) set forth in Paragraph 11.A.(2)(a)(ii) above.

<sup>13</sup> Rates and charges shown for FY 2023 are subject to reconciliation. FY 2022 and 2023 bill impacts reflect proposed TAP-R rates, as filed, and are subject to Rate Board approval.

<sup>14</sup> Please note that the rates and charges shown for FY 2023 are subject to the reconciliation procedure in Paragraph 11.A.(2)(a).

<sup>15</sup> See footnote 14. Rates and charges shown for FY 2023 are subject to reconciliation.

**BEFORE THE  
PHILADELPHIA WATER, SEWER AND STORM WATER RATE BOARD**

In the Matter of Philadelphia Water Department's Special Rate Proceeding	: : : : : : :	Fiscal Year 2023
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**STIPULATION**

The Philadelphia Water Department (“PWD” or “Department”) and the Public Advocate (“Advocate”) (the “Stipulating Parties”) hereby enter into this Stipulation to resolve their differences (areas of dispute) with regard to the 2022 Special Rate Proceeding (“SRP”). The differences between the Stipulating Parties are memorialized in the Public Advocate’s Motion to Strike (dated February 9, 2022) and the PWD Memorandum in Response to the Motion to Strike (dated February 18, 2022) filed in this proceeding. The Hearing Officer’s Order Granting in Part and Denying in Part the Advocate’s Motion to Strike, dated March 8, 2022 (“Interim Order”) decided several areas of dispute in connection with the scope of evidence permitted in support of PWD’s position regarding the FY 2021 Financial Performance Adjustment, but identified certain areas of the record (portions of PWD Statement 3 and Schedule BV-4)<sup>1</sup>as to which a statement in *limine* or other agreement would be appropriate to define the limited use of the same in this proceeding.

This Stipulation addresses the areas in dispute identified in the Interim Order related to the calculation of the FY 2021 Financial Performance Adjustment and the limited use of the

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<sup>1</sup> PWD Statement 3, Q/A 16, 18, 19-24 and Updated Financial Outlook (Schedule BV-4).

Updated Financial Outlook (Schedule BV-4 and related testimony). The Stipulating Parties agree to have this Stipulation admitted as evidence of their agreement and further stipulate and agree as follows:

### **Calculation of 2021 Financial Performance Adjustment**

The Department and Advocate agree to the following approach to calculating the FY 2021 Financial Performance Adjustment.

1. PWD and the Advocate expressly acknowledge and agree that rates and charges determined in the SRP will be calculated based on the FY 2023 Base Rate Incremental Increase (“FY 2023 incremental revenues”) agreed to in the Joint Petition for Partial Settlement and approved by the Philadelphia Water, Sewer and Storm Water Rate Board (“Board”) in the June 16, 2021 Rate Determination (“2021 Rate Determination”), subject to adjustment solely on the basis of the two reconciliation frameworks set forth on pages 41-43 thereof.<sup>2</sup>

2. The “starting point” for determining the 2021 Financial Performance Adjustment will be the actual Rate Stabilization Fund (“RSF”) balance for the beginning of FY 2022 (which is the same as the ending balance for FY 2021). The starting point is hereafter referred to as the “actual RSF starting balance.”

3. The actual RSF starting balance will be compared with the “minimum threshold” for the RSF as determined by each Stipulating Party.

4. The “minimum threshold” is undefined in the Joint Petition for Partial Settlement and the 2021 Rate Determination approving same and must be litigated as a part of the SRP.

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<sup>2</sup> The Black & Veatch Microsoft-based computer models that supported the 2021 Compliance Filing will be used for the determination of the 2022 Special Rate Proceeding.

5. Based upon the comparison of the actual RSF starting balance and the “minimum threshold” (proposed by each party), an initial determination will be made as to whether there is any amount to be shared. If not, no further calculation is needed.

6. Assuming there is an amount to be shared, the parties can submit their respective positions as to how such amount should be “shared” to reduce the FY 2023 incremental revenues (\$34.110 million) approved in the 2021 Rate Determination.

7. Any amount designated for sharing cannot exceed the Maximum Adjustment (\$34.110 million).

8. Any amount to be shared will be reflected as an adjustment to incremental revenues approved for FY 2023 in the 2021 Rate Determination.

9. If any adjustment will reduce FY 2023 approved incremental revenues (\$34.110 million) from the 2021 Rate Determination, the resulting (net) incremental revenues must be sufficient to fulfill PWD’s required covenants with bondholders, as prescribed in the the City’s Restated Water and Wastewater Revenue Bond Ordinance of 1989, as supplemented and amended from time to time<sup>3</sup>, and legislatively mandated financial obligations as prescribed in the Rate Ordinance, Philadelphia Code, Section 13-101. Such covenants and obligations are hereinafter referred to as the “required financial metrics.”

### **Use of Updated Financial Model**

In accordance the Interim Order, regarding the FY 2021 Financial Performance adjustment, the Department and Advocate agree to the following limited use of the Updated

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<sup>3</sup> We note that the City’s Restated Water and Wastewater Revenue Bond Ordinance of 1989 (the “General Bond Ordinance”) was amended by Bill No. 171110-A (signed by the Mayor on April 24, 2018) to, among other things, include as an additional rate covenant the “90% test” contained in covenants previously made by the City only to its bond insurer.

Financial Outlook and related testimony (PWD Statement 3) based on the record presented in the Department's direct case.

10. Schedule BV-4 can be used for the limited purpose of (i) supporting or corroborating the parties positions regarding adjustments (or absence of adjustments) proposed for FY 2023 incremental revenues and, assuming an adjustment is made to FY 2023 incremental revenues, (ii) establishing whether such resulting revenues (net of the adjustment) will be sufficient to meet the required financial metrics and maintain the utility's financial stability (to avoid negative rating action).

11. PWD testimony describing the Updated Financial Outlook can likewise be used for the limited purpose of supporting or corroborating the parties' positions regarding adjustments (or absence of adjustments) proposed for FY 2023 incremental revenues.

12. The Stipulating Parties have not agreed to any limitations on the presentation of their respective cases via rebuttal and/or rejoinder testimony — which has not been presented as of this date.

AGREED TO BY:

/s/ Robert W. Ballenger  
Robert Ballenger, Esquire  
Kinteshia Scott, Esquire

For the Public Advocate

Dated: 4/5/2022

AGREED TO BY:

/s/ Andre C. Dasent  
Andre C. Dasent, Esquire  
Carl R. Shultz, Esquire

For the Philadelphia Water Department

Dated: 4/5/2022

**TABLE C-1: PROJECTED REVENUE AND REVENUE REQUIREMENTS**  
**Base and TAP-R Surcharge Rates**  
**(in thousands of dollars)**

Line No.	Description	2022	2023
<b>OPERATING REVENUE</b>			
1	Water Service - Existing Rates	266,656	269,813
2	Wastewater Service - Existing Rates	427,613	433,417
3	Total Service Revenue - Existing Rates	694,269	703,229
<b>Additional Service Revenue Required</b>			
	<u>Year</u>	<u>Percent Increase</u>	<u>Months Effective</u>
4	FY 2021	0.00%	10
5	FY 2022	1.83%	10
6	FY 2023	5.83%	10
7	FY 2024		10
8	FY 2025		10
9	FY 2026		10
10	Total Additional Service Revenue Required	10,411	47,011
11	Total Water & Wastewater Service Revenue	704,679	750,241
<b>Other Income (a)</b>			
12	Other Operating Revenue	21,719	21,638
13	Debt Reserve Fund Interest Income	-	-
14	Operating Fund Interest Income	1,230	1,249
15	Rate Stabilization Interest Income	1,088	982
16	Total Revenues	728,716	774,110
<b>OPERATING EXPENSES</b>			
17	Total Operating Expenses	(517,470)	(533,064)
<b>NET REVENUES</b>			
18	Transfer From/(To) Rate Stabilization Fund (b)	10,131	11,554
19	NET REVENUES AFTER OPERATIONS	221,376	252,600
<b>DEBT SERVICE</b>			
<b>Senior Debt Service</b>			
<b>Revenue Bonds</b>			
20	Outstanding Bonds	(163,516)	(164,558)
21	Pennvest Parity Bonds	(10,885)	(11,067)
22	Projected Future Bonds	(8,000)	(30,798)
23	Commercial Paper	(2,000)	(4,000)
24	Total Senior Debt Service	(184,401)	(210,423)
25	TOTAL SENIOR DEBT SERVICE COVERAGE (L19/L24) (c)	1.20 x	1.20 x
26	Subordinate Debt Service	-	-
27	Transfer to Escrow	-	-
28	Total Debt Service on Bonds	(184,401)	(210,423)
29	CAPITAL ACCOUNT DEPOSIT	(29,447)	(31,155)
30	TOTAL COVERAGE (L19/(L24+L26+L29)) (c)	1.03 x	1.04 x

RESIDUAL FUND			
31	Beginning of Year Balance	15,042	15,020
32	Interest Income	150	150
	Plus:		
33	End of Year Revenue Fund Balance	7,529	11,022
34	Deposit for Transfer to City General Fund (d)	1,839	2,037
	Less:		
35	Transfer to Construction Fund	(7,700)	(11,100)
36	Transfer to City General Fund	(1,839)	(2,037)
37	Transfer to Debt Service Reserve Fund	-	-
38	End of Year Balance	15,020	15,092
RATE STABILIZATION FUND			
39	Beginning of Year Balance (e)	113,988	103,857
40	Deposit From/(To) Revenue Fund	(10,131)	(11,554)
41	End of Year Balance	103,857	92,303

- (a) Includes other operating and nonoperating income, including interest income on funds and accounts transferable to the Revenue Fund and reflects projected contra revenue credits for Affordability Program Discounts (TAP Costs).
- (b) Pursuant to the General Ordinance, as of June 30 of each Fiscal Year, the City may transfer (i) from the Rate Stabilization Fund to the Revenue Fund or (ii) from the Revenue Fund to the Rate Stabilization Fund, the amount determined. The amounts presented are subject to actual results.
- (c) Projected estimates are subject to actual financial results and final transfers to/from Rate Stabilization (see note (b)). The amounts presented are subject to actual results.
- (d) Transfer of interest earnings from the Bond Reserve Account to the Residual Fund as shown in Line 34 to satisfy the requirements for the transfer to the City General Fund shown on Line 36.
- (e) Beginning balance is estimated based on projected financial results. The amounts presented are subject to actual results.

2023, Line 24 of Table C-1A shows an undisputed projected increase of more than \$26 million in total senior debt service payments. Partial Settlement, Appendix 1. That increase alone encompasses more than 55% of the Line 10 additional revenues resulting from the FY 2023 rate increase. While the above-described increased expenses (of about \$31 million and \$26 million) do not include all of the actual and projected increases in the filing, they do provide reasonable support and justification for the total (Table C-1A, line 10) increases for the Rate Period (roughly \$57 million).

The financial metrics produced by the rates and charges proposed by the Partial Settlement are reasonable. *See*, Partial Settlement, Appendix 1 (Table C-1A). The Appendix hereto further sets forth monthly rates and together with Table C-1A, a “Proof of Revenue” demonstrating that the proposed rates and charges produce the agreed-upon additional revenues. *See*, PWD Statement of Support, Appendix A. Simply put, the above referenced Appendices demonstrate that the proposed rates and charges should produce sufficient additional revenues so as to provide appropriate levels of cash,<sup>19</sup> debt service coverage,<sup>20</sup> and other financial metrics<sup>21</sup> necessary to enable the Department to pay its bills and maintain access to the capital markets at reasonable rates.

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<sup>19</sup> *See*, Partial Settlement, Appendix 1 (Table C-1A) at lines 16 to 19.

<sup>20</sup> *See*, Partial Settlement, Appendix 1 (Table C-1A) at lines 25 and 30.

<sup>21</sup> For the capital account deposit, *see*, Partial Settlement, Appendix 1 (Table C-1A) at line 29. That amount is 1%. *See* Schedule ML-3 at 8, 11. By providing additional operating revenues for the Rate Period, the Settlement Rates will help the Department manage and utilize cash reserves (as discussed in Schedule ML-2 (Financial Plan) and PWD Statement 2). The additional operating revenues for the Rate Period will also satisfy the 90% test in the Rate Period. *Cf.* PWD Statement 2 at 19.

**PRELIMINARY FY 2021 FINANCIAL RESULTS**

Actual Results

**Table C-1**

<b>Line No</b>	<b>Description</b>	<b>2021</b>
11	Total Water & Wastewater Service Revenue	705,612
12 to 15	Other Income (a)	24,839
<b>16</b>	<b>Total Revenues</b>	<b>730,451</b>
<b>17</b>	<b>Total Operating Expense</b>	<b>(521,096)</b>
18	Transfer From/(To) Rate Stabilization Fund	27,000
<b>19</b>	<b>Net Revenues after Operations</b>	<b>236,355</b>
24	Total Senior Debt Service	(186,312)
26	Total Subordinate Debt Service	0
27	Transfer to Escrow	0
	<b>Net Revenues after Debt Service</b>	<b>50,043</b>
<b>29</b>	<b>Capital Account Deposit</b>	<b>(27,833)</b>
<b>33</b>	<b>Residual Fund Deposit from Water Operating</b>	<b>22,210</b>
<b>34</b>	<b>Residual Fund Deposit from Interest Earnings on DSRF (b)</b>	<b>2,586</b>
35	Transfer to Construction Fund (discretionary Transfer to the capital Fund)	(22,210)
36	Transfer to City General Fund (SCOOP)	(2,586)
37	Transfer to Debt Service Reserve Fund	0
38	Residual Fund End of Year Balance	16,305
41	Rate Stabilization Fund End of Year Balance	124,661
	<b>Debt Service Coverage Ratios:</b>	
30	Total Coverage	1.10
25	Total Senior Debt Service Coverage	1.27

(a) Includes other operating and nonoperation income, including interest income on funds and accounts transferable to the Revenue Fund.

(b) Transfer of interest earnings from the Bond Reserve Account to the Residual Fund as shown in Line 39 to satisfy the requirements for the Transfer to the City General Fund.

- Presented in thousand dollars

DSRF - Debt Service Reserve Fund

## Executive Summary

Black & Veatch Management Consulting, LLC ("Black & Veatch") has prepared this Financial Plan Report (the "Report") on behalf of the City of Philadelphia (the "City") Water Department (the "Water Department" or "PWD") in connection with its five-year plan for water, sanitary sewer and stormwater service for fiscal years ("FY") 2023 to FY 2027. Revenue and revenue requirements are projected for FY 2022 through FY 2027 (the "Study Period").

This Report assesses the Water and Wastewater Systems' (together, the "System" or "Combined System") ability to meet current and future anticipated financial obligations, based on a financial plan reflecting the existing FY 2022 (effective September 1, 2021) water, sanitary and stormwater rates, and the additional approved FY 2023 Base Rate Incremental Increase of \$34.110 million<sup>1</sup>, along with additional future revenue adjustments sufficient to fund operations and capital financing needs for the Combined System.

The updated forecast begins with preliminary final results from FY 2021 (as reflected in FY 2022 starting fund balances), and projects results from implementing annual revenue increases and leveraging available funds from the Water Department's Rate Stabilization Fund ("RSF") during the Study Period. The financing plan requires annual Combined System Service Revenue increases from Base Rates ranging from 5.78 percent to 9.49 percent during the Study Period.

The forecast consists of the projected implementation of annual revenue increases and leveraging available funds from the Water Department's RSF during the Study Period. Based on the assumptions detailed herein, the financing plan requires annual Combined System Service Revenue increases from Base Rates<sup>2</sup> ranging from 5.84% to 9.60% during the Study Period.

The existing FY 2022 (effective September 1, 2021) water, sewer, and stormwater rates as well as the approved FY 2023 Base Rate Incremental Increase of \$34.110 million are based upon the Philadelphia Water, Sewer and Storm Water Rate Board ("Rate Board") Rate Determination dated June 16, 2021 (the "2021 Rate Determination"). In accordance with the 2021 Rate Determination and the Joint Petition for Partial Settlement (the "Settlement"), the FY 2023 Base Rate Incremental Increase is subject to a potential downward adjustment. Based upon the terms and conditions of the Settlement, no adjustment is proposed to the FY 2023 Base Rate Incremental Increase. Black & Veatch's analysis assumes that the full FY 2023 Base Rate Incremental Increase of \$34.110 million will be implemented on September 1, 2022. Further, the results contain herein demonstrate that the FY 2023 Base Rate Incremental Increase is required in full to allow the Water Department to adequately fund operations and capital financing needs for the Combined System while meeting minimum required financial metrics.

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<sup>1</sup> References to the previously approved FY 2023 Base Rate Incremental Increase of \$34.110 million relate to authorized revenues, which are subject to reconciliation per the 2021 Rate Determination.

<sup>2</sup> Excludes Tiered Assistance Program Rate Rider Surcharges.