



March 2023

# City Council Rate Update

The Department must pursue rate relief in order to ensure the stability of the utility. Rising costs for labor, chemicals, materials, supplies and regulatory compliance, combined with capital program needs will drive PWD's additional revenue needs in FY2024 and FY2025.



# We provide the City with integrated water, wastewater, and stormwater services



**❑ We are fully funded by our customers; not taxes**

- ▶ We are one of the City's ten operating departments.
- ▶ We serve under a dedicated Water Fund established pursuant to City Charter
- ▶ Almost 2,000 employees
- ▶ We operate, maintain, repair and improve the Water and Wastewater Systems

# The Ratemaking Process

The Rate Board is an independent rate-making agency established by City Council to oversee setting and regulating rate changes requested by the Water Department.

- 1** The Department requests a rate change when its operating revenue are insufficient to cover the cost of serving PWD customers.
- 2** PWD must show that its proposed rate change is necessary and reasonable and provide supporting documentation.
- 3** Within 120 days of PWD's request, the Rate Board must render a detailed, written decision to approve, modify or reject the proposed rate change, based on a hearing record including financial, accounting and engineering data, public and expert testimony.



  
**We Are Here**

# Proposed Impact on Customer Bills

Estimated Monthly Impacts for Typical Residential Customers*		
FISCAL YEAR	TOTAL MONTHLY CUSTOMER BILL	PERCENT INCREASE
CURRENT	\$69.31	--
2024**	\$77.47	11.8%
2025**	\$83.92	8.3%

\* “Typical” residential bills are based on residential accounts with 5/8” meters using 450 cubic feet of water per month.

\*\* Estimated rate impacts, subject to final adjustments. Reflects proposed base and TAP-R rates. Final rate impacts may vary slightly. Rates are proposed to be effective September 1<sup>st</sup> of each fiscal year.

The previously presented increases in operating costs must be supported by rates and charges consistent with the Rate Ordinance (Section 13-101 of Philadelphia Code).

# A rate increase is needed to address inflationary pressures in critical expense areas.

Operating costs must be supported by rates and charges consistent with the Rate Ordinance.

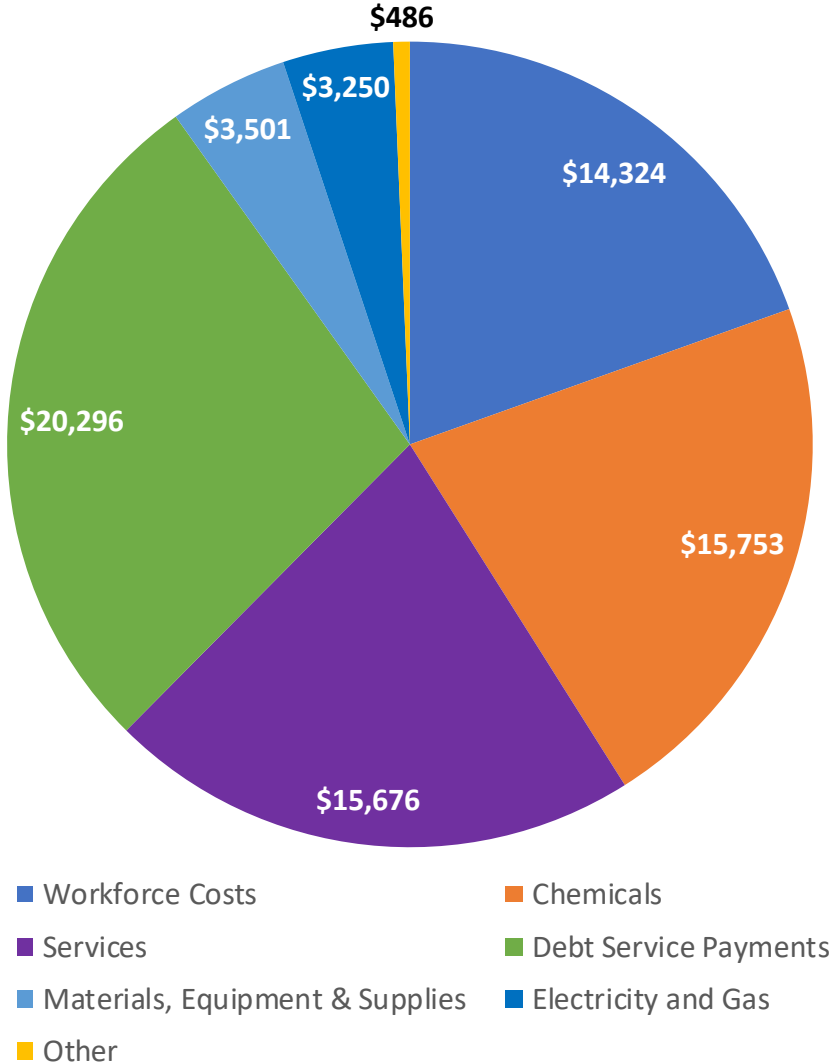
Operating costs are projected to **increase by \$73.3 Million** from FY 2023 to FY 2024.

### Total Projected Operating Costs

FY 2023 = **\$797.9 Million**

FY 2024 = **\$871.2 Million**

FY 2025 = **\$953.4 Million**



FY 2024 Projected Operating Cost Increases (\$000s)

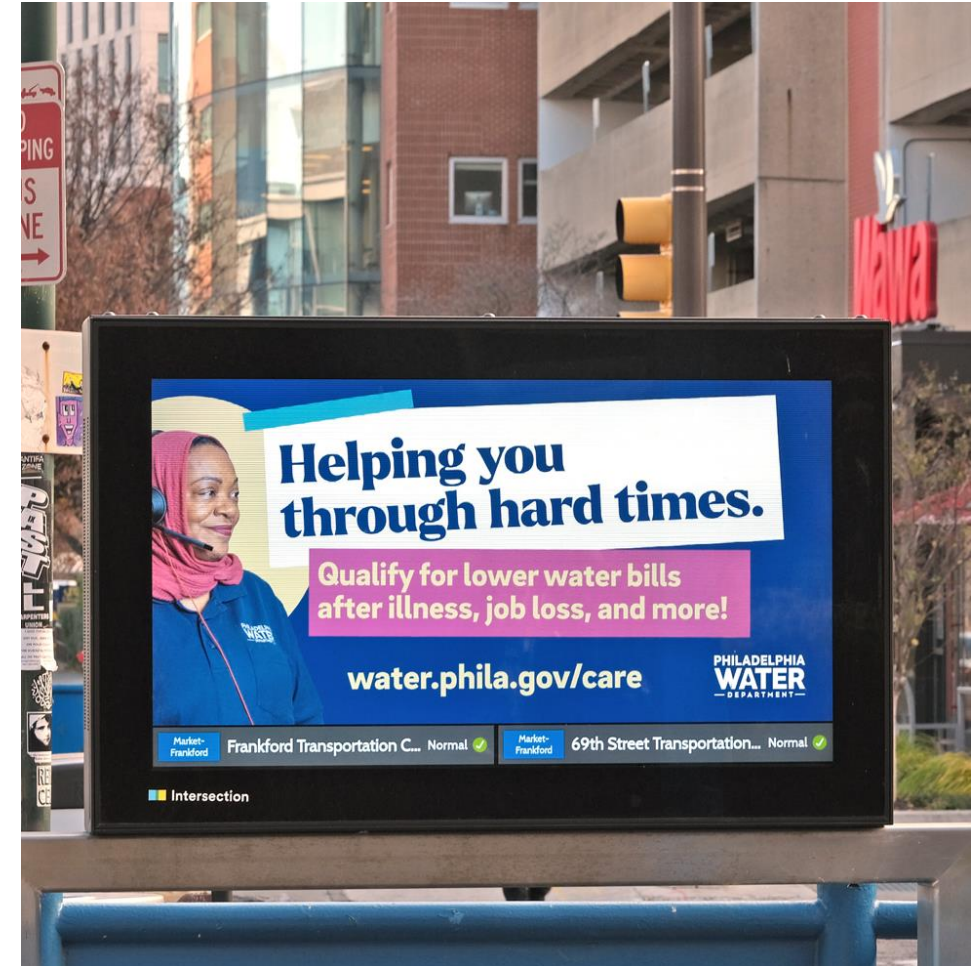
# Philadelphia has created a safety net to protect customers

We offer a variety of payment assistance options for customers, including:

- **Tiered Assistance Program (“TAP”).** TAP participants are shielded from proposed rate increases as their bills are based on a percentage of household income.
- **Discounts** to eligible groups, including: Senior Citizens, Hospitals, Schools, Charities, Faith-Based Organizations and Philadelphia Housing Authority.
- Payment agreements and other programs, including the Utility Emergency Services Fund (UESF) grant program.

We expanded the customer protections put in place by the city in July 2022:

- Raised the minimum threshold eligible for shutoff from \$150 to \$1,000.
- Removed certain customers from the eligibility for shutoff, including: 1) all TAP customers, 2) TAP applicants, 3) all customers receiving the Senior Citizen discount, and 4) all customers the City could determine received Medicaid and/or homelessness prevention services.



# Recommended alternatives to revenue adjustments are impractical or miss the mark.

PWD would like to offer clarification on the following suggested cost mitigation approaches:

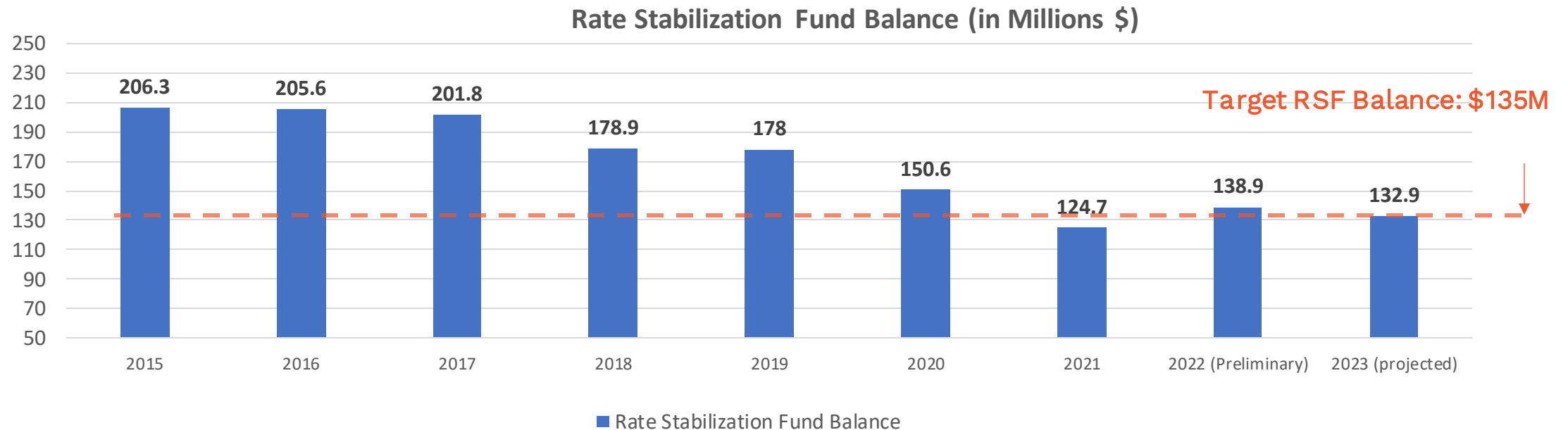
- Significant withdrawals from PWD reserves
- Federal grant funding for infrastructure (via American Rescue Plan Act [ARPA])

**The following slides provide necessary context and data explaining why rate relief is still needed.**



# The utility cannot continue to mitigate increases by using financial reserves.

Reserves helped the utility manage revenue adjustments over the past several years. Reserves are already at minimum levels and there is no guarantee they will be sufficient adequate to address future challenges.



Paying for operating expenses with financial reserves would have negative consequences as credit rating agencies have been clear – **pushing Rate Stabilization Fund reserves below \$120M will result in a downgrade for the utility.**





# PWD has received government funding through PennVEST and WIFIA loans that must be repaid.

Recent announcements have cited that PWD would receive \$500 million in **funding for capital projects**. The announcement refers to **funding from the following low-interest loans**:

- ~\$340M in funding via the Water Infrastructure Finance and Innovation Act (“WIFIA”)
- \$160M in funding provided via PennVEST.

[The benefits associated with these funding sources are reflected in the Water Department’s current rate filing before the Rate Board.](#)



# PWD has actively pursued state and federal financial assistance.

PWD has applied for and continues to pursue federally supported funding sources in order to support critical infrastructure upgrades from programs including:

- Water Infrastructure Finance and Innovation Act (WIFIA)
- Pennsylvania Infrastructure Investment Authority (PennVEST)
- PEMA/FEMA Building Resilient Infrastructure and Communities (BRIC)
- PEMA/FEMA Hazard Mitigation Grant Program (HMGP)

**Between FY20 and FY23, PWD has applied for nearly \$1B in federal and state assistance.**

- To date, PWD has been awarded approximately **\$732M** in funding via low-interest loans
- **\$36.6M** in grant applications are still pending
- **\$196.2M** in additional funding applications are in progress

*Note: There is no guarantee that PWD will receive approval for all submitted funding applications that are pending approval or in-progress.*



# WIFIA and PennVEST loans are part of long-term strategy, but do not provide immediate relief

The financial impact of these loans is long-term, resulting in lower overall borrowing costs for capital projects.

## WIFIA Loan

- The EPA will provide up to 49% of eligible project costs (~**\$340M**) and the Water Department is responsible for covering the matching 51% (~**\$357M**).
- The WIFIA funded projects are anticipated to be completed between **FY 2024 and FY 2032**.

## PennVEST Loans

- The **\$160M** in PennVEST Loans is related to two projects to be completed **FY2023-2028**:
  - \$125 million for the replacement of Clearwell Basin at the Baxter WTP.
  - \$35.8 million for the replacement of various linear assets (water mains, etc.)



# Philadelphia does not qualify for loan forgiveness or grant funding through PennVEST

- Because PWD rates and charges do not result in customer bills which exceed the federal affordability threshold, the Department has limited access to potential grant funding.
- PWD is lobbying for changes that would make more grant funding available to Philadelphia.
- *Advocacy from City Council to change state and federal requirements could help eliminate current barriers to grants.*





# Requesting American Rescue Plan Funds from City Budget

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- Water Dept. Reached out to Director of Finance regarding American Rescue Plan Funds referenced in the Feb. 14 letter from Councilmembers
- We were informed these funds are already allocated in the General Fund

# Summary

## The Philadelphia Water Department needs rate relief because:

**Our water system requires investment.** Provision of safe and reliable drinking water and adequate treatment of wastewater will be jeopardized without rate relief. Additional revenues are needed to pay significant increases in operating expenses. Water and wastewater facilities will also be at high risk of failure absent additional resources to support needed maintenance, repair and replacement of aging infrastructure.

**Drawing down reserves is not a prudent strategy.** Without additional revenues, PWD would need to draw down financial reserves, which would compromise our ability to respond to future emergencies (e.g., Hurricane Ida). We must be prepared for the possible consequences of climate change.

**The benefits of available federal funding are already incorporated in the rate filing.** To date, PWD has received low-cost loans from WIFIA and PennVEST. While PWD will continue to pursue funding options that mitigate long-term capital burdens on ratepayers, notable efforts to date as summarized above have already been included in current projections. There is no guarantee that PWD will receive every source of funding that it applies for.

# Questions?



**PHILADELPHIA**  
**WATER**  
— DEPARTMENT —