

RESPONSE TO
PUBLIC ADVOCATE'S INTERROGATORIES (SET V)
AND
REQUESTS FOR PRODUCTION OF DOCUMENTS
QUESTIONS 1-11

Dated: March 2023

1 **PA-V-1.** REFERENCE SCHEDULE BV-1, TABLE C-7. PLEASE PROVIDE A
2 VARIANCE ANALYSIS, WITH VARIANCE EXPLANATIONS, OF THE
3 BUDGET VERSUS ACTUAL EXPENDITURES FOR THE FISCAL YEARS
4 ENDED SEPTEMBER 30, 2020, 2021, 2022, AND 2023 BROKEN DOWN IN
5 THE SAME CATEGORIES AS SEEN IN TABLE C-7. PLEASE PROVIDE
6 THESE DATA IN ELECTRONIC (EXCEL) FORMAT WITH THE FORMULAE
7 INTACT.

8
9 **RESPONSE:**

10 The requested variance analysis is not appropriate for the annual capital budget and annual
11 actual capital expenditures. The Department's annual capital budget amount is an
12 appropriation of funds and does not reflect planned spending in the same year. The annual
13 capital budget represents the planned amount of appropriations to provide sufficient
14 authorization for the Department to execute contracts in support of the implementation of
15 its capital program. The executed contract amounts for each project are spent over a varying
16 number of years depending on the type of construction for each contract. The annual capital
17 spending represents the total annual drawdown on the Department's outstanding capital
18 contracts which represent appropriations from various budget years.

19
20 Please note the following supporting references from the Department's rate filing:

21 PWD Statement 3

- 22 • Page 5 – Lines 22 to 24:

23 “The [Approved Capital Budget FY 2023] total amount shown is the amount
24 appropriated by City Council during that fiscal year. The amount of the
25 appropriation for capital projects does not always match the actual amount
26 encumbered on capital projects in any given fiscal year. Any appropriated funds not
27 encumbered in that year is carried-forward and may be encumbered in the next fiscal
28 year.”

- Page 6 – Lines 7 to 19:

“Beyond the projects that were already bid and underway, the pandemic forced the Department to prioritize remaining projects planned for FY 2021 and only bid those projects deemed critical in order to utilize the limited amount of capital funds in the most prudent manner. Prioritization was done by the Operations Division and caused less critical projects that were planned for FY 2021 to be delayed beyond FY 2021. But, those projects could not be delayed indefinitely, since the circumstances that necessitate those capital projects in the first place did not change.

The Department made changes to the construction schedules to catch-up. Simply put, the Department slid the program back one year for all those projects that were not bid in FY 2021. This impacted the construction schedules for FY 2022 and FY 2023.”

- Page 7 – Lines 6 to 11:

“Again, that [Proposed Capital Budget FY 2024] total amount shown is the amount of the appropriation that the Department will be seeking in the upcoming process for FY 2024. That amount does not include any appropriated funds carried-forward from prior fiscal years. We would note that Black & Veatch projected carry-forward into FY 2024 from prior fiscal years as shown on Line 13 of Table C-7 in Schedule BV-1.”

Note: Page 8 – Lines 6 to 11 makes a similar statement for the Proposed Capital Budget FY 2024 total amount.

PWD Statement 7

- Schedule BV-2, page 1-20

“The Water Department’s CIP budget is an appropriation-based budget and reflects the following:

- The budget for each respective fiscal year represents the total cost of the capital improvements expected to be let in that fiscal year;

- The total CIP Budget does not represent expected project duration or anticipated cashflows;"

RESPONSE PROVIDED BY: Philadelphia Water Department and Black & Veatch Management Consulting, LLC.

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1 **PA-V-2.** REFERENCE SCHEDULE BV-1, TABLE C-7. PLEASE PROVIDE A LIST OF
2 PROJECTS INCLUDED IN FY 2024 AND FY 2025 FOR EACH CATEGORY.
3 PLEASE PROVIDE THESE DATA IN ELECTRONIC (EXCEL) FORMAT
4 WITH THE FORMULAE INTACT. FOR EACH PROJECT IN YOUR
5 RESPONSE, PLEASE PROVIDE:
6 A. A DESCRIPTION OF THE PROJECT, ACTUAL OR PROJECTED START
7 DATE, PROJECTED TIMELINE TO COMPLETION, THE INITIAL
8 ESTIMATED COMPLETION DATES, AND ANY REVISED
9 COMPLETION DATE.
10 B. PROVIDE THE CURRENT STATUS OF EACH PROJECT. WHERE
11 APPLICABLE, INDICATE WHETHER THE PROJECT WAS
12 SUSPENDED OR CANCELLED AND INCLUDE THE DATE SUCH
13 ACTION OCCURRED.
14 C. DATA ON PROJECTED PROJECT COST BY YEAR, PROJECT COSTS
15 SPENT TO DATE, PROJECT COST REMAINING, AND
16 CONTINGENCY BUDGET FOR THE PROJECT, IF APPLICABLE.
17 D. PROJECTED BENEFIT AND SAVINGS ASSOCIATED WITH THE
18 PROJECT.
19 E. INFORMATION ON ANY SUPPLIER CONSTRAINTS THAT MAY
20 DELAY THE PROJECT.
21 F. PLEASE SPECIFY IF ANY OF THESE PROJECTS ARE BEING
22 FINANCED BY GRANTS AND IF SO, PLEASE EXPLAIN HOW THAT
23 IS REFLECTED IN THE COST OF SERVICE. IF THIS IS NOT
24 APPLICABLE TO ANY PROJECTS AND THE COMPANY HAS NOT
25 SOUGHT GRANTS TO FUND ANY PROJECTS, PLEASE EXPLAIN
26 WHY.

27
28 **RESPONSE:**

1 Preparation of this response is in progress and will be provided in the future.
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3 **RESPONSE PROVIDED BY:** Philadelphia Water Department
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1 **PA-V-3.** REFERENCE PHILADELPHIA WATER DEPARTMENT STATEMENT 7,
2 DIRECT TESTIMONY OF BLACK & VEATCH MANAGEMENT
3 CONSULTING, LLC, PAGE 26 LINES 17-21. PLEASE PROVIDE COPIES OF
4 THE BACKUP DOCUMENTATION THAT SUPPORT THE USE OF A 4
5 PERCENT ANNUAL INFLATION ALLOWANCE TO THE CIP COSTS
6 BEGINNING IN FY 2025.

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8 **RESPONSE:**

9 Please refer to PWD Statement 7, Schedule BV-2, Appendix G Capital Cost Industry
10 Indices. The 1-, 2-, 3-, and 5-year averages shown for FY 2022 are nearly all above 4
11 percent.

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13 **RESPONSE PROVIDED BY:** Black & Veatch Management Consulting, LLC.
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1 **PA-V-4.** REFERENCE PHILADELPHIA WATER DEPARTMENT STATEMENT 7,
2 DIRECT TESTIMONY OF BLACK & VEATCH MANAGEMENT
3 CONSULTING, LLC, PAGE 28 LINES 13-16. PLEASE PROVIDE THE BASIS
4 FOR THE ANNUAL INTEREST RATES OF 5.5% FOR FY 2024 AND FY 2025
5 AND 6.0% FOR FY 2026 THROUGH FY 2028 FOR DEBT SERVICE WERE
6 DETERMINED AND PROVIDE COPIES OF THE DATA USED IN THIS
7 DETERMINATION.
8

9 **RESPONSE:**

10 Prevailing interest rates have increased substantially in the past 12 months representing the
11 period since the submission 2022 Advance Notice of Filing for the Special Rate Proceeding
12 (January 21, 2022). In this intervening one-year period, (i) interest rates on long term US
13 Treasury rates (measured by the yield on the 30-year US Treasury Note has risen from
14 2.07% on January 21, 2022 to 3.64% on January 26, 2023 (at or about the date of the
15 Advance Notice of Filing for this proceeding) or an increase of 1.57%, (ii) interest rates on
16 tax-exempt municipal bond rates (measured by the BVAL quoted yield on the AA and A
17 rated Revenue Municipal Yield) have risen from 2.02% and 2.12% on January 21, 2022
18 respectively to 3.76% and 4.14% on January 26, 2023 respectively or respective increases
19 of 1.74% and 2.12% (graph shown on accompanying Response Attachment PA-V-4A).
20 Concerns remain that the Federal Reserve will continue to raise the Fed Funds Target Rate
21 in ongoing efforts to combat inflation which may bode higher interest rates in the future.
22

23 In the 2022 Special Rate Proceeding, PWD Statement No. 3, Black & Veatch, in
24 consultation with the Department and its financial advisors, utilized assumed interest rates
25 for Revenue Bonds of 4.5% for the FY2024 proposed borrowing and 5.0% for the FY 2025,
26 FY2026 and FY2027 proposed borrowings (2022 Special Rate Proceeding, PWD Statement
27 No. 3, PDF page 89). These rates were based upon information provided by the Financial
28 Advisors contained in the Financial Advisors' memorandum provided as part of PWD

1 Response to Public Advocate’s Interrogatories & Requests for Production of Documents –
2 Set II (also provided as Response Attachment PA-V-4B). In light of comparable long-term,
3 tax-exempt rates being approximately 2.0% higher than one year ago, the Department and
4 its financial advisors, believed that utilizing interest rates 1.0% higher than those used in the
5 2022 Special Rate Proceeding was appropriate.

6
7 The rates of 5.5% for FY 2024 and FY 2025 and of 6.0% for FY 2026 and thereafter are
8 based upon these rates contained in the Financial Advisors’ memorandum of March 2, 2022
9 (Response Attachment PA-V-4B) increased by 1.0% to reflect upward interest rate
10 movement in the last year.

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12 **RESPONSE PROVIDED BY:** Philadelphia Water Department, Acacia Financial Group Inc and
13 PFM Financial Advisors LLC.

1 **PA-V-5.** REFERENCE THE DIRECT TESTIMONY OF THE FINANCIAL ADVISORS
2 (STATEMENT 2B). ON PAGE 3, LINES 13 TO 15, THE WITNESSES STATE:
3 “THE CURRENT CREDIT RATINGS ARE TIED TO PWD EITHER
4 ACHIEVING OR MAKING INCREMENTAL PROGRESS TOWARD
5 ACHIEVING REASONABLE FINANCIAL GOALS OR TARGETS...”.
6 PLEASE EXPLAIN AND SHOW HOW “MAKING INCREMENTAL
7 PROGRESS” IS DETERMINED AND QUANTIFIED.
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9 **RESPONSE:**

10 As shown in PWD Statement 2A, Schedule FP-1 (PDF pages 52, 54 and 64), incremental
11 progress toward achieving financial goals or targets, specifically 1.30x Senior Debt
12 Service Coverage and \$135 million minimum balance in the Rate Stabilization Fund
13 (accompanied by \$15 million balance in the Residual Fund) is projected to be achieved in
14 FY2026 and later by the adoption of the requested rate relief.
15

16 Cross reference is made to Responses to PA-III-9 and PA-III-10 in this response.
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18 **RESPONSE PROVIDED BY:** Acacia Financial Group Inc and PFM Financial Advisors LLC.
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1 **PA-V-6.** REFERENCE STATEMENT 2B, PAGE 4, LINES 1 AND 2.

2 A. PLEASE PROVIDE EVIDENCE SHOWING THAT PWD'S FINANCIAL
3 METRICS ARE, IN GENERAL, SIGNIFICANTLY BELOW PEER
4 MEDIAN METRICS FOR WATER/SEWER UTILITIES IN SIMILAR
5 RATING CATEGORIES AND SIZE.

6 B. PLEASE PROVIDE THE CRITERIA BY WHICH PEER UTILITIES
7 WERE DETERMINED.
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10 **RESPONSE:**

11 A. Reference is made to PWD Statement 2B, PDF pages 17 & 18. The data for these
12 scatterplot graphs is drawn from Moody's Investors Service – Financial Data (see
13 Response Attachment PA-V-6).
14

15 It should be noted that the indication of PWD debt service coverage of 1.9x (as shown
16 and included in the referenced sources) is a consequence of Moody's calculation of
17 debt service coverage in this peer review on an accounting basis (exclusive of
18 depreciation and amortization) and without consideration of PENNVEST loans.
19 Moody's is well aware in their opinion of the rating of PWD's senior debt service
20 coverage of near 1.2x on a modified accrual basis as articulated in the specific rating
21 reports related to the most recent public revenue bonds in August 2022 (refer for such
22 ratings report to PWD Statement 2A, PDF pages 109, 114 and 115).
23

24 B. Peer utilities were selected from the mid-Atlantic and midwestern region for public
25 utilities of similar size with service areas with industrial urban centers.
26

27 **RESPONSE PROVIDED BY:** Acacia Financial Group Inc and PFM Financial Advisors LLC.
28

1 **PA-V-7.** REFERENCE THE MEMORANDUM FROM THE FINANCIAL ADVISORS
2 TO PWD ATTACHED TO STATEMENT 2B, PAGE 4, LINES 15 AND 16.
3 PLEASE PROVIDE THE SURVEY BY FITCH THAT SHOWS THAT PWD IS
4 BELOW PEER AND MEDIAN METRICS FOR WATER/SEWER UTILITIES
5 IN SIMILAR RATING CATEGORIES AND SIZE.
6

7 **RESPONSE:**

8 The referenced Fitch Peer Report is attached as Response Attachment PA-V-7. In
9 pertinent part (page 27 of the attached Fitch Peer Report), Fitch lists the metrics for PWD
10 as compared to its “A+” rated medians as follows: for Fitch Calculated Debt Service
11 Coverage, PWD @ 1.4x and A+ Median @ 2.1x; for Current Days Cash on Hand, PWD
12 @ 223 and A+ Median @ 502; for Net Adjusted Debt to Adjusted Funds Available for
13 Debt Service (FADS), PWD @ 7.97x and A+ Median @ 4.49x.
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15 **RESPONSE PROVIDED BY:** Acacia Financial Group Inc and PFM Financial Advisors LLC.
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1 **PA-V-8.** REGARDING THE FUNDING OFFER FROM PENNVEST WHICH IS
2 SCHEDULED FOR CLOSING IN EARLY 2024, AS DISCUSSED BEGINNING
3 AT THE BOTTOM OF PAGE 11 OF THE MEMORANDUM FROM THE
4 FINANCIAL ADVISORS TO PWD, PLEASE EXPLAIN WHETHER THE
5 PENNVEST FUNDING IS INTENDED TO BE USED TO RETIRE OR
6 REPLACE EXISTING, HIGHER INTEREST RATE DEBT HELD BY PWD.
7 ALSO SHOW HOW THE SAVINGS ARE REFLECTED IN THE COST OF
8 SERVICE.

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10 **RESPONSE:**

11 The \$125 million PENNVEST Loan discussed in the Memorandum of the Financial
12 Advisors, pgs. 11-12 (PWD Statement 2B, PDF pages 19-20) is intended only (and
13 permitted only) to be utilized for the Baxter Treatment Plant. No portion of this
14 PENNVEST Loan will be used to replace existing long-term debt. A portion of the
15 PENNVEST Loan may be applied to redeem short-term commercial paper issued by the
16 Department specifically for temporary financing in anticipation of long-term financing
17 through permanent financing such as PENNVEST Loans. The debt service for this
18 PENNVEST Loan is included in the cost of service study (PWD Statement 2A, PDF page
19 65, line 20 and PWD Statement 7, PDF page 55, line 20).

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21 **RESPONSE PROVIDED BY:** Acacia Financial Group Inc and PFM Financial Advisors LLC.
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1 **PA-V-9.** PLEASE PROVIDE AN ILLUSTRATION SHOWING HOW THE 3 YEARS OF
2 INTEREST ONLY FEATURE AT THE OUTSET OF THE PENNVEST
3 FINANCING AND THE INTEREST RATE OF 1.0% FOR A 20-YEAR TERM
4 WORKS.

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6 **RESPONSE:**

7 See attached Response Attachment PA-V-9 for illustration of 3 years of interest only feature
8 at the outset of the referenced PENNVEST financing. For purposes of the hypothetical
9 analysis described in the Financial Advisors' memorandum (2023 Rate Proceeding, PWD
10 Statement 2B PDF pages 19-20), it is assumed that the \$125 million PENNVEST loan is
11 entirely drawn at the hypothetical settlement of December 28, 2022. This full drawdown is
12 assumed to equate the resulting debt service from the PENNVEST loan to the debt service
13 resulting from the hypothetical Public Revenue Bond issuance, wherein the full receipt of
14 the project funds occurs at the settlement of the Public Revenue Bond issue. From a
15 practical perspective, drawdowns from the PENNVEST loan will occur sequentially over
16 time corresponding with reimbursement by PENNVEST of capital expenditures made by
17 PWD toward the Baxter Treatment Facility project or to redeem commercial paper issued
18 by PWD to temporarily fund said capital projects. This sequential drawdowns of
19 PENNVEST loan amounts will result in actual debt service that is staggered by the
20 sequential nature of the drawdown timing.

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22 **RESPONSE PROVIDED BY:** Acacia Financial Group Inc and PFM Financial Advisors LLC.
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1 **PA-V-10.** PLEASE IDENTIFY ANY ADDITIONAL LOW INTEREST RATE DEBT
2 FINANCING THAT PWD IS EXPECTED TO RECEIVE IN FY 24 AND FY 25.
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4 **RESPONSE:**

5 As detailed in PWD Statement 7 and further discussed in Schedule BV-2 Section 2.3.4 on
6 Page 2-8, anticipated low-interest financing is associated with projects financed via
7 PENNVEST or WIFIA. Therefore, anticipated [projected] low-interest financing is
8 reflected in the projected debt service on Lines 10 and 12 of Table 2-7 of Schedule BV-2:
9 Water and Wastewater Cost of Service Report (the same table is presented in Schedule BV-
10 1: Table C-9).
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12 **RESPONSE PROVIDED BY:** Black & Veatch Management Consulting, LLC.
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1 **PA-V-11.** PLEASE EXPLAIN HOW SMIP/GARP COSTS ARE ALLOCATED TO
2 WASTEWATER AND STORMWATER SERVICE AND IDENTIFY THE
3 BASIS FOR THIS ALLOCATION. ALSO SPECIFICALLY IDENTIFY ALL
4 SMIP/GARP COSTS INCLUDED IN THE WASTEWATER AND
5 STORMWATER COST OF SERVICE STUDIES BY LINE ITEM.
6

7 **RESPONSE:**

8 Please refer to PWD Statement 7 – Direct Testimony of Black & Veatch, Schedule BV-
9 2: Water and Wastewater Cost of Service Report page 7-11.
10

11 SMIP/GARP costs are an operating expense (e.g. O&M expense) of the Water Department.
12 As SMIP/GARP costs are an O&M expense associated with the collection system, the
13 allocation is based on an analysis of system-wide ratio of peak wet weather flows to peak
14 dry weather flows, 60% of the sewer maintenance cost is allocated to stormwater and 40%
15 to sanitary sewer. The rationale for using the peak flow ratio as the basis for apportioning
16 sewer maintenance costs is that those costs would normally be incurred in proportional to
17 the quantity of peak flows.
18

19 This allocation approach is consistent with prior rate determinations.
20

21 With respect to the Cost of Service Study, SMIP/GARP Costs are presented on Line 6 of
22 Table 3-2 in Schedule BV-2 (note the same table is presented in Schedule BV-1: Table C-
23 6). SMIP/GARP costs are reflected in the O&M expenses on Line 3 of Table 7-16. Column
24 4 includes the Sanitary Sewer System allocation of SMIP/GARP costs, while Column 5
25 includes the Stormwater System allocation of SMIP/GARP costs.
26

27 **RESPONSE PROVIDED BY:** Black & Veatch Management Consulting, LLC.
28