

# Memorandum

**From:** City of Philadelphia Water Department

**To:** City of Philadelphia Water, Sewer, & Storm Water Rate Board

**Date:** February 27, 2023

**Re:** Federal Funding Information Request

---

This memo is being sent in follow-up to the Water, Sewer & Storm Water Rate Board's ("Rate Board") request for more information regarding the government funding allocated to the Philadelphia Water Department ("PWD"), requested in the Rate Board meeting on February 8, 2023.

President Biden announced on February 3, 2023 that Philadelphia would receive \$500 million in funding for water service upgrades. Biden was referring to approximately \$340 million in funding being provided via the Water Infrastructure Finance and Innovation Act ("WIFIA") as well as \$160 million in funding provided via PENNVEST. Both funding sources will come in the form of low-interest loans to support projects related to water treatment and conveyance including several projects contained within PWD's Water Revitalization Plan ("WRP"). Both funding sources were reflected in the Water Department's Advance Notice as filed before the Rate Board on January 24, 2023.

## WIFIA Funding

- As noted in the monthly progress reports provided to the Rate Board in accordance with the 2022 Rate Determination<sup>1</sup>, the Water Department has been pursuing the WIFIA Loan since 2021.
- Timeline:
  - PWD submitted a letter of interest to the Environmental Protection Agency (EPA) in July of 2021, in an effort to obtain low-cost financing via EPA's WIFIA program.
  - PWD was then invited to submit a formal application request for financing support, which was delivered to the EPA in May of 2022.
  - PWD, along with City staff, legal as well as financial and engineering consultants, worked with the EPA between May and December of 2022 to develop a Master Agreement to support a series of WRP related projects.
  - President Biden's announcement came shortly after the first loan tranche under the Master Agreement was closed in January 2023.
- The eligible project costs included in the final application package totaled \$697 million including construction and allowable financing costs.
  - Under the WIFIA Program, the EPA will provide up to 49% of eligible project costs and the Water Department is responsible for covering the remaining 51%.
  - Based upon the final application package, WIFIA will provide approximately \$341.6 million in financing to support WRP projects via low-interest loans.

---

<sup>1</sup> Please see Section 7 of the December 2022 Monthly Report to the Rate Board.

- PWD will need to secure the remaining funding and plans to use a combination of available cash and revenue bond financing to support the rest of the projects' costs.
- The WIFIA funded projects, identified in the application, are anticipated to be completed between FY 2024 and FY 2032.
- As part of the application package, PWD provided financial analyses including proposed debt service schedules, reflecting the requested WIFIA loan portion as well as the matching cash /revenue bond financing to be provided by the City.
- The Capital Improvement Program financing (i.e. debt service) for the WIFIA related projects reflected in the Water Department's Advance Notice filing, is the same as provided to WIFIA in support of the application. The CIP financing reflects PWD's requested debt service schedules for the WIFIA loan portions of the project financing as well as the matching amounts as developed by the Water Department's Financial Advisors.

### **PENNVEST Funding**

- The remaining \$160 million noted in the President's announcement is related to two projects, which are being funded via PENNVEST loans.
- These projects were presented in the December Progress Report to the Rate Board<sup>2</sup> including:
  - \$125 million for the replacement of Clearwell Basin at the Baxter Water Treatment Plant. This loan was applied for in February 2022 and closed in January 2023.
  - \$35.8 million for the replacement of various linear assets<sup>3</sup> (water mains, etc.) across the City. This loan was applied for in August 2021 and closed in July 2022.
- The financing for these PENNVEST loans was included in the CIP financing reflected in the Water Department's Advance Notice filing. The estimated debt service for these PENNVEST Loans was based upon the agreed upon PENNVEST loan interest rates.
- As PENNVEST loans work on a reimbursement basis, PWD will be utilizing its commercial paper program to provide interim financing to pay contractor invoices while awaiting reimbursement from PENNVEST.
- These projects are financed via low interest loans, which are administered by PENNVEST and supported by the federal funding.

As noted above, the Water Department's Advance Notice filing reflected the anticipated debt service associated with the WIFIA and PENNVEST related project funding and incorporates the savings afforded to the Water Department and its customers via the respective low-interest loans (when compared to revenue bond issuances). While the final debt service schedules may vary based upon the respective closings for each future loan tranche, the overall allowable WIFIA funding will remain the same. As there is no additional information available at this time, no changes to the Advance Filing were necessary.

---

<sup>2</sup> Please see Section 7 of the December 2022 Monthly Report to the Rate Board.

<sup>3</sup> The original PENNVEST loan request included 15 projects, totaling \$40.4 million. Only 11 projects were ready at the time of loan closing, so the final amount was reduced to ~\$35.8 million.

**WIFIA Funding Notes:**

- WIFIA sets a limit on the total project costs which may be funded by federal grant dollars. While WIFIA will provide up to 49% of eligible project costs, the total federal assistance (including other matching funding) may not exceed 80 percent of a project's eligible costs.
- A large portion of the construction spending (~\$296 million) is attributed to projects that are outside of the study period (FY 2023 to FY 2028).
- The approved WIFIA projects are anticipated to be completed by FY 2032.
- WIFIA funding is allocated to specific projects and cannot be switched to different projects nor used toward ongoing operating expenses per WIFIA loan requirements.